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July 2019

How Tax Returns Will Be Easier This Year, and Should You File if You Earn Under R500,000?

"Death and taxes may be inevitable but they shouldn't be related" (J.C. Watts Jr)

Tax season 2019 begins on 1 August (1 July for taxpayers who are registered for eFiling or have access to the MobiApp) and SARS has taken further steps to reduce the burden on both taxpayers and SARS' administrative systems.

This year there are three initiatives:

- Increase the threshold of submitting tax returns from R350,000 to R500,000,
- Enhancements to the MobiApp and improvements to EasyFiling,
- Moving out the dates for submission of returns.

Threshold increased to R500,000

Taxpayers with employment-only income now only have to file a tax return if their annual employment income exceeds R500,000 (previously R350,000). The provisos to this are taxpayers must have:

- Only one employer during the tax year,
- No other income such as rentals received or car allowance etc,



- No other additional deductions to claim e.g. medical costs or retirement funding,
- Not made a capital gain of R40,000 or more.

A problem SARS has had with this is that many of these taxpayers still submit returns – up to 25% of tax returns received do not need to be filed. In a further effort to prevent taxpayers submitting unnecessary returns, SARS will send each of these taxpayers a simulated outcome as if they had filed a return which will show no tax is due.

Should you file a return even if you don't have to?

If you may be in line for a tax refund, then it pays to do a tax return. In addition, if you think you may need a Tax Clearance Certificate it is probably prudent to complete a tax return. This will save any potential delays as SARS may query why you did not file your income tax form.

Ask your accountant for advice specific to your situation.

Enhancements you need to know about

SARS has been making efforts to upgrade their IT systems to reduce the number of people who use SARS branches to complete tax returns. Thus far this has had limited success, so SARS is increasing its efforts this year.

1. The MobiApp

This enables taxpayers to submit their returns using their smartphones. Security has been enhanced by:

- A biometric authentication facility,
- A one time pin has been added,
- The use of security questions, and
- You can easily reset your password and username.

One really good feature is the scanning and uploading of documents.

Note: the MobiApp cannot be used for provisional payments.

2. E Filing

The system is now more user friendly for making payments, submitting your return and uploading documentation. In addition, Notices issued by SARS will be more specific, e.g. the Notice will specify what documentation SARS require in the event of verification and audit.

Taxpayers may use the MobiApp or E Filing from 1 July but may only use branches for submitting their returns from 1 August.

Your Tax Season 2019 Deadlines

TAX SEASON 2019 DEADLINES		
CHANNEL	DUE DATE	TYPE OF TAXPAYER
Manual by post or at a SARS Branch Drop Box	31 October 2019	Non-provisional and provisional taxpayers
eFiling or electronic filing at a SARS Branch or MobiApp	4 December 2019	Non-provisional taxpayers
eFiling	31 January 2020	Provisional taxpayers

(Adapted from a SARS table)

What is of interest in the table above is that the deadline dates have been moved out for manual submissions (it was 21 September last year) and for non-provisional taxpayers (31 October in 2018) whilst there is no change for provisional taxpayers.

Business Rescue Options: Going the Informal Route v the Companies Act Route

The business rescue provisions in the Companies Act are regarded as progressive and world class and there is evidence that it has worked



well.

Yet a 2016 survey showed that more distressed businesses opted for an informal approach and appear to be more successful than those opting for the remedies of the Companies Act.



What's the difference?

Business rescue in terms of the Companies Act is a process whereby the company informs stakeholders of its situation and a business rescue practitioner is appointed to try and salvage the company. A moratorium is placed on creditors which gives the practitioner room to find a solution.

With an informal arrangement, the business enters into negotiations with some or all of its creditors.

The two significant differences between the two approaches are that –

- With an informal approach there is no protection from creditors demanding to be paid – this is a substantial risk because if creditors decide they want to be paid, the company could collapse.
- The other big difference is that the informal way offers confidentiality to the business – with business rescue the financial position of the company becomes common knowledge to all stakeholders and the general market place. The company thus suffers reputational damage from which it may never recover even if it reaches a favourable settlement – e.g. consumers of the company's product may opt to use a rival's product in case the company does go into bankruptcy.

Directors: Plan ahead to prevent falling foul of business rescue requirements

Once a company becomes aware that it has run into or is going to experience financial difficulties, the directors are required by the Companies Act to perform liquidity and solvency tests and if these show the business cannot meet its obligations for the next six months, then it is required to either declare insolvency or apply for business rescue. Should the directors decide not to proceed with business rescue or liquidation, they are obliged to provide stakeholders with reasons for their decision in writing – hence the company's stressed position is revealed to the public.

Therefore if you want to take the informal route you need to do this before the business becomes financially stressed as above.

You will also need to present creditors with a credible plan when you embark on this option. Clearly, monitoring of the cash position and planning a comprehensive strategy are critical to the success of the informal turnaround process.

Your personal liability risk

Directors are personally liable for any losses as a result of their actions or inactions if it can be shown that they acted recklessly or negligently. So plan accordingly and carefully. Remember also that staff and stakeholders could be financially ruined if the business fails.

How Many Days Did You Work For The Taxman In 2019?

“Tax Freedom Day is calculated by dividing general government revenue by GDP at market prices, then multiplying the result by the number of days in a year, and finally adding a day” (Free Market Foundation)

In the current year it will take the average South African 137 days to pay off his taxes and only from the next day does the taxpayer then work for himself or herself – this day is known around the world as Tax Freedom Day (TFD). The 138th day of 2019 was 18 May.



So, what does this tell us?

The news is not good – in 1994 TFD was 101 days. Last year TFD was on 13 May, a slippage in one year of 5

days.

Looking at the Free Market Foundation's formula, if GDP rose then TFD would drop. Broadly speaking, this tells us that not enough tax revenue is being channelled into investment as investment leads to a growth in GDP. This is hardly surprising when you consider that salaries are the largest component of government expenditure.

On the other side of the equation, we are being increasingly taxed. In the last few years VAT and income tax have risen whilst new taxes such as the Sugar Tax and now Carbon tax have been implemented.

The President has promised that he will reform the economy to make it more attractive to invest in South Africa – let's hope he succeeds.

Where does South Africa stack up globally?

We are in the middle of the scale – it depends on the structure of the country. Welfare states like Norway and Germany approach 200 days whilst countries like the USA and Australia are just over the 100 day mark.

The question we have to ask ourselves is whether South Africans enjoy sufficient economic benefits to compensate for being approximately 5 weeks behind the USA and Australia?

Youth Employment Tax Incentive Extended for Ten Years

There is chronic unemployment in the country and it is especially felt by the youth where up to 50% cannot find a job. The Employment Tax Incentive (ETI) is designed to encourage companies to employ "youths" (between the ages of 18 to 29) for 1 to 2 years.

Incentives for employers to make use of the ETI are attractive. You can deduct from your monthly PAYE owing the amounts shown below in the third column. In addition, these deductible amounts are exempt from Income Tax i.e. you get a double benefit.

The monthly calculated ETI amount per qualifying employee is determined as follows:



ETI CALCULATION TABLES		
For the First Twelve Months of Employment		
Monthly Remuneration	Determination	Monthly Calculated ETI Amount
R0 – R2000	50% x monthly remuneration	R0 - R1000
R2001 - R4500	Fixed at R1000	R1000
R4501 – R6500	Formula: $X = A - (B \times (C - D))$ X = monthly calculated amount A = R1000 B = 0,5 C = Monthly Remuneration D = R4500	R 999 - 0
For the Second Twelve Months of Employment		
Monthly Remuneration	Determination	Monthly Calculated ETI Amount
R0 – R2000	25% x monthly remuneration	R0 – R499

R2001 - R4500	Fixed at R500	R500
R4501 - R6500	Formula: $X = A - (B \times (C - D))$ X = monthly calculated amount A = R500 B = 0,25 C = Monthly Remuneration D = R4500	R 499 - 0

Source: [SARS](#)

There are conditions – the employer must be in good standing with SARS and employees (apart from being aged 18 to 29) must have valid ID documents (or be a legal refugee).

This is a good incentive and it helps to address one of South Africa's intractable problems. Another advantage is you can over the two year period identify employees with potential who will fit into your business.

Speak to your accountant to ensure you claim this incentive correctly.

Your Tax Deadlines for July 2019

There are only run-of-the-mill deadlines for July –

- 5 July - PAYE submissions and payments
- 25 July - VAT manual submissions and payments
- 30 July - Excise Duty payments
- 31 July - VAT electronic submissions and payments
- 31 July - CIT Provisional Tax Payments where applicable.



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