

Must I pay tax on foreign income?

A Moneyweb reader asks:

Suppose you're rendering services in SA on behalf of a business based abroad and get paid weekly in dollars from this source.

Will I need to declare this income to Sars on a monthly basis?

Will I need to register for income tax?

Suzean Haumann, junior financial planner at Brenthurst Wealth Management, answers:

Simply, yes. SA has a residence-based tax system, which means residents are taxed on their worldwide income, irrespective of where that income was earned – with certain exclusions.

Nonresidents pay tax on the income earned from an SA source.

You're classified as a resident in SA for tax purposes if you meet the requirements of the physical presence test – the individual must be physically present in SA for a period exceeding:

- ▶ 92 days in total in the year of assessment;
- ▶ 92 days in total in each of the five years of assessment preceding the year of assessment; and
- ▶ 916 days in total in those five preceding years of assessment.

If you don't meet any one of the above you'll not be deemed physically present in SA.

If you meet all the requirements but are out of the country for a continuous period of over 330 full days, you'll be regarded as non-resident from the day on which you stopped being physically present in SA.

Therefore if you reside in SA permanently, you'd be obliged to register for income tax purposes and pay any taxes on the income earned.

In many countries double taxation agreements are in place. They were entered into to encourage international trade flow between SA and other countries and to prevent double taxation of an SA resident.

You might already be taxed in the originating country, in which instance you can apply for a directive from Sars to claim the tax back that was already deducted before you received the income.

This will prevent double taxation where you receive income from an international source.

By not registering for income tax in SA you'd effectively be avoiding tax - a criminal offence.

That can carry fines or imprisonment if Sars finds out.

New international regulations (the Foreign Account Tax Compliance Act and the Common Reporting Standard) were implemented last year, which introduced significant changes in government efforts to improve global tax compliance.

Over 96 countries, SA included, agreed to the automatic exchange of information.

It's always advisable to consult a tax professional or accredited financial advisor to ensure your tax affairs are managed correctly.