What **SARS** expects when someone dies

Losing a loved one is difficult enough without having to worry about tax. While SARS does play a role in the Estate Administration process, it does not have to be overwhelming. With the right guidance, the process is straightforward and manageable.

This guide explains, in simple terms, what needs to be done, the tax obligations involved, and the common mistakes to avoid, helping you navigate the process with greater confidence and peace of mind.

Why is SARS involved at all?

A person's tax affairs do not end when they pass away. Any outstanding tax matters, including income earned and assets owned, must be finalised with SARS before the estate can be wound up and distributed to the beneficiaries.

While this may seem daunting, it is simply the final step in settling the deceased's financial affairs. Once everything has been completed correctly, the estate can be finalised with confidence.

The Two Tax Assessments

This is one of the most confusing parts of Estate Administration, but it is quite simple. When someone passes away, SARS considers their tax affairs in two periods:

1. The first covers all income earned up to the date of death, such as salary, interest, or rental income.
2. The second covers any income the estate earns after death, such as interest received while the estate is being administered.

Understanding these two tax periods helps explain why finalising an Estate involves more than completing a single tax return. The executor or tax practitioner will manage this process to ensure everything is submitted correctly.

Capital Gains Tax

Many families are surprised to learn that a person's death can have Capital Gains Tax (CGT) implications. In the eyes of the law, certain assets are treated as though they were sold on the date of death, even if they are not actually sold.

The good news is that there are important exclusions and reliefs that can reduce or even eliminate the CGT payable. For many estates, the impact is minimal. However, because the calculations can be complex, it is advisable to seek professional assistance to ensure the correct amount of tax is determined and unnecessary costs are avoided.

Estate Duty

Estate Duty is often confused with Income Tax, but they are different. Estate Duty is a tax that may be payable on the value of a deceased person's estate before it is distributed to the beneficiaries.

The first R3.5 million of an estate is generally exempt from estate duty. If a person is married, any unused portion of this exemption can usually be transferred to the surviving spouse, potentially increasing the combined exemption to R7 million. As a result, many estates do not pay Estate Duty. Where it is payable, it is only calculated on the value of the estate above the applicable exemption.

The One Rule

All tax owed to SARS must be settled before any money or assets can be paid out to the family.

Finalising the tax affairs of an Estate as early as possible can help avoid unnecessary delays. When tax matters are handled correctly from the start, the estate can often be finalised more efficiently, allowing beneficiaries to receive their inheritance sooner. Delays or errors in the tax process can prolong the administration of the Estate and postpone the distribution of assets.

Common Mistakes to Avoid

Many delays and unnecessary costs can be avoided by steering clear of these common mistakes:

- Leaving Tax Matters Until the End. Tax clearance is often one of the last steps in finalising an Estate. Delaying it can slow down the entire process and postpone payments to beneficiaries
- Assuming There Are No Tax Obligations. Even relatively small estates may have interest, investments, policies, or property that must be declared to SARS
- Incorrect Capital Gains Tax Calculations. Errors can result in unnecessary tax being paid or delays while corrections are made
- Distributing Assets Too Early. Beneficiaries should not receive money or assets before all Legal and Tax obligations have been met, as this can create complications for the Executor.
- Trying To Manage the Process Alone. Estate Administration can be Complex, particularly during a time of grief. Professional guidance helps ensure the estate is administered correctly and efficiently.

How Professional Assistance Can Help

Working with an experienced Estate Administrator Specialist can save time, reduce stress, and help avoid costly mistakes. A qualified professional can manage the SARS process, ensure the necessary tax returns are submitted correctly, and keep the Estate Administration on track while keeping you informed every step of the way.