

COVID-19 Further Relief Measures

In terms of a Media Statement issued by National Treasury on 23 April 2020, enhanced tax measures have been announced. The details in this circular replace those in our earlier circular issued on 1 April 2020.

PAYE Deferral

The purpose of this relief is to assist the cash flow of small to medium sized businesses (i.e. a business with an annual turnover not exceeding R100 million) which have employees in respect of whom PAYE is payable.

In respect of the PAYE liabilities for the months of April to July 2020 –

- Only 65% of the total amount of PAYE payable must be paid on time i.e. by the 7th of the following month. 35% is deferred without penalty or interest.
- The total amount deferred in respect of these 4 months must be paid to SARS in six equal monthly instalments. The first amount is payable on 7 September 2020 and the same amount in the following 5 months.

This relief will not be available to those employers (or representative employers of non-resident businesses) if the employer –

- has failed to submit any return to SARS (not only in respect of PAYE) in the prescribed form and manner and by the due date;
- has any outstanding tax debt in excess of R100 (unless an instalment agreement with SARS is in place).

It must be realized therefore that if employers are in default with any returns or payments, this relief is not available and the usual penalties and interest will apply. Furthermore, penalties and interest will apply if PAYE liabilities are understated for any of the 4 months referred to above.

Provisional Tax Deferral

The purpose of this relief is to assist the cash flow of a small to medium sized business (i.e. a business which is a company with an annual turnover not exceeding R100 million) which has a liability to pay provisional tax. At this stage, no finality has been reached on the details of relief for individuals carrying on business.

In respect of the provisional tax payments falling due during the period of 12 months from 1 April 2020 to 31 March 2021 –

- Deferral without penalty or interest of a portion of the first and second provisional tax payments due to SARS.
- The first provisional tax payment falling due during the period from 1 April 2020 to 30 September 2020 is to be 15% of the estimated total tax liability (without this concession, 50% would be payable).
- The second provisional tax payment falling due during the period from 1 April 2020 to 31 March 2021 will be 50% of the estimated total tax liability (without this concession, 100% would be payable less the amount paid as the first provisional tax payment).
- When the third provisional tax payment is due for the company (i.e. 6 months after the company year end (or 7 months for February year end companies)), the deferred amounts (i.e. 35%) must be paid in full.

This relief will not be available to a company if such company –

- has failed to submit any return to SARS (not only in respect of provisional tax) in the prescribed form and manner and by the due date;
- has any outstanding tax debt in excess of R100 (unless an instalment agreement with SARS is in place).

It must be realized therefore that, if companies are in default with any return or payments, this relief is not available and the usual penalties and interest will apply.

Employment Tax Incentive (ETI) Relief

This ETI programme was instituted to promote employment, particularly of young workers (i.e. between the ages of 18 and 29).

This wage subsidy relief is administered through the PAYE system and is applicable in respect of a qualifying employee between the ages of 18 and 29 who has a monthly remuneration of less than R6 500. The maximum monthly ETI claimable per qualifying employee is limited to R1 000 in the first year of employment and R500 in the second year of employment. The monthly ETI can only be claimed for the first 24 months of the qualifying employee's employment.

For the limited period of 4 months from 1 April 2020 to 31 July 2020, so as to minimize job losses, the ETI programme is to be expanded as follows –

- Increasing the maximum amount of ETI claimable during this 4 month period from R1 000 to R1 750 in the first qualifying 12 months and from R500 to R750 in the second 12 qualifying months.
- Allowing a monthly ETI claim of R750 during this 4 month period for employees from the ages of –
 - 18 to 29 who are no longer eligible for the ETI as the employer has claimed ETI in respect of those employees for 24 months, and
 - 30 to 65 who are not eligible for the ETI due to their age.
- Accelerating the payment of the ETI reimbursements from twice a year to monthly as a means of getting cash in the hands of tax compliant employers as soon as possible.

This ETI expansion only applies to employees who were registered with SARS as at 1 March 2020.

This ETI relief will not be available if such employer –

- has failed to submit any return to SARS in the prescribed form and manner and by the due date;
- has any outstanding tax debt in excess of R100 (unless an instalment agreement with SARS is in place).

Skills Development Levy Holiday

With effect from 1 May 2020, there will be a 4 months holiday for skills development levies of 1% of remuneration payable by employers.

This means that no SDL levies will be payable for the months of May, June, July and August 2020.

Early VAT Refunds

Smaller VAT vendors file VAT returns every 2 months. This means that, if you are due for a VAT refund, you have to wait until your next 2 months return has been reviewed by SARS. Those in a net VAT refund position will be temporarily permitted to file monthly VAT returns instead of every 2 months. This will allow for VAT refunds earlier than before. SARS hopes to have this system in place in May 2020 (for category A vendors who would otherwise only be able to file in June 2020). It appears that if the vendor is not due for a VAT refund, normal 2 monthly returns can be filed.

Other Deferrals

- 1 **Carbon Tax.** First returns and payments were due by 31 July 2020. This filing and payment date is to be delayed by 3 months to 31 October 2020.
- 2 **Excise taxes on alcohol and tobacco products.** Payments due in May and June 2020 are to be deferred by 90 days to August and September 2020 respectively. This deferral is only available for excise compliant businesses.
- 3 **Limiting of interest deductions.** In the Budget Review tabled by the Minister of Finance in February 2020, measures were announced to limit the deduction of interest incurred in the production of income to 30% of earnings. The implementation date has been deferred by 1 year to be effective for years of assessment commencing on or after 1 January 2022.
- 4 **Limitation of assessed losses.** In the February 2020 Budget Review, it was announced to limit the deduction of assessed tax losses to 80% of taxable income in the following tax year. The implementation date has been deferred by 1 year to be effective for years of assessment commencing on or after 1 January 2022.

Other Concessions

- 1 **Waiver of SARS penalties for businesses.** Larger businesses (with a gross income of more than R100 million p.a.) which can show that they are incapable of making payment due to the Covid-19 disaster, may apply directly to SARS to defer tax payments without incurring penalties.

Businesses with a gross income of less than R100 million p.a. may also apply for deferral of payment without incurring penalties beyond the deferral relief dealt with earlier in this circular.

This relief does not cover the interest which will be payable.

From a practical point of view, the challenge will be to be able to show to SARS that the business is incapable of making payment due to the Covid-19 disaster. Applications will be dealt with by SARS on a case by case basis.

- 2 **Tax deductible donations.** Currently tax deductible donations are limited to 10% of taxable income for that tax year. The limit will be increased by an additional 10% for donations to the Government sponsored Solidarity Fund during the 2020/2021 tax year.

Generally, for PAYE purposes, employers can take into account as a deduction up to 5% of the employee's monthly salary. An additional percentage up to 33.3% (depending on the employee's circumstances), will be provided for a limited period for donations to the Solidarity Fund. Further details are still awaited.

- 3 **Access to Living Annuity Funds.** Current legislation allows the recipient of a living annuity to draw as annuity income from their fund from 2.5% to 17.5% of the fund value. Changes within those rates are only allowed once a year on the policy anniversary date. It is announced that, for a temporary period, up to a maximum of 20% (from 17.5%) and a minimum of 0.5% (from 2.5%) will apply. This temporary change will be allowed to take place immediately without the need to wait for the annual anniversary date. Further details will be available from the administrators of the funds.

Further Details

All these announcements eventually need to be promulgated by Parliament. Draft legislation is to be made public on 30 April 2020 and this will provide further details to the above summary.

Relevant Attachments

A copy of the Media Statement referred to at the beginning of this newsletter can be viewed at

http://www.treasury.gov.za/comm_media/press/2020/20200423%20Media%20statement%20-%20Further%20tax%20measures%20to%20combat%20COVID-19.pdf

Debt Relief Finance Scheme

This is to be administered by the Department of Small Business Development to benefit businesses negatively affected by COVID-19.

There are numerous qualifying criteria and application forms and full details are available at

https://www.gov.za/sites/default/files/gcis_documents/SMME%20Debt%20Relief%20Scheme.pdf

Other financial support measures have been announced by various banks, financial institutions and other organisations.

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