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SARS and Staff Tuition Discounts: What Private Schools Need to Know

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Executive Summary

School fee discounts for staff children are still one of the biggest payroll tax risk areas for private schools.

The South African Revenue Service (“SARS”) is paying a lot more attention to:

- employee fringe benefits;
- payroll tax compliance;
- PAYE accuracy;
- school fee discount arrangements; and
- proper application of the Seventh Schedule to the Income Tax Act No. 58 of 1962.

Independent schools, educational institutions, and NPCs frequently provide:

- discounted tuition;
- free tuition;
- bursaries;
- scholarships; or
- educational assistance

to employees or their dependants as part of employment packages.

However, SARS generally regards these benefits as taxable fringe benefits unless a specific exemption applies. The correct valuation and tax treatment of these benefits is therefore critical.

The most important recent SARS developments include:

- continued enforcement of the “marginal cost principle”;
- stricter payroll reporting requirements;
- heightened scrutiny of salary sacrifice arrangements;
- increased focus on supporting documentation;
- updated PAYE guidance and IRP5 coding requirements;
- emphasis on Section 10(1)(q) bursary exemptions.

Failure to correctly account for tuition discounts may result in:

- PAYE underpayments;
- penalties and interest;
- payroll tax audits;
- incorrect IRP5 reporting;
- reputational damage;
- adverse audit findings.

SSA Chartered Accountants and Business Advisors Incorporated (“SSA”) assists schools with SARS-compliant tuition discount methodologies, fringe benefit calculations, payroll governance, and supporting tax documentation.

The Issue / Problem

Most private schools provide some form of fee discount or educational benefit to employees, commonly including:

- discounted school fees for employees' children;
- bursaries;
- scholarships;
- free tuition;
- staff concessions.

Historically, many schools incorrectly:

- treated the full discount as non-taxable;
- ignored fringe benefit implications;
- used inconsistent valuation methods;
- failed to maintain supporting calculations;
- omitted benefits from payroll systems.

Increasingly, SARS is scrutinising whether:

- the benefit constitutes a taxable fringe benefit;
- the school has correctly calculated the taxable value;
- the marginal cost methodology is reasonable;
- PAYE has been deducted correctly;
- Section 10(1)(q) exemptions apply properly;
- IRP5 codes are accurate.

Common errors identified in schools include:

- using the full tuition fee instead of marginal cost;
- failing to distinguish between bursaries and fee discounts;
- failing to assess salary sacrifice arrangements;
- inadequate documentation supporting marginal cost calculations;
- inconsistent payroll treatment between employees;
- incorrect application of exemption thresholds.

This creates significant risks for schools because payroll tax non-compliance may expose the institution to:

- historical PAYE liabilities;
- penalties and interest;
- SARS payroll audits;
- disputes with employees;
- reputational harm;
- adverse external audit findings.

Regulatory Context

The primary legislation governing tuition discount fringe benefits includes:

- Income Tax Act No. 58 of 1962;
- the Seventh Schedule to the Income Tax Act;
- Section 10(1)(q) of the Income Tax Act;
- Paragraphs 2(e), 2(h), and 10 of the Seventh Schedule;
- SARS Interpretation Note 66;
- SARS Employer Guides and PAYE requirements.

SARS generally categorises school fee discounts under:

- “free or cheap services”; or
- bursaries/scholarships.

Where a school provides discounted tuition to an employee’s child because of employment, a taxable benefit generally arises.

Importantly, the taxable amount is not always the full school fee. SARS generally accepts the use of the:

“Marginal Cost Principle”

This means the taxable benefit is based on the additional cost to the school of educating the additional learner rather than the full market tuition fee.

Section 10(1)(q) also provides limited tax exemptions for qualifying bursaries and scholarships granted to employees or relatives of employees, subject to specific conditions and monetary thresholds.

Rules / Impact

1. Tuition Discounts Are Generally Taxable Fringe Benefits

SARS considers reduced-fee or free tuition provided to employees' children to be a taxable fringe benefit arising from employment.

The benefit typically falls within:

- Paragraph 2(e) of the Seventh Schedule ("free or cheap services").

Impact

In practice, schools need to:

- calculate the taxable benefit;
- include the value in payroll;
- deduct PAYE where applicable;
- report correctly on IRP5 certificates.

Failure to do so may trigger:

- PAYE assessments;
- penalties and interest;
- payroll audits.

2. Marginal Cost Principle

SARS generally accepts the use of "marginal cost" of educating the additional learner rather than the gross school fee.

Marginal Costs May Include

- books and consumables;
- additional classroom resources;
- variable catering costs;
- learner-specific costs;
- incremental educational expenses.

Costs Typically Excluded

- fixed infrastructure costs;
- existing teacher salaries;
- depreciation;
- fixed administration overheads.

Impact

If the employee contribution equals or exceeds the marginal cost, there may be little or no taxable fringe benefit.

However, SARS now expects schools to have:

- formal documented methodologies;
- board-approved calculations;
- supporting working papers;
- consistency across employees.

3. Section 10(1)(q) Bursary Exemption

Section 10(1)(q) may exempt qualifying bursaries or scholarships from tax if conditions are met.

Current SARS Thresholds (2026/2027)

For relatives of employees:

- employee remuneration proxy must not exceed R900 000;
- exemption limited to:
    - R30 000 per child for Grade R to 12 / NQF 1 to 4;
    - R90 000 for higher education (NQF 5 to 10).

For qualifying disabled dependants:

- R45 000 for Grade R to 12 / NQF 1 to 4;
- R130 000 for higher education.

Impact

Only the excess above the exemption thresholds becomes taxable.

Schools need to be clear on:

- whether the arrangement qualifies as a bona fide bursary;
- whether the exemption applies;
- whether the arrangement is merely a discounted fee structure.

4. Salary Sacrifice Arrangements

SARS specifically targets arrangements involving salary sacrifice.

Where the educational benefit is provided in exchange for reduced salary:

- the exemption may not apply;
- the benefit becomes fully taxable.

Impact

Schools using flexible remuneration structures should review:

- employment contracts;
- payroll structures;
- bursary agreements;
- remuneration policies.

5. Payroll Reporting and IRP5 Codes

SARS requires accurate payroll reporting and IRP5 disclosure.

Relevant Codes Include

- Code 3809: taxable bursaries (Grade R to 12 / NQF 1 to 4);
- Code 3820: taxable higher education bursaries;
- Code 3815: exempt bursaries;
- Code 3821: exempt higher education bursaries.

Impact

Incorrect coding may:

- create employee tax disputes;
- trigger SARS payroll reviews;
- result in penalties.

6. Supporting Documentation Requirements

SARS increasingly expects schools to maintain:

- marginal cost calculation models;
- written bursary policies;
- payroll working papers;
- supporting schedules;
- signed agreements;
- governance approvals.

Impact

Poor documentation makes it much harder to defend the payroll treatment during a SARS review.

Schools unable to support methodologies may struggle to defend their PAYE treatment during a SARS review.

Practical Recommendations

Governance and Policy Frameworks

Most schools should start by formalising how these discounts are handled internally. That usually includes:

- adopt formal fringe benefit policies;
- document tuition discount methodologies;
- obtain board or finance committee approval.

Marginal Cost Methodology

Schools should:

- develop formal marginal cost models;
- review calculations annually;
- ensure methodologies are reasonable and defensible.

Payroll Compliance

Schools should:

- review all tuition discounts annually;
- confirm PAYE treatment;
- verify IRP5 coding;
- reconcile payroll disclosures.

Employment Contracts

Schools should:

- review salary sacrifice arrangements;
- clarify bursary terms in contracts;
- document repayment obligations where applicable.

SARS Readiness

Schools should maintain:

- supporting schedules;
- board approvals;
- working papers;
- payroll reconciliations;
- exemption calculations.

Internal Controls

Schools should:

- implement periodic payroll tax reviews;
- conduct internal audits over payroll;
- ensure segregation of duties within payroll processing.

How SSA Can Assist

SSA works with private schools on the practical side of tuition discount compliance, including payroll reviews, marginal cost calculations, governance support, and SARS readiness.

Fringe Benefit Assessments

SSA can assist with:

- tuition discount tax assessments;
- fringe benefit calculations;
- SARS-compliant marginal cost models;
- taxable benefit reviews.

Payroll Compliance Reviews

SSA provides:

- PAYE compliance assessments;
- IRP5 coding reviews;
- payroll reconciliations;
- SARS readiness reviews.

Tax Opinions and Supporting Documentation

SSA can prepare:

- professional tax opinions;
- SARS defence files;
- supporting working paper files;
- governance memorandums.

Governance and Policy Development

SSA assists with:

- fringe benefit policies;
- payroll governance frameworks;
- board-approved methodologies;
- finance committee reporting.

Internal Audit and Assurance

SSA can:

- review payroll controls;
- assess tax compliance risks;
- conduct payroll internal audits;
- strengthen compliance monitoring processes.

Training and Capacity Building

SSA provides:

- payroll tax workshops;
- finance team training;
- board governance awareness sessions;
- SARS compliance briefings.

Conclusion

This is an area where many schools still carry hidden payroll tax risk, often without realising it.

SARS is paying closer attention to tuition discounts, payroll reporting, and supporting calculations than it did a few years ago.

Schools that take the time to properly document their approach, review their payroll treatment, and apply a reasonable marginal cost methodology will be in a far stronger position if SARS ever performs a review.

The earlier these issues are addressed, the easier they are to fix.

SSA Chartered Accountants and Business Advisors Incorporated remains committed to assisting schools with practical, compliant, and value-driven payroll tax and governance solutions.