Six things payroll managers need to know for the tax year ahead

South Africa's finance minister Mr. Enoch Godongwana presented the 2022/2023 Budget Speech on 23 February, announcing a few changes that, from a legislative perspective, payroll managers need to know about to remain compliant.

Retirement fund tax

Kristel Badenhorst, compliance research manager at payroll and HR software leader PaySpace, says the first changes are in respect of retirement fund tax. "Where a pensioner has more than one source of income, they might incur a tax debt at the year-end when all income is taken into account. To help in these cases, new legislation makes provision for SARS to determine the effective rate of tax in respect of the combined employment and/or pension sources of income of the taxpayer. The latest data available to SARS is used to determine a more accurate PAYE deduction percentage, and that rate will be given to the retirement fund administrators who can withhold PAYE based on that data."

She explains that for pensions or annuities payable during March this year and for the periods after, retirement fund administrators will use this rate to deduct PAYE from a pension or annuity. "The rate provided by SARS will be valid for the whole tax year unless the circumstances that influence the year-end tax liability change."

Christine Painter, PaySpace's head of compliance, explains that this change is not applicable to normal payrolls, rather only to retirement fund administrators or insurers paying these annuities.

"In addition, with the new changes, while the PAYE deducted might be higher, the chances of a nasty surprise when you file your return are greatly reduced, as you know what you are in for. Furthermore, employees can still request their retirement fund administrators to use the normal PAYE rate. Employees can also volunteer to pay additional tax if they choose to do so."

Curbing ETI abuse

Badenhorst says there have also been amendments to the Employment Tax Incentive Act to counteract schemes where employers claim the ETI in respect of employment agreements that are not genuine. Firstly, the definition of 'employee' has been amended to make sure that the substance of the employment relationship will determine eligibility for the ETI claim, as opposed to its purely legal form. For example, students whose main occupation is studying, are no longer eligible.

"The intention of the amendment is to close the loophole where employers illegitimately claimed ETI in respect of employees who are not true employees," adds Painter. She reminds the employer that the definition change of employee is more an administrative change for the employer.

"The definition of monthly remuneration has been amended to exclude certain non-cash remuneration as well as salary sacrifices. However, no formal interpretation has been issued by SARS as yet, thus employers are waiting to receive guidance." Painter says these amendments will have a monetary impact on their ETI claims for employers.

Fringe benefits on retirement funds

Next on the list is clarifying the calculation of fringe benefits in relation to employer contributions to a retirement fund, aimed at addressing the anomaly that existed where self-insured risk benefits were not seen to be a defined contribution component, says Badenhorst.

"The definitions in the Seventh Schedule to the Income Tax Act, paragraph 12D(1) have been amended to change the definition of a risk benefit, add the definition of a risk benefit policy, and change the definition of a defined contribution component so that self-insured risk benefits are classified as a defined contribution component. The changes came into operation on 1 March 2022 and apply in respect of years of assessment commencing on or after that date. Relevant employers need to contact their retirement funds to confirm whether the fund has changed from defined benefit to defined contribution in time for the March 2022 payroll run," says Badenhorst.

Painter stresses that these amendments do not result in software changes, but rather a configuration change from a defined benefit fund to a defined contribution fund, which could possibly lead to a change in PAYE deducted from the employee. "If it is applicable, then the setup of the system needs to be updated, this is not a software change."

Long-service awards

The government recognised that the prevailing practice is for employers to grant their staff members a number of awards in recognition of long service, and these awards can take a variety of forms that do not only come in the form of non-cash assets, explains Badenhorst. With the changes, these awards now also apply to reasonable awards granted for long service that adhere to all the current requirements in the Income Tax Act, such as the number of years in service, and the aggregated exemption limited to R5K. The changes came into operation on 1 March 2022 and apply in respect of years of assessment commencing on or after that date.

“Previously, when the recognition of long service was paid out, the first R5k was exempt from tax, when the reward was an acquisition of non-cash assets, such as a classic gold watch,” adds Painter. “Based on the latest changes, it now includes cash payments, acquisitions of assets at less than the actual value, the right of use of an asset, as well as free or cheap services. For example, if you receive a spa treatment as an award, the first R5K is also exempt.”

Learnership tax incentive

Finally, Badenhorst says in line with the Minister’s 2021 Budget proposals, section 12H of the Income Tax Act has been amended to extend the learnership tax incentive by two years, from 1 April 2022 to 1 April 2024. This change comes into effect on 1 April this year and applies in respect of learnership agreements entered into on or after that date.

Painter says this has no systematic impact on payroll. “However, I’m glad that due to a formal structure, employers can still benefit from the tax incentive for the next two years. It’s a great initiative to employ unskilled individuals and upskill them in a specific industry. These types of employees are not expensive. It’s soft on the employer’s pocket and more importantly, it creates employment.”

Personal service providers

In closing, Painter says there has also been a change in respect of personal service provider companies. “In the speech it was announced there would be a reduction in the rate of tax from 28% to 27% for personal service provider companies, where their year of assessment ends on any date on or after 31 March 2023.”

Unpacking the changes

To further unpack these changes, Rob Cooper, Chairman of PAGSA, hosted the Annual PaySpace Payroll Tax Seminar on 10 March, which guided attendees through the changes that will affect their payroll. In addition, the seminar covered a wide range of important topics that are critical to ensuring that companies comply with all the latest employment-related payroll legislation.

Before the speech, Cooper said that besides hoping for a bigger role for the private sector and steps to lower the national debt, he was looking forward to further details regarding the increase of the value and the expansion of the criteria for the Employment Tax Incentive and hoped that these plans included a simplification of the ETI requirements.