SA ACCOUNTING NETWORK

DONATIONS TAX & SECTION 18A GUIDE

2026

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01 THE DUAL FRAMEWORK: GIVING VS. RECEIVING

In South African tax law, donations are governed by two separate mechanisms depending on whether you are giving or receiving:

- **Giving Donations (Donations Tax & Section 18A):** Giving gratuitous property or cash triggers Donations Tax under Section 54 of the Income Tax Act unless an exemption applies. Conversely, giving to an approved public benefit organisation (PBO) can unlock an income tax deduction under Section 18A.
- **Receiving Donations (Gross Income Exclusions):** Pure gratuitous gifts received are capital in nature and excluded from gross income. However, specific anti-avoidance rules (such as Section 7 attribution and Section 59 joint liability) can shift tax obligations back onto the parties.

02 CHARITABLE ORGANISATIONS: THE 3-TIER HIERARCHY

A widespread misconception in South Africa is that every non-profit entity can issue a tax-deductible receipt. SARS strictly regulates charitable status across three distinct tiers:

Tier	Governing Body	Income Tax Status	Can Issue S18A Receipts?
Tier 1: NPO	Dept of Social Development (DSD)	Fully taxable (Zero automatic relief)	❌ No
Tier 2: PBO	SARS Tax Exemption Unit (Sec 30)	100% Tax-Exempt (Sec 10(1)(cN))	❌ No
Tier 3: Section 18A	SARS TEU (Part II 9th Schedule)	100% Tax-Exempt	✅ Yes (Tax Deductible!)

- **Tier 1: Non-Profit Organisation (NPO):** Registered with the Department of Social Development (DSD). This provides legal standing but no automatic tax relief from SARS. Without SARS PBO approval, an NPO is taxed like an ordinary company.
- **Tier 2: Public Benefit Organisation (PBO – Section 30):** Approved by the SARS Tax Exemption Unit (TEU). The organisation itself is 100% exempt from income tax under Section 10(1)(cN) and exempt from Donations Tax. However, standard PBO status does not allow the entity to issue tax-deduction certificates to donors.
- **Tier 3: Section 18A Approved PBO:** The highest status, granted selectively to PBOs carrying out approved Part II Ninth Schedule activities (welfare, healthcare, education, conservation). Only Tier 3 entities can issue official Section 18A tax certificates.

03 SECTION 18A: CLAIMING TAX DEDUCTIONS

Donating to a Tier 3 Section 18A-approved entity reduces your annual taxable income.

Key Rules & Claiming Mechanics

- **Deduction vs. Credit:** Section 18A is an income tax deduction (reducing taxable income at your marginal rate between 18% and 45% for individuals, or 27% for companies), not a direct rebate.
- **The 10% Annual Ceiling:** Your total deductible Section 18A donations in a single tax year cannot exceed 10% of your taxable income (before Section 18A and medical deductions).
- **The Rollover Superpower:** Any donation amount exceeding the 10% annual cap is not lost—SARS allows you to roll the excess forward to subsequent tax years indefinitely.
- **The "No Quid Pro Quo" Rule:** A donation must be unconditional. School tuition fees, church tithes, charity golf days, and gala dinner tickets do not qualify for Section 18A certificates.
- **Mandatory IT3(d) Reporting:** SARS requires Section 18A receipts to include the donor's ID number, SARS Income Tax number, and full physical address. Receipts without these details will be rejected during eFiling.

04 PERSONAL & FAMILY GIFTING (DONATIONS TAX)

Donations between individuals are governed by Section 54 to 64 of the Income Tax Act.

Exemptions & Tax Rates

- **R100,000 Annual Exemption:** Individuals can donate up to R100,000 per tax year (1 March to end of February) across all recipients completely tax-free.
- **20% / 25% Tax Rate on Excess:** Cumulative donations exceeding R100,000 attract a 20% Donations Tax (increasing to 25% on cumulative amounts exceeding R30 million).
- **Spousal Exemption (Section 56(1)(b)):** Donations between legally recognised spouses are 100% exempt without any monetary limit.
- **Bona Fide Maintenance (Section 56(2)(c)):** Reasonable contributions toward the day-to-day living and educational costs of dependants are completely exempt.

- **Filing Due Date (Form IT144):** Donations Tax is not filed on your annual ITR12 return. Form IT144 and payment must be submitted to SARS by the end of the month following the month in which the donation took place.

05 GIFTING TO TRUSTS & COMPANIES

Gifting assets or funds to legal entities introduces specific anti-avoidance rules:

- **The Shared R100,000 Exemption:** The R100,000 annual exemption is a single combined pool per individual donor. A R60,000 donation to a trust leaves only R40,000 available for family members for that tax year.
- **The Spousal Trust Trap:** While direct gifts to a spouse are 100% tax-free, donating to a trust where your spouse is a beneficiary does not qualify for the spousal exemption and is fully taxable over R100,000.
- **Section 7C (Deemed Donations on Trust Loans):** Providing an interest-free or low-interest loan to a trust triggers an annual deemed donation on the foregone interest (calculated at the official repo rate + 1%) on the last day of February.
- **Section 7 Attribution Rules:** Donating an income-producing asset (e.g., rental property) to a trust causes all future income to remain taxable in your hands as the donor.
- **Corporate Gifting Limits:** Companies and trusts only receive a R10,000 annual casual gift exemption (not R100,000). Unapproved gifts above R10,000 trigger 20% Donations Tax.
- **Corporate Group Relief (Section 56(1)(r)):** Donations between companies within the same group of companies are 100% tax-exempt.

06 RECEIVING DONATIONS: RULES & HIDDEN TRAPS

- **Capital Receipts:** Pure gifts received by individuals are capital receipts and excluded from Gross Income.
- **Section 59 Joint & Several Liability:** If a donor fails to pay Donations Tax on an excess gift, SARS has the legal power to recover the unpaid tax directly from the recipient.
- **The "Love Offering" Trap (SARS Interpretation Note 139):** Pastors, ministers, and missionaries receiving gifts, stipends, or honoraria for their spiritual services cannot treat them as tax-free gifts. Under Section 1(1)(c), these are classified as taxable remuneration.
- **Corporate VAT on Donated Goods:** Giving unconditional cash carries zero VAT. However, donating trading stock or business assets where Input VAT was originally claimed triggers an Output VAT clawback under Section 18(1) of the VAT Act.

07 SCENARIOS, CALCULATIONS & AUDIT CHECKLIST

Real-World Tax Comparison Scenarios

SCENARIO	AMOUNT GIVEN	SARS MECHANISM	TAX SAVED / (TAX DUE)	COMPLIANCE ACTION
1: Gift to Child (Deposit)	R80,000	Under R100k annual exemption	R0 Tax	None required
2: Gift to Child (Over Limit)	R250,000	R150,000 taxable excess	(R30,000 Tax Due) (20%)	File IT144 by end of next month
3: Gift to Legal Spouse	R500,000	100% Spousal Exemption (Sec 56(1)(b))	R0 Tax	Exempt; no filing required
4: S18A Donation (R600k Inc)	R30,000	Deductible (Within 10% cap @ 36%)	R10,800 Tax Saved	Claim on annual ITR12 return
5: S18A Donation (Over 10% Cap)	R80,000 (R500k Inc)	R50k deducted now; R30k rolls over	R18,000 Tax Saved	R30,000 carried to next year
6: Company Gift to Third Party	R50,000	R40,000 taxable excess (over R10k cap)	(R8,000 Tax Due) (20%)	File IT144 by end of next month

SARS Audit Survival Checklist

For Donors Claiming Section 18A:

- ☐ Ensure the certificate specifically states Section 18A approval (an NPO number alone is insufficient).
- ☐ Verify that your ID number, SARS Income Tax number, and physical address are printed accurately on the receipt.
- ☐ Retain proof of bank payment matching the exact certificate date and amount.

For Donors Making Family Gifts > R100,000:

- ☐ Submit Form IT144 and proof of 20% payment before the end of the following month.
- ☐ Retain a signed Letter of Donation stating the unconditional nature of the gift.

For Recipients Receiving Large Cash Deposits:

- ☐ Keep a signed donor declaration confirming the capital nature of the transfer to prevent SARS from assessing the deposit as undeclared gross income.