

CLIENT GUIDE | SARS TAX-EXEMPT STATUS

Becoming Tax-Exempt: PBO & 18A

PBO approval, section 18A, trading, IT3(d) and staying compliant

Income Tax Act 58 of 1962, sections 30 and 18A | Updated June 2026

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About this guide

Jansen Accountants & Auditors | PBO & Section 18A | Updated June 2026

How to become, and remain, a SARS-approved tax-exempt institution: PBO approval under section 30, section 18A for your donors, the trading rules, the IT3(d) return, and what SARS tests, audits and can withdraw.

Tax-exempt status and section 18A are what make a non-profit financially sustainable, but they are earned and kept on SARS's terms. This guide is about obtaining and keeping that status. It covers what the SARS Tax Exemption Unit tests, why applications fail, the trading and connected-person rules, section 18A and its receipts, the IT3(d) return, and what happens if SARS withdraws approval. It reflects sections 30, 30A to 30C, 18A and 10(1)(cN) of the Income Tax Act 58 of 1962 and the Ninth Schedule, as at June 2026.

How to read the boxes in this guide

A **JACC insight** explains a point plainly, a **Planning opportunity** points to something worth doing, and a **Common compliance pitfall** warns of what goes wrong. A note from our partner appears where experience matters most.

Professional disclaimer

This guide does not constitute personal, legal or tax advice. PBO and section 18A approval turn on the exact wording of your founding document and on your actual activities. Have us review them before you apply.

At a glance

The essentials

| | | | |
|--|--|-------------------------------------|---------------------------------------|
| Section 30 PBO approval | Section 18A Donor deductions | 3 Unconnected fiduciaries | 10% Donor deduction limit |
| 5% / R200k Trading basic exemption | 31 May Annual IT3(d) due | 31 Oct Interim IT3(d) due | IT12EI Annual exempt return |

Where this guide fits

The JACC non-profit series

This guide assumes you already have an organisation: a non-profit company, a non-profit trust or a voluntary association, formed and ideally registered for an NPO number. If you are still at that stage, start with our Starting a Non-Profit guide. This guide picks up next and answers one question: how do you become, and stay, a SARS-approved tax-exempt institution?

The path to tax-exempt status

- 1 Form the organisation** An NPC, trust or voluntary association. See our Starting a Non-Profit guide.
- 2 Become tax-exempt** PBO approval under section 30, for the income tax exemption.

3 Obtain section 18A so your donors can deduct their donations, if you qualify.

4 Stay compliant IT12EI, IT3(d), records and your founding document, every year.

See also: *Our JACC Starting a Non-Profit guide for choosing and forming the underlying NPC, trust or association.*

■ Do you actually qualify?

Not every non-profit is a PBO

Tax exemption is not one thing. The Income Tax Act has different categories for different kinds of organisation, and applying under the wrong one is a common reason for rejection. Work out which one fits before you apply:

| If your organisation is... | Apply under... | This guide? |
|---|------------------|---------------------------------|
| A public benefit organisation doing welfare, health, education, religion, conservation and the like | Section 30 (PBO) | Yes, this is the main subject |
| A recreational club (members' sport and social) | Section 30A | In part; the principles overlap |
| A member body (industry, professional or trade association) | Section 30B | In part; the principles overlap |
| A small business funding entity | Section 30C | No, specialised; talk to us |
| A body corporate, share-block or HOA | Section 10(1)(e) | No, a different regime |
| A political party, fund or other special body | Various | No, talk to us |

Which exemption fits?

1 Is the sole or principal object a public benefit activity in Part I of the Ninth Schedule? If yes, you are heading for PBO approval under section 30.

2 Is it really a members' club, or an industry body? Then section 30A or 30B, not a PBO.

3 Do your activities also fall in Part II of the Ninth Schedule? If yes, you can also apply for section 18A.

JACC insight

Applying as a PBO when you are really a recreational club or a member body is one of the most common reasons for a rejected application. Match the category to what you actually are.

■ Section 30: what SARS actually tests

PBO approval is granted under section 30 of the Income Tax Act by the SARS Tax Exemption Unit. SARS does not simply ask whether you are a good cause. It tests specific things, and the application succeeds or fails on them:

| What SARS tests | What it means |
|--------------------------|---|
| Objects | The sole or principal object is one or more public benefit activities listed in Part I of the Ninth Schedule. |
| Activities match objects | What you actually do matches what your founding document says you do. |

| What SARS tests | What it means |
|-------------------------------|--|
| Founding document | The constitution, trust deed or MOI contains provisions that satisfy section 30(3). |
| Three unconnected fiduciaries | At least three persons who accept fiduciary responsibility are not connected persons in relation to one another. |
| No one in control | No single person directly or indirectly controls the organisation's funds. |
| Non-distribution | Income and assets are used for the objects and not distributed to members or fiduciaries. |
| Dissolution | On winding up, remaining assets pass to another approved PBO or to government. |
| No private benefit | The organisation does not exist to benefit any person, founder or connected party. |

Charlton's insight

People expect SARS to judge the cause. It does not. It reads the founding document against section 30(3) and checks that the activities, the fiduciaries and the money all line up. Get those right and approval follows.

■ The founding document

Where most applications are won or lost

The single biggest reason applications fail is the founding document. It should contain provisions that satisfy section 30(3) of the Income Tax Act 58 of 1962. The legislation does not require the clauses to be reproduced word for word, but in practice closely following SARS's accepted wording significantly improves the likelihood of approval and speeds it up.

| Requirement | What gets rejected | What SARS accepts |
|--------------|---|--|
| Objects | 'To uplift the community', with no Ninth Schedule activity named. | Objects stated as one or more specific Part I public benefit activities. |
| Distribution | Silent, or allows payments to members. | Income and property not distributable to members, save as reasonable remuneration for services rendered. |
| Dissolution | Assets pass to members, or to 'any organisation'. | Remaining assets on dissolution pass to another approved PBO or to government, with similar objects. |
| Fiduciaries | One or two related signatories control the funds. | At least three unconnected persons accept fiduciary responsibility; no one person controls. |
| Amendment | Objects can be changed to anything. | Amendments must preserve the non-profit and public benefit character. |

Planning opportunity

If you are forming the organisation now, build the section 30(3) wording into the founding document from the start. It is far cheaper than amending a constitution or MOI later to satisfy a SARS query.

■ The Tax Exemption Unit

Who approves and monitors you

PBO and section 18A approvals are handled by a dedicated SARS office, the Tax Exemption Unit (TEU), not your local branch. It is worth knowing how it works:

- The TEU reviews the application against section 30, focusing on the founding document, the objects and the fiduciaries.
- It often comes back with queries, most commonly on the founding document; a complete application avoids this.
- Timelines vary, and each query-and-response cycle adds time, so build in a few months.
- After approval, the TEU is also where your annual IT12EI return and any disputes are handled.

JACC insight

Because the TEU works off the documents, the quality of what you lodge largely determines both the outcome and the speed. A clean, complete application with a correct founding document is most of the battle.

■ Why SARS rejects applications

Learn from the common failures

Most rejections and queries come down to the same handful of issues. This is where our experience saves clients a second round with SARS:

- The objects are vague and do not name a specific Ninth Schedule activity.
- What the organisation actually does is not clearly a public benefit activity, or does not match its stated objects.
- The founding document is missing, or has a defective or missing dissolution clause.
- The wording is commercial, suggesting a business rather than a public benefit purpose.
- There are fewer than three fiduciaries, or they are connected to one another.
- One person effectively controls the funds.
- There are signs of private benefit to a founder or connected person.
- Trading looks like the main activity rather than a way to fund the objects.
- The legal form or supporting documents do not match the application.
- Required resolutions, financial statements or registration documents are not attached.

Charlton's insight

Almost every one of these is avoidable. We review the founding document and the activities against section 30 before we lodge, fix the wording, and make sure the objects, activities, fiduciaries and money all tell the same story. That is what gets approvals through first time.

■ Connected persons

Why SARS watches them

A 'connected person' is defined in section 1 of the Income Tax Act and broadly covers people and entities closely linked to the organisation or its fiduciaries: founders, trustees and directors, their relatives, and companies or trusts they control. SARS pays close attention to connected persons because tax-exempt funds must benefit the public, not the people running the organisation or their families.

- At least three of the fiduciaries must not be connected to one another (section 30(3)).
- Funds and assets may not be used to benefit a connected person beyond reasonable remuneration for actual services.
- Dealings with connected persons (rent, loans, purchases, salaries) must be at arm's length and properly documented.
- Donations or below-market dealings that favour a connected person put the exemption at risk.

A connected-person trap

A PBO rents its premises from a building owned by the founder.

That is allowed, but only at a market-related rent, supported by a written lease and ideally an independent valuation.

If the PBO overpays the founder, SARS treats it as private benefit and can withdraw approval.

■ Can I pay myself?

Reasonable remuneration

Yes. A common myth is that no one in a PBO may be paid. The rule is that funds may not be distributed to members or fiduciaries, but a PBO may pay reasonable remuneration for services actually rendered. Staff, and even a founder who works in the organisation, can be paid a market-related salary.

- The work must be real and the pay market-related for that work.
- It must be approved by the board, not set by the person who benefits.
- It must be documented: a contract, a job description, board minutes and a payslip.
- It must not be a disguised distribution of the organisation's surplus.

Charlton's insight

The test is whether you would pay an unrelated person the same amount for the same work. Pay a founder a fair salary for a real job and that is fine. Pay them a 'salary' that is really a share of the surplus, with no matching work, and you have put the exemption at risk. Get the board to approve it and keep the paperwork.

■ The income tax exemption and partial taxation

Section 10(1)(cN)

An approved PBO is exempt from income tax on its receipts under section 10(1)(cN). It can also trade to fund its work, but trading income is only partly exempt. The Act treats trading in layers: some is fully exempt, and the rest is taxable, but only above a basic exemption.

How a PBO's income is taxed

1

Receipts from public benefit activities Exempt under section 10(1)(cN).

| | |
|----------|--|
| 2 | Business integral to the objects, or run mainly by volunteers Exempt. |
| 3 | Occasional trading, or activities the Minister has approved Exempt. |
| 4 | Other (commercial) trading Taxable, but only above the basic exemption. |
| 5 | Basic exemption: the greater of 5% of total receipts or R200,000 Deducted from the taxable trading first. |
| 6 | Remaining trading profit Taxed at 27%. |

Worked example: partial taxation of trading

A PBO has total receipts of R1,000,000, including R150,000 from a commercial coffee shop that is not integral, occasional or approved.

Basic exemption = the greater of 5% of R1,000,000 (R50,000) or R200,000 = R200,000.

The R150,000 trading profit is below R200,000, so it is fully covered and no tax is payable.

If the coffee shop instead made R300,000, then R300,000 less R200,000 = R100,000 is taxable at 27% (R27,000).

This assumes none of the statutory exemptions for integral, occasional or approved trading apply.

JACC insight

Keep trading income separate in the accounts. You can only apply the basic exemption and identify the taxable portion correctly if the trading is tracked apart from your exempt public benefit receipts.

Trading: what is taxed and what is not

Clients ask about the same activities again and again. The treatment depends on the facts, but the usual position is:

| Activity | Usual treatment |
|--|---|
| Charity shop selling donated goods | Usually exempt: integral fundraising, largely volunteer-run. |
| Annual fundraising dinner or golf day | Usually exempt: occasional fundraising. |
| Branded merchandise sold at events | Usually exempt if occasional; watch regular online trading. |
| School tuckshop for the school's own learners | Usually integral to the objects, exempt. |
| A coffee shop open to the public, run commercially | Likely taxable trading above the basic exemption. |
| Letting property to third parties for rental | Often taxable; passive rental is not a public benefit activity. |
| Paid advertising or sponsorship space | Often taxable trading. |
| Training courses sold to the public for a fee | Depends: exempt if the training is itself the public benefit activity, otherwise trading. |
| Renting the hall or parking to outsiders | Usually taxable trading. |
| A bookshop open to the general public | Likely taxable unless integral and volunteer-run. |

Treatment depends on the facts. The tests are whether the activity is integral to the objects, run substantially by volunteers, occasional, or Ministerially approved. Where none applies, it is taxable above the basic exemption.

■ Section 18A: tax-deductible donations

A separate, additional approval

Section 18A lets your donors deduct their donations from their taxable income, up to 10% of taxable income, with any excess carried forward to the next year. It is a separate approval from PBO status, and far more valuable for fundraising, because it makes giving to you tax-efficient. Not every PBO qualifies.

- Only activities listed in Part II of the Ninth Schedule qualify for section 18A, a narrower list than Part I: mainly welfare and humanitarian, healthcare, education and development, conservation, and certain others.
- The donation must be a genuine, voluntary and gratuitous gift, with nothing of value given back to the donor.
- The donated funds must be used for the qualifying Part II activities.

JACC insight

Religious, sporting and many membership activities qualify for income tax exemption under Part I, but not for section 18A under Part II. A church can be a PBO but generally cannot issue 18A receipts for ordinary tithes and offerings.

■ Mixed organisations and separate accounting

When you do both

Many organisations carry on both Part II (18A) activities and other, non-18A activities. They can still issue 18A receipts, but only for donations used for the qualifying Part II activities, and only if they keep the two apart in their records.

- Keep separate accounts for the 18A (Part II) activities and for the rest.
- Issue 18A receipts only for donations applied to the Part II activities.
- Be able to show SARS how the donated funds were spent on qualifying activities.

Common compliance pitfall

Issuing 18A receipts for the whole organisation when only part of it does Part II work, without separate accounting, is a classic finding. If you cannot trace a donation to a qualifying activity, the receipt should not have been issued.

■ The section 18A receipt

Get every field right

A section 18A receipt must contain prescribed details, or the donor cannot claim. The content is set by section 18A(2)(a) of the Income Tax Act, expanded by SARS public notice in 2023 and further updated in October 2025. The added fields exist so SARS can match each receipt to the IT3(d) third-party data you submit.

| Field on the receipt | Why it matters |
|--|---|
| PBO name, address and section 18A reference number | Proves the issuer is actually 18A-approved. |
| A unique receipt number | Lets SARS match the receipt to your IT3(d) data. |
| Date the donation was received | Fixes the year of assessment for the donor's claim (an annual receipt must break down the dates). |
| Donor's name and address | Identifies the claimant. |

| Field on the receipt | Why it matters |
|---|---|
| Donor's nature of person (individual, company, trust) | Required since the 2023 reforms for third-party matching. |
| Donor's identification or registration number | Required for matching; the income tax reference number is requested and SARS intends to make it compulsory. |
| Donor's contact number and email address | Required since the 2023 reforms. |
| Amount of the donation, or nature and value if not cash | Sets the deductible amount. |
| Certification of use | A statement that the donation will be used solely for Part II public benefit activities; without it the receipt is invalid. |

A receipt missing a required field is invalid and the donor's deduction is disallowed. With SARS now matching IT3(d) data to donors' returns, defective receipts are quickly exposed.

■ IT3(d): reporting your 18A receipts

Third-party data to SARS

Since the 2023 reforms, every approved section 18A entity must report the receipts it issues to SARS as third-party data on the IT3(d) return, under Public Notice 3631 of 2023. SARS matches that data to donors' tax returns, so the receipt and the IT3(d) submission must agree. This is compulsory by law, not optional.

- **What:** the details of every section 18A receipt issued in the period. If you issued none, you still submit a 'nil' (null) declaration.
- **When:** twice a year. The interim period 1 March to 31 August is due by 31 October, and the full year 1 March to the end of February is due by 31 May.
- **How:** on eFiling using the IT3-01 form for up to 50 receipts, or through the secure HTTPS data channel for 51 or more. The entity's registered representative must be up to date on eFiling first.
- **Corrections:** you may submit multiple files in a period and correct earlier data; the final position is declared on the IT3-02.

Common compliance pitfall

Failure to submit IT3(d) data, or submitting data that does not match the receipts, exposes the PBO to penalties and a non-compliant status, and causes your donors to be routed for audit and to lose their deductions. Many PBOs still miss this entirely. Diarise both the October and the May deadlines.

JACC insight

Even a dormant 18A entity that issued no receipts must file a nil declaration. The nil return also protects you against someone using your 18A number to claim fraudulent deductions in your name.

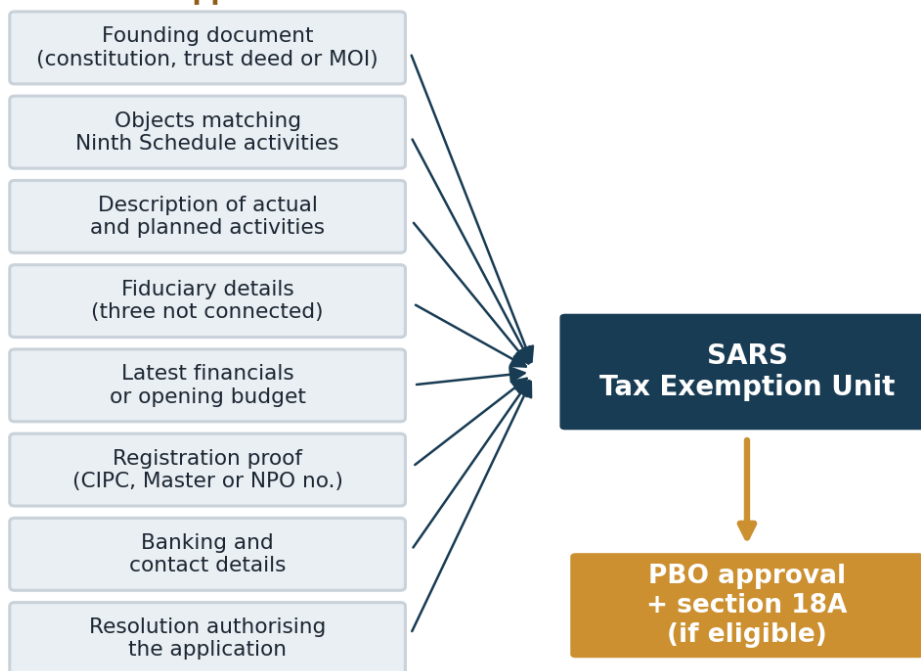
■ Before you submit

An application checklist

An application that arrives complete is approved far faster. Before lodging with the Tax Exemption Unit, have ready:

- The founding document (constitution, trust deed or MOI) with the section 30(3) clauses, the dissolution clause and at least three fiduciaries who are not connected persons.
- A clear statement of objects matching specific Ninth Schedule activities.
- A description of actual and planned activities that matches those objects.
- Details of the fiduciaries (directors, trustees or office bearers) and confirmation that three are not connected persons.
- The latest annual financial statements, or an opening budget for a new organisation.
- The CIPC registration (for an NPC), Letters of Authority (for a trust), or the NPO number where held.
- Banking and contact details.
- A resolution authorising the application.
- If you want section 18A, confirmation that your activities fall in Part II of the Ninth Schedule.

Assemble the application bundle



The application bundle assembled and lodged with the SARS Tax Exemption Unit.

Planning opportunity

Decide up front whether you are applying for PBO approval only, or PBO plus section 18A. They are applied for together but tested separately, and 18A needs Part II activities. Sorting this out before you lodge avoids a second round with SARS.

■ After approval

Staying compliant

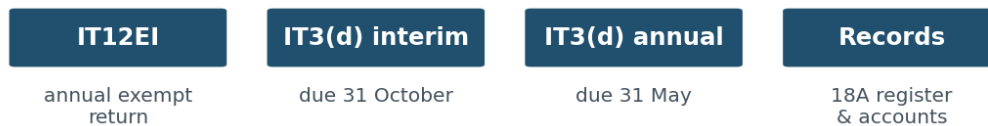
Approval is the start, not the finish. Clients often think the job is done; it is not. To keep PBO and section 18A status, the organisation must keep meeting the section 30 conditions and keep filing:

| Ongoing obligation | What it involves |
|-------------------------------|---|
| Annual exempt return (IT12EI) | Submit the income tax return for exempt organisations every year, even though the income is exempt. |
| IT3(d) third-party data | Submit twice a year on the 18A receipts issued (nil declaration if none). |
| Records | Keep proper accounting records and the section 18A receipt register. |
| Activities and objects | Keep doing the approved activities; do not drift into other purposes. |
| Notify changes | Tell the TEU of changes to the founding document, objects, fiduciaries or address. |
| Trading | Apply the partial taxation rules and basic exemption to any taxable trading. |
| VAT and payroll | Register and account for VAT and PAYE where the thresholds and employment apply. |

Getting approved



Every year after approval



From application to approval, and the returns that follow every year.

■ Can SARS withdraw approval?

Yes, and what follows

SARS can withdraw PBO and section 18A approval where the organisation no longer meets the conditions, for example where it stops carrying on public benefit activities, distributes funds improperly, or fails to submit returns. Withdrawal is not automatic: SARS must follow a process, and the organisation has a right to respond and to dispute the decision.

- SARS notifies the organisation and gives it an opportunity to remedy the position.
- Depending on the circumstances and the effective date of withdrawal, SARS may assess the organisation for income tax, and other consequences may follow, subject to the procedures in the Tax Administration Act 28 of 2011.

- Section 18A status falls away, so the organisation may no longer issue 18A receipts.
- The organisation can object and appeal through the Tax Exemption Unit, and can re-apply once it again meets the conditions.

Common compliance pitfall

The most common path to withdrawal is simply not filing: missing IT12EI returns or IT3(d) data, year after year, until SARS acts. Staying approved is mostly about filing on time and keeping to your founding document.

■ What SARS looks at on review

When SARS reviews a PBO, certain areas come up again and again. Being ready for them is the best protection:

- Section 18A receipts: whether they contain every prescribed field and match the IT3(d) data.
- Whether activities still match the approved objects, and remain in Part I (and Part II for 18A).
- Trading income: whether the partial taxation rules and basic exemption were applied correctly.
- Connected persons and private benefit: salaries, rent, loans and dealings with insiders.
- Founder remuneration: whether it is reasonable and for real work.
- Surplus and investments: whether funds are applied to the objects rather than accumulated without purpose.
- Related-party loans: whether the PBO has lent money to connected persons.

■ If SARS challenges your status

The Tax Exemption Unit and disputes

Tax-exempt institution disputes are handled by the SARS Tax Exemption Unit and follow a different route from ordinary disputes. An objection is lodged manually on an ADR1 form and an appeal on an ADR2 form, delivered to the TEU, rather than through the usual eFiling dispute process. The deadlines and principles are the same as an ordinary dispute, but the turnaround is often longer.

See also: Our JACC SARS Dispute Resolution guide for the objection and appeal framework, timelines and burden of proof.

■ VAT and employees

Exemption is only from income tax

Income tax exemption does not exempt a PBO from other taxes. Two catch PBOs out:

- **VAT:** if the PBO makes taxable supplies above the R1 million registration threshold, it must register for VAT and account for it. Some activities may be exempt or out of scope, so the position must be assessed.
- **PAYE, UIF and SDL:** if the PBO employs staff, it must register as an employer and submit the EMP201 and EMP501, like any other employer. Many PBOs are exempt from the skills development levy, depending on their activities.

■ Frequently asked questions

We registered as an NPO. Are we tax-exempt?

No. Tax exemption is a separate SARS approval as a PBO under section 30. NPO registration and PBO approval are different things.

What is the difference between PBO status and section 18A?

PBO status exempts the organisation from income tax. Section 18A is a further approval that lets your donors deduct their donations. You can have PBO status without 18A.

Can we pay our founder or staff?

Yes, reasonable remuneration for real work, approved by the board and documented. You may not distribute surplus to members or fiduciaries.

Can a PBO trade?

Yes, within limits. Trading that is not integral, occasional or approved is taxable above the basic exemption of the greater of 5% of receipts or R200,000.

How often do we file IT3(d)?

Twice a year: the interim period by 31 October and the full year by 31 May, even if you issued no receipts (a nil declaration).

What if SARS questions our exemption?

Tax-exempt institution disputes go to the Tax Exemption Unit on the ADR1 and ADR2 forms. We handle these for you.

■ How we can help

Jansen Accountants & Auditors

We are a Cape Town firm of chartered accountants and registered auditors, and registered tax practitioners. We help clients get this right the first time, and fix it when it has gone wrong.

- PBO applications and founding-document drafting and review for section 30.
- Section 18A approval, compliant receipt templates and mixed-activity accounting.
- IT12EI returns and IT3(d) third-party submissions.
- Trading, connected-person and remuneration reviews, and Tax Exemption Unit disputes.



Talk to us.

Book a consultation at www.jacc.co.za, call +27 21 554 3482, or email info@jacc.co.za.

■ Important notice

This guide does not constitute personal advice. It is general information based on South African law and practice as at June 2026, and must not be relied on as advice. Outcomes depend on the specific facts, and the law and regulatory practice change. Jansen Accountants & Auditors Inc accepts no liability for any loss arising from reliance on this guide. Obtain advice specific to your circumstances before acting.

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