



Tax & Legislative Information Series...

... Long Service and Bravery Awards



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Long Service and Bravery Awards – Some Background

• Some Background

- Companies often provide their loyal and long serving employees with **an award** of some form or another at certain times during their tenure with the company.
- The more well known (and often joked about!) award is that of the **traditional “gold watch”**.
- In the past the only item that qualified for a tax benefit was, for example, the “gold watch”, i.e. **an asset** of some form.
- If the value of this award was above R 5 000 then the portion above R 5 000 was **deemed to be a taxable benefit and hence had to be taxed as such** - i.e:
 - if the value of the asset was R 10 000,
 - then the employee would be liable for tax on R 5 000.
- In recent years there has been some lobbying to get this amount increased to something more in line with current costs - **but no luck so far**. Up to 2009 the maximum non-taxable value was R 3 000, and it was thereafter increased to R 5 000. So, the current status is that there certainly is no potential increase in this value on the horizon, so good luck with finding that gold watch for less than R 5 000!!



Long Service and Bravery Awards – Some Background

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- These days companies are attempting to **become a bit more creative** when it comes to long service awards, and the types of awards provided often include things such as:
 - The opportunity to **use a company asset**. For example, the company owns a fleet of expensive and exotic vehicles, and the employee gets to choose one to use for a weekend - [par 6(4)(d) of the Seventh Schedule]
 - The provision by the company of a **cheap or free service** – for example, the company is in the carpet cleaning business and cleans all the carpets in the employees' house for free or at a hugely discounted price - [par 10(2)(e) of the Seventh Schedule]
 - The company is in the business of **providing accommodation** in exotic locations and provides the employee with the opportunity to visit one of these at no cost, or **allows the employee to make use of the company holiday home** at no cost.
 - The company decides that the employee would benefit far more from a straight **cash award**, or is even given a series of **meal / shopping vouchers**.
 - **The company provides the employee with an asset** – i.e. the acquisition of an asset at less than the actual value - [par 5(2)(b) of the Seventh Schedule]
 - And so the list goes on!

Until recently one could not include many of these under the ambit of a Long Service Award and thus there was a tax implication based on the full amount / value. In addition, there was a misconception that an award granted for outstanding performance also qualified for the same tax break as a Long Service Award, which it didn't (and, sadly, nothing has changed in recent times!)

- **Legislative Changes**

- Over the years there have been a number of mistakes made by employers regarding what's taxable and what's not, and as such, on assessment, there have been a few nasty surprises for both the employer and the employee.
- To provide some clarity on this topic, SARS issued **Interpretation Note 71 issued on 18th March 2013** which clarified various items, so its well worth a read:

<https://www.sars.gov.za/wp-content/uploads/Legal/Notes/LAPD-IntR-IN-2013-04-IN71-Long-Service-Awards.pdf>

- Further changes to the types of Long Service Awards that are now available and which qualify for the tax benefit were noted in in the **Tax Laws Amendment Bills of 2020 and subsequently updated in the SARS Fringe Benefits Guide (section 4.2):**

<https://www.sars.gov.za/wp-content/uploads/Ops/Guides/PAYE-GEN-01-G02-Guide-for-Employers-in-respect-of-Fringe-Benefits-External-Guide.pdf>

- Most recently (April 2022) we saw the issuing of the **SARS BRS specification** where the applicable Tax Certificate codes and how they are to be used were confirmed:

https://www.sars.gov.za/wp-content/uploads/Docs/PAYE/BRS/SARS_PAYE_BRS-PAYE-Employer-Reconciliation_V21-0-0.pdf

Long Service and Bravery Awards – Qualifying Criteria

- **Qualifying criteria – years service and taxable value of award**
 - For the Payroll / HR Manager there are two **items to take into consideration when determining if the award qualifies for a tax benefit from a SARS perspective:**
 - the **employees’ length of service,**
 - the **make up of the award** given to the employee – i.e. the type of award and it’s value.
 - **Employees’ length of service:**
 - Long Service is determined as an initial **unbroken period of service of not less than 15 years,** or
 - any **subsequent unbroken period of service of not less than 10 years.**
 - this is described in **[par 5(4) of the Seventh Schedule].**
 - Some Considerations:
 - the above **does not mean** that the reduction in value of the asset / service for tax purposes automatically applies at 15, 25 and 35 years of service. Employees who receive an initial Long Service award at, for example, 20 years, **must wait for a further 10 years** - in other words until they have worked for the same employer for 30 years, before the tax benefit of the value of the asset may be applied again.
 - the phrase “unbroken period of service” is **not defined anywhere in the SARS documentation.** SARS interprets it to mean continuous employment with a single employer without a lawful termination of the employment contract by either party. Having regard to the definitions of “employer” and “employee” in paragraph 1, **transfers between employers who are “associated institutions”, as defined in paragraph 1, will not qualify as an unbroken period of service.** However, should an event take place when continuous service is **deemed to occur under law** (for example, transfers under section 197 of the Labour Relations Act, 1995), this will constitute an unbroken period of service.

Long Service and Bravery Awards – Tax Implications

- **Tax implications – i.e. what's taxable and what is not**
 - **Make up / type of the award** given to the employee:
 - A **cash payment** – treated as a straight cash payment and is **taxed under normal PAYE rules**, with the first R 5 000 being exempt.
 - Provision of a **voucher** – this can be for meals, shopping, etc. and it's treated as a **normal fringe benefit**, subject to the first R 5 000 being exempt.
 - Provision of an **asset** – **same fringe benefit rules** as the normal provision of an asset, but subject to the first R 5 000 being exempt.
 - Provision of a **cheep / free service** by the company – **same fringe benefit rules** apply as previously, but subject to the first R 5 000 being exempt.
 - Allowing the **use of a company owned asset** – **same rules apply for this type of fringe benefit** as previously, subject to the first R 5 000 being exempt.

These changes are applicable from the 2023 Year of Assessment.

These changes were defined in the most recent version of the SARS BRS (i.e. V21.0.1 – effective 1 March 2022) for Payroll Suppliers and will be implemented by SARS systems in September 2022.

Long Service and Bravery Awards – Tax Implications

- Tax implications – so how does all this play out on the IRP5 ?

Type	IRP5 Code		
	Local		Foreign
A cash award / payment	3622	/	3672
A voucher for meals, shopping, etc	3835	/	3885
The provision of an asset such as a watch, a Kruger Rand, etc	3835	/	3885
The provision of a cheap or free service by the company	3835	/	3885
The provision of the use of a company owned asset	3835	/	3885

- **What happens on the Tax Certificate (IRP5)**

- Our starting point - any **taxable cash amount** paid to an employee needs to be reflected under **Code 3601**. Code 3601 **would typically include regular items such as:**
 - Salary/wages;
 - Backdated salary / wages / pension (accrued in the current year of assessment);
 - Remuneration paid to migrant / seasonal workers / full time scholars or students; etc.
 - **This code excludes any Long Service Cash Award (the total Long Service Cash amount will be is stored in Code 3622 / 3672).**
- Secondly - **Code 3605 / 3655** contains **annual taxable payments** (i.e. taxable payments) and includes items such as:
 - Annual bonus;
 - Incentive bonus;
 - Leave pay (on resignation or encashment of leave credits);
 - Merit awards;
 - Bonus / incentive amount paid to an employee to retain his / her service for a specific period; etc.
 - **This code excludes any Long Service Cash Award (the total Long Service Cash amount will be is stored in Code 3622 / 3672).**

We mention these two codes here because many employers are under the impression that the Long Service Cash award should be recorded in one of these two codes. SARS specifically mentions these codes must not be used as there is another specific code (i.e. code 3622 / 3672) that deals with Long Service Cash awards!!

- **What happens on the Tax Certificate (IRP5)**

- Next code to look at - **Code 3801 / 3851** General Fringe Benefits (Taxable)
 - All fringe benefits, which do not comply with any of the descriptions listed under fringe benefits, must be added together and reflected under this code, **excluding Long Service Awards, which must be declared under code 3835 / 3885**, i.e. where the Long Service Award consists of:
 - an acquisition of an asset at **less than the actual value**.
 - the **right of use of an asset** (other than residential accommodation or any motor vehicle).
 - **As a reminder - other examples** of what gets recoded in Code 3801 / 3851 include:
 - Employer-paid premiums for the benefit of an employee to an **employer-owned Income Protection Scheme**;
 - **Acquisition of an asset** at less than the actual value and / or insurance policies ceded;
 - Meals, refreshments and meal and refreshment **vouchers**;
 - Free or cheap **accommodation or holiday accommodation**;
 - **Low interest or interest free loans** and subsidies;
 - **Uniforms** that are **not clearly distinguishable** from ordinary clothing.

- **What happens on the Tax Certificate (IRP5)**
 - Firstly, the **full value** of the **Long Service Award** must be stored in Code 3835 (and Code 3885 while the employee is on Foreign Service on date of accrual).
 - Secondly, the **full value** of a **Long Service Cash Award** must be stored in Code 3622 (and Code 3672 while the employee is on Foreign Service on date of accrual).
 - So, **the sum of Code 3835 and Code 3622 becomes the value that is used to determine the tax due**, because part of the award could be in cash and part could be, for example, in the provision of a cheap / free service.
 - The tax implications are:
 - If the sum of the two codes is **equal to or less than R 5 000** then there is **no tax due**.
 - If the sum of the two codes is **greater than R 5 000** then the amount above **R 5 000 becomes taxable**.



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