

GROSS PROFESSIONAL INCOME

THE CORPORATE (SALARIED) PROFESSIONAL

DEFAULT SOURCE DOCUMENTS:

STEP	ACTION	NOTES
1	<u>Determine total Cost to Company (CTC)</u>	Generally called as "Gross Income", "Gross Earnings", "Gross Salary" or "Cost to Company" on payslips/letters. Inclusive of all fringe benefits, for example medical aid contributions and pension fund contributions.
2	<u>Determine average of performance bonuses over the past three years</u> Bonus previous year + Bonus two years ago + Bonus three years ago DIVIDED BY 3	Remember PPS includes bonuses in its Gross Professional Income (GPI) definition. The average of bonuses actually paid in the last three years may be covered. If a bonus was not paid, use R0 for the calculation-where applicable.
3	<u>Calculate</u> 1 PLUS 2 = 3 (Gross Professional Income)	Gross Professional Income and Personal Income is the same.

NOTE: The above information might differ depending on the member's personal circumstances.

GUIDELINES TO DETERMINE NET-OF-TAX INCOME FOR BENEFITS*:



Deduct the tax as shown on salary slip. This is useful where there are no other tax-deductible considerations



Use an online income tax calculator to calculate net-of-tax income. This is useful where the member does have other tax deductions.

* This might still not be the member's real "effective net of tax". The onus of proving "effective net of tax" lies with the member and they may provide PPS with a calculation from a tax professional such as an accountant or tax practitioner. The content of this document does not constitute tax advice. This document/content has been prepared in line with PPS Provider products and in order to assist with the selling of PPS Provider products.

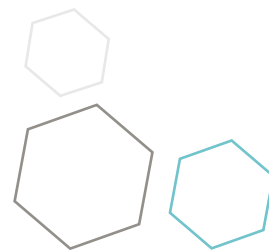


THE SELF-EMPLOYED PROFESSIONAL

DEFAULT SOURCE DOCUMENTS:



- Financial Statements
- ITA34
- Business' monthly record keeping/management accounts



HOW TO DETERMINE GROSS PROFESSIONAL INCOME:

STEP	ACTION	NOTES
1	<u>Determine Personal Income</u> Total net profit (before tax) as per financial statements/records PLUS Own salary/directors' remuneration PLUS Expenditure items (as per financial statements) that are NOT actual business expenses PLUS Other professional earnings from other sources MINUS Passive/non-professional earnings	The aim is to determine the total earnings that belong to the member personally. Members often pay themselves a salary from the business, which will reflect in the business' expenses as a separate line-item (like director's emoluments) or included within the overall staff salaries line-item. Items that are not actual expenses even though they are often listed as expenses in the business should be added to Personal Income. These are items not paid to other parties, or items for the member's personal benefit. Examples include personal expenses paid through business, depreciation or loss on a sale of assets. Active income earned from other professional Businesses/practices/companies should be added to Personal Income. Passive earnings not emanating from the member's profession (For example, rental income, investment income etc.) should be excluded from personal income. NOTE: Where a member trades in stock, PPS allows for the net profit thereof to be covered. By using net profit after tax in the calculation, this is already accounted for. Where the member is in partnership, it's important to allocate according to what the member generates/what the member is responsible for. For example, in a 50/50 partnership the member would typically be responsible for half of the expenses and would typically receive half of the profits. Thus, the calculation should consider these halves.
2	<u>Determine Actual Business Expenses</u> Expenditure items (as per financial statements) that are actual business expenses (exclude items that are NOT) PLUS Cost of Sales (if expense to generate fees)	All other expenses not accounted for above should be accounted for here. In this section we determine the true business expenses. If Cost of Sales are expenses required to generate fees (for example sundry items required for consultations), it is an actual business expense as there is no trading activity and should be reflected as such.
3	<u>Calculate Gross Professional Income</u> Step 1 PLUS Step 2 = 3 (Gross Professional Income)	

NOTE: The above information might differ depending on the member's personal circumstances.

GUIDELINES TO DETERMINE NET-OF-TAX INCOME FOR BENEFITS*:

IF THE BUSINESS OR PRACTICE IS A **SOLE PROPRIETOR/PARTNERSHIP**:

- The business (profits) and income withdrawals (personal salary/remuneration) are all taxed according to Personal Income Tax Tables.
- Deduct the tax stated on the member's personal financial statements, or the member's portion of tax in the business' financial statements (normally based on the member's shareholding percentage). Where these statements do not account for other potential tax deductions, like retirement annuity contributions, use an online tax calculator to determine the tax effect of these, and increase the income with this amount.
- Alternatively, use the tax payable on the member's last tax return as this accounts for all tax deductions.

IF THE BUSINESS OR PRACTICE IS A **CLOSE CORPORATION/PRIVATE COMPANY/ INCORPORATED COMPANY**:

- The business (profits) taxed at Corporate Income Tax of 28% and withdrawals (personal salary/remuneration) taxed according to Personal Income Tax Tables.
- Deduct the member's portion of tax in the business' financial statements (normally based on the member's shareholding percentage). If the member withdraws a salary from the business, use an online tax calculator to calculate the tax thereon and also deduct this tax. To account for other personal tax deductions, like retirement annuity contributions, again use an online tax calculator to calculate the tax effect thereof and increase the income with this amount.
- Alternatively, use the tax payable on the member's last tax return as this accounts for all tax deductions.

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THE SELF-EMPLOYED PROFESSIONAL

Where the member earns other active income, by practicing their profession, from another source, this may be included in their GPI. For example, a Medical Specialist with a private practice and part-time position at the Department of Health.

If the member earns income from dividends, this may only be covered if they've been paid consistently for at least three years.

Where the member is in partnership, it's important to allocate according to what the member generates/what the member is responsible for. For example, in a 50/50 partnership the member would typically be responsible for half of the expenses and would typically receive half of the profits. Thus, the calculation should consider these halves.

