



COVID-19 Lockdown: Tax support measures



NOTE:

This document provides a non-exhaustive overview the government's tax measures to combat the COVID-19 Pandemic. This document does not constitute financial or tax advice.

Tax support measures¹ – Overview:

As part of the fiscal package outlined by President Cyril Ramaphosa on 23 March 2020, the Minister of Finance has announced the following exceptional tax measures on 29 March 2020, the measures will take effect from 1 April 2020:

- "The introduction of a tax subsidy to employers of up to R500 per month for the next four months for those private sector employees earning below R6 500 under the Employment Tax Incentive. This will help over 4 million workers;
- The South African Revenue Service to accelerate the payment of employment tax incentive reimbursements from twice a year to monthly to get cash into the hands of compliant employers as soon as possible;
- Tax compliant businesses with a turnover of R50 million or less will be allowed to delay 20% of their employees' tax liabilities over the next four months and a portion of their provisional corporate income tax payments without penalties or interest over the next six months. This intervention is expected to assist 75 000 small and medium sized enterprises."



Sources:

(1) The Ministry of Finance, (29 March 2020). Media Statement: Tax measures to combat the Covid-19 Pandemic. Available online: http://www.treasury.gov.za/comm_media/press/2020/20200329%20Media%20statement%20-%20COVID-19%20Tax%20Measures.pdf

Employment Tax Incentive (ETI)²

Background:

- Introduced in January 2014 - to promote employment, particularly of young workers.
- Aims to reduce the cost of hiring young people aged between 18 & 29, who earn a monthly remuneration of less than R6 500.
- Allows the employer to reduce the amount of employees' tax (PAYE) they pay to the South African Revenue Service (SARS) – whilst not affecting the wage received by qualifying employees.

Reasons for change:

To minimize unemployment and the risk to the economy - Government proposes expanding the current ETI.

Proposal (Effective date: Beginning 1 April 2020 and ending on 31 July 2020):

"Increasing the maximum amount of ETI claimable during this four-month period for employees eligible under the current ETI Act from R1 000 to R1 500 in the first qualifying twelve months and from R500 to R1 000 in the second twelve qualifying months."

"Allowing a monthly ETI claim in the amount of R500 during this four-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 employment tax incentive reimbursements from twice a year to monthly as a means of getting cash into the hands of tax compliant employers as soon as possible."

"This expansion will, however, only apply to employers that were registered with SARS as at 1 March 2020. Further to the above, the current compliance requirements for employers under sections 8 and 10(4) of the ETI Act will continue to apply."

Sources:

(2) National Treasury, (1 April 2020). Explanatory memorandum on the Disaster Management Tax Relief Bill, 2020 (DRAFT). Available online: <http://www.treasury.gov.za/public%20comments/DMTRB2020/Draft%20Explanatory%20Memorandum%20on%20the%20Draft%20Disaster%20Management%20Tax%20Relief%20Bill%20-%20201%20April%202020.pdf>



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Employment Tax Incentive (ETI)²

Example: Employer A

Employer A has 10 workers earning R4 500 per month each. The employer can retain up to an additional R5 000 from the employer's PAYE liability each month between April and July.

Example 2: Employer B

Employer B has 3 workers. The employer claims the ETI for Employee A, the employer exhausted ETI claims for 27-year old Employee B two years ago, and Employee C is 34 years old and has never been a qualifying employee. The employees each earn R4 500 per month. Employer B will be able to retain R2 500 per month. Since these are the only 3 workers, the amount will likely be claimed as a reimbursement from SARS.

	Remuneration	ETI	Expanded ETI	Total
Employee A	4500	1000	500	1500
Employee B	4500	0	500	500
Employee C	4500	0	500	500
TOTAL	13500			2500

Sources:

(2) National Treasury, (1 April 2020). Explanatory memorandum on the Disaster Management Tax Relief Bill, 2020 (DRAFT). Available online: <http://www.treasury.gov.za/public%20comments/DMTRB2020/Draft%20Explanatory%20Memorandum%20on%20the%20Draft%20Disaster%20Management%20Tax%20Relief%20Bill%20-%201%20April%202020.pdf>

Deferral of payment of employees' tax liability for tax compliant small to medium sized businesses³

Background:

- Relates to employers deducting employees' tax (PAYE) from remuneration paid to employees.
- **"Administrative penalties may be imposed in terms of paragraph 6 of the Fourth Schedule to the Income Tax Act for late payment of PAYE."**

Reasons for change:

"To assist businesses with liquidity in a time where business activity is likely to see an unprecedented decline in turnovers. The benefit of the measure is immediate cash flow relief that could enable businesses to survive."

Proposal (for a limited period of four months, beginning 1 April 2020 and ending on 31 July 2020):

- *"To assist with alleviating any cash flow burden arising as a result of the COVID-19 outbreak, Government proposes the following tax measures for tax compliant small to medium sized businesses, for a limited period of four months:*
 - *Deferral of payment of 20 percent of the PAYE liability, without SARS imposing administrative penalties and interest for the late payment thereof.*
 - *The deferred PAYE liability must be paid to SARS in equal instalments over the six month period commencing on 1 August 2020, i.e. the first payment must be made on 7 September 2020.*
- *For the purposes of this proposal, small or medium sized business is defined to mean any business with an annual turnover not exceeding R50 million.*
- *However, interest and penalties will apply if the employer has understated the PAYE liability for any of the four months."*
- **NOTE:** *there are certain exclusions, for example: businesses that failed to submit any return or has outstanding tax debt.*

Sources:

(3) National Treasury, (1 April 2020). Explanatory memorandum on the Disaster Management Tax Relief Bill, 2020 (DRAFT). Available online: <http://www.treasury.gov.za/public%20comments/DMTRB2020/Draft%20Explanatory%20Memorandum%20on%20the%20Draft%20Disaster%20Management%20Tax%20Relief%20Bill%20-%201%20April%202020.pdf>



COVID-19 Lockdown: Tax support measures



Deferral of payment of provisional tax liability for tax compliant small to medium sized businesses⁴

Background:

- Relates to provision for every provisional taxpayer to make provisional tax payments in respect of their annual tax liability.
- **“Section 89bis of the Act provides for interest on the unpaid portion of a provisional tax liability”.**

Reasons for change:

“Allowing for a deferred payment of provisional liabilities should assist these businesses by providing additional cash flow during the crisis.”

Proposal (For a period of twelve months, beginning 1 April 2020 and ending on 31 March 2021):

- “Government proposes the following tax measures for tax compliant small to medium sized businesses:
 - Deferral of a portion of the payment of the first and second provisional tax liability to SARS, without SARS imposing administrative penalties and interest for the late payment of the deferred amount;
 - The first provisional tax payment due from 1 April 2020 to 30 September 2020 will be based on 15 percent of the estimated total tax liability, while the second provisional tax payment from 1 April 2020 to 31 March 2021 will be based on 65 percent of the estimated total tax liability;
 - Provisional taxpayers with deferred payments will be required to pay the full tax liability when making the third provisional tax payment in order to avoid interest charges.
- For the purposes of this proposal, a small or medium sized businesses is defined as any company conducting a trade with an annual turnover not exceeding R50 million.”

Sources:

(4) National Treasury, (1 April 2020). Explanatory memorandum on the Disaster Management Tax Relief Bill, 2020 (DRAFT). Available online: <http://www.treasury.gov.za/public%20comments/DMTRB2020/Draft%20Explanatory%20Memorandum%20on%20the%20Draft%20Disaster%20Management%20Tax%20Relief%20Bill%20-%201%20April%202020.pdf>

Example: Provisional tax liability: Company A

	Financial year end	Estimated tax liability	Period 1	Period 2	Period 3	Total provisional tax
Company A	30-Jun-20	3 000 000	31-Dec-19	30-Jun-20	31-Dec-20	
	Current law		50%	50%	0%	
			1 500 000	1 500 000		3 000 000
	Temporary relief		50%	15%	35%	
			1 500 000	450 000	1 050 000	3 000 000
	Temporary relief				1 050 000	

Example: Provisional tax liability: Company B

	Financial year end	Estimated tax liability	Period 1	Period 2	Period 3	Total provisional tax
Company B	28-Feb-21	800 000	31-Aug-20	28-Feb-21	30-Sep-21	
	Current law		50%	50%	0%	
			400 000	400 000		800 000
	Temporary relief		15%	50%	35%	
			120 000	400 000	280 000	800 000
	Temporary relief			280 000		



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Deferral of payment of provisional tax liability for tax compliant small to medium sized businesses⁴ (continued)

Proposal (For a period of twelve months, beginning 1 April 2020 and ending on 31 March 2021):

- *“The eligibility criteria for individuals carrying on a business have yet to be finalised, but one possibility is that they will be eligible if their turnover is less than R5 million and no more than 10 percent of their turnover is derived from interest, dividends, foreign dividends, rental from letting fixed property and any remuneration received from an employer.*
- *The proposed amendments are deemed to have come into operation on 1 April 2020 and apply to first provisional tax periods ending on or after 1 April 2020 but before 1 October 2020 and to second provisional tax periods ending on or after 1 April 2020 but before 1 April 2021.*
- *However, interest and penalties will apply in instances where, upon assessment, it is discovered that a taxpayer does not qualify for relief under the proposed amendments.”*
- **NOTE:** *there are certain exclusions, for example: businesses that failed to submit any return or has outstanding tax debt*



Sources:

(4) National Treasury, (1 April 2020). Explanatory memorandum on the Disaster Management Tax Relief Bill, 2020 (DRAFT).

Available online:

<http://www.treasury.gov.za/public%20comments/DMTRB2020/Draft%20Explanatory%20Memorandum%20on%20the%20Draft%20Disaster%20Management%20Tax%20Relief%20Bill%20-%201%20April%202020.pdf>

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