

IS RENTAL INCOME TAXABLE IN SOUTH AFRICA?

What is the rental income?

The rental income arises when one rents out a portion of their home or when they entirely rent out their property (residential accommodation) and they receive rental income for this property or portion of it. Rental income can include:

- Holiday homes
- Air BnB
- Bed and breakfast establishments
- Guesthouses
- Renting a section of your home
- Other similar residential dwellings where you receive rent

How is the tax calculated on rental income?

The rental income and any other amounts paid to you for rental or residential accommodation must be added to your other income on your tax return. These amounts will be subject to normal tax at the normal individuals' tax rates applicable for the applicable tax year. These amounts can include:

- Lease premiums paid to you monthly
- Lease premium lump sum paid at the beginning of the lease and covering the applicable tax year/period. This must not be confused with a rental deposit.

The receipt of a rental deposit does not need to be included in a taxpayer's gross income at the stage the initial deposit is paid. This is so specifically if there is an expectation for the lessor to pay the deposit back at some stage. The deposit will only become part of the gross income (taxable income) if the landlord applies the deposit. For example, the tenant moves out having damaged the property and the landlord applies the deposit to pay for the repairs.

Can the rental income be reduced?

Yes, the rental income can be reduced by allowable deductions (expenses) for the period that the property was let. Which expenses can you apply to reduce the rental income? Permissible expenses incurred in the production of that rental income can be claimed against that rental

income. No private expenses can be claimed against the rental income. The following expenses can be applied against the rental income:

- rates and taxes
- bond interest
- advertisements
- agency fees of estate agents
- insurance (only homeowner's insurance and not insurance for household contents)
- garden services
- repairs in respect of the area let and
- security and property levies

What if I am not renting out 100% of the property?

You will need to apportion the costs of running your property concerning the space applied for the rental income. You may need to measure the space rented out versus space not rented out. For example, if your entire house is 500 square metres but you only rent out 300 square metres, then the apportionment ratio will be 60% applied to the property running expenses. This means you can only claim 60% of the expenses.

Which expenses cannot be claimed?

Any expenses of a capital nature cannot be claimed against the rental income. This calls for a distinction between repairs and improvements. Repairs are such expenses that restore something to its original condition whereas an improvement usually results in the creation of a better asset. While improvements cannot be claimed against rental income, they form part of the base cost of the property, which effectively reduces the capital gain on the property when the property is sold.

Can I deduct home business expenses?

Home office expense deduction:

These days the work culture has changed. Since lockdown was introduced. Some companies had to close shop and some employees were required to work from home. Also and in general, the world is changing and so is the way people work and interact. Many people, like myself, prefer working from home. Working from home has become a normal thing. The GIG economy will also make working from home just another normal thing.

Luckily, SARS allows home office deductions if certain conditions are met. However, it is important to note that SARS often than not flag returns with home office expenses for audit. So it is important that one correctly and accurately claims these deductions.

It is worth understanding the rules around home office expenses as they are allowed under certain circumstances. Not everyone may end up deducting home office expenses.

Having said this, it is important to point out that the situation is different for self-employed people or what we would term sole proprietors or freelancers who work from home. These taxpayers can automatically deduct their home office expenses. These taxpayers (self-employed, sole proprietors, freelancers) do not need to work through the tight conditions required for one to be able to deduct home office expenses. They simply have to include their home office expenses with the local business, trade and professional income on their tax return.

What is required to be able to deduct home office expenses?

- The employer must allow the taxpayer to work from home. So, you can't just work from home because you want to. Your employer must give you express permission to work from home.
- The taxpayer must spend more than half of their total working hours working from their home office.
- The part of the home in respect of which a claim is submitted must be occupied for purposes of a "trade", as defined in section 1. So, in essence, there should be

a specific part of the home that is used **exclusively** for this purpose. As an example, a specific set aside office must be kept aside for the trade. A taxpayer meeting with a client in the bar area of their home may not qualify for these deductions.

- Building from the point above, the part that is so occupied must be specifically **equipped for purposes of the trade**. So, it is important that space/office must be specially fitted with the relevant instruments, tools and equipment required for the taxpayer to perform their work.
- The part must be **regularly and exclusively** used for purposes of the trade. As an example, taxpayers who earn a commission but who spend the majority of their time on the road visiting clients and performing their work at the client's premises do not qualify for home office expense deduction.

What expenses can be deducted?

First one needs to check the taxpayers' remuneration structure to see if they are:

1. A commission earner, that is, takes more than 50% of their total remuneration from the commission or some other variable form which is based on their performance.
2. A normal salaried employee with variable payments/commission making up less than 50% of their total remuneration.

The commission earners can deduct the following:

- Rent
- Interest on bond
- Repairs to premises
- Rates and taxes
- Cleaning
- Internet

- Wear and tear and
- All other expenses relating to their house as well as other commission related business expenses (such as telephone, stationery, repairs to printers, maid answering phone in your absence etc)

The salaries employee with variable payments/commission making up less than 50% of their total remuneration can deduct:

- Rent of the premises
- Interest on the bond
- Cost of repairs to the premises and other expenses in connection with the premises
- Rates and taxes
- Cleaning
- Internet,
- Wear and tear and all other expenses relating to their house only.

How to calculate the home office deduction:

One would need to work out/measure the total square meterage of the office in relation to the total square meterage of the house. This is then converted into a percentage. The percentage is then used to apportion the expenses that can be used for home office deductions.

Example:

Mrs taxpayer is a software engineer who works for Corona Company Pty Ltd. Her remuneration consists of a **salary only (no commission.)** Her Company allows her to work from home three days per week. Mrs taxpayer has a separate office at home, fitted out with a computer and printer, which she uses exclusively for her software engineering job. Her office is 30 square meters, and the floor space of her entire home (including the office) is 300 square meters.

During the tax year, she incurs the following expenses:

- R120, 000 interest on a bond
- R36, 000 rates and electricity
- R36, 000 paid to the cleaner
- R5, 000 roof repairs
- R12, 000 cell phone expenses

Based on the above information, Mrs taxpayer qualifies for home office deduction. Based on the space occupied by her home in relation to the entire house, the apportionment ratio is 10% (30/300).

Therefore her home office deduction is $10\% \times (120\,000 + 36\,000 + 36\,000 + 5\,000) =$
R19 700.

Her cell phone costs will not be deductible since she is not a commission earner.

Will I qualify for home office deduction for the 2021 tax season?

The 2021 tax season started 1 March 2020 and ends 28 Feb 2021. To be able to claim home office expenses you would need to have met the conditions specified earlier. You will also need to have ended up working from home for more than six months of the tax year. That is, you would have worked from home until at least end of September 2020.