

Money matters

Income tax and the employee doctor

As the 2010 tax filing season approaches, this is a good time to recap on tax deductions available to doctors in full-time employment.

Over the last number of years Parliament has passed laws limiting the number and scope of tax deductions an employee may claim. However, there remain deductions that employee doctors may claim, which may result in a reduced tax liability.

In the tax year ending 28 February 2010, should you earn a taxable income of more than R525 000, tax at a rate of 40% is payable on the excess. Conversely, should your income exceed R525 000, a tax saving of 40% is achieved for every rand you can deduct from your taxable income.

Claiming all deductions available to you can therefore reduce your income tax liability considerably.

Tax deductions that may be claimed by doctors in employment

• **Current contributions to a pension fund**
Employees are allowed to deduct their own contributions to a pension fund limited to the greater of:

- R1 750, or
- 7.5% of remuneration from retirement funding employment.

As the details are usually reflected on your IRP5, SARS will automatically take this deduction into account when calculating your taxable income. You need not enter anything on your return to claim this deduction. You need to check that the correct amount appears

on your IRP5, which will appear on your tax return.

• **Arrear contribution to a pension fund**
In addition to your current contributions to a pension fund, a maximum of R1 800 may be claimed as a deduction for arrear contributions.

• **Retirement annuity fund (RAF) contributions**

Current contributions to a RAF are allowed as a deduction limited to the greater of:

- 15% of non-retirement funding income (net of permissible expenses), or
- R3 500 less current contributions to a pension fund, or
- R1 750.

Non-retirement funding income usually comprises overtime pay, bonuses and allowances received.

The insurance company with whom you have the RAF will provide you with a tax certificate stating what your total contribution was for the year. The total amount contributed must be shown in the relevant place on your tax return. Any excess contribution not allowed will be carried forward indefinitely until claimed as a deduction.

You need not send the certificates received to SARS. SARS may however request to see them, so you should keep them filed for at least 5 years.

• Income protection premiums

All premiums paid for an income protection policy are allowed as a deduction. The insurance company will send you a certificate and the total premiums paid must be shown on your tax return.

• Wear and tear allowance

A deduction may be claimed for wear and tear on any machinery, implements, utensils and articles owned and used by an employee for the purpose of his trade. This includes medical equipment and computers used by you for work purposes.

Acceptable write-off periods to SARS have been published by SARS in their interpretation note 47 dated 11 November 2009. You must show the wear and tear deduction you wish to claim in the relevant place on the tax return.

• Donations

Any donation made by you to a public benefit organisation (PBO) approved by SARS is allowed, limited to 10% of your taxable income.

The PBO must furnish you with a receipt showing the reference number of the PBO, date of donation, their name and address, your name and address, the

amount of the donation and that the receipt is issued for the purpose of a Section 18A deduction claim. You must enter the total of all your donations made on your tax return and keep all receipts on file. SARS may request copies of the receipts.

• Medical expenses

Taxpayers are allowed to deduct medical aid contributions and certain prescribed medical and dental expenses from their income. Medical and physical disability expenses for the 2010 tax year are limited to:

- *Under 65 years of age:*
- monthly medical aid contribution – member and first dependent – R625 each
- additional dependants – R380 each
- excess medical scheme contributions, other medical expenses and physical impairment expenses in excess of 7.5% of taxable income.
- *Over 65 and persons with disability:*
- unlimited deduction.

These are special requirements to substantiate physically impaired or disability expenses. See SARS brochure of April 2010.

• Motor vehicle expenses

Should you receive a travel allowance as part of your salary package you may deduct business travel expenditure. For the 2010 tax return, business travel expenditure can be calculated in one of three ways:

- Using actual figures – a detailed record of all business travel expenses must be kept.
- Using actual business kilometres travelled and a deemed cost per kilometre. In this case a log book, detailing business travel, must be kept. (SARS has issued an example on their website.)

- Using deemed business kilometres and deemed cost per kilometre (this option falls away from 1 March 2010).

Listed below are other deductions available to employees (these generally do not apply to employee doctors):

- legal fees
- bad debts
- doubtful debts
- home expenses.

Other income

Apart from salaried income, there are other sources of income that must also be included in your return.

Examples are:

- interest income (for 2010 R21 000 is exempt if you are under 65; R30 000 is exempt if 65 or over)
- foreign dividends
- SA company dividends (all tax exempt)
- capital gains (25% of the gain is taxable after deducting a first amount of R17 500) -- special rules apply to the capital gain on your primary residence
- property rental, net of allowable deductions.

In conclusion, filling in your tax return can be a challenge. There may be certain deductions that you could claim, or income that you should include, that you are not aware of.

Any errors made could prove to be costly as SARS is empowered to charge penalties and interest if you under-declare your taxable income.

Should you have any doubts, it is advisable to contact a tax advisor to help you to complete your return accurately, and claim all deductions that you are entitled to.

CHARLES GURLAND

Single suture

Eye tests for Alzheimer's disease

Eye tests could one day be used for the early detection of Alzheimer's disease, thanks to the discovery of a link between the amount of a characteristic protein in the brain and levels of the same protein in the eye.

Virtually everyone with Down syndrome goes on to develop Alzheimer's disease. When Lee Goldstein and colleagues of the Boston School of Medicine examined lens and brain tissue during post-mortems of people with Down's, they found that brain levels of amyloid correlated with those in the eye.

Clumps of amyloid protein in the brain are associated with Alzheimer's in the rest of the population, so Goldstein *et al.* suggest that scanning people's eyes might be a non-invasive way to diagnose Alzheimer's before other symptoms become apparent.

New Scientist 29 May 2010.