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The Simple Solution to Hassle-Free EMP501 Final Recons

"The employer in collaborating with SARS plays a critical coalition towards adherence and compliance of tax principles and laws." (SARS External Guide – A Guide to The Employer Reconciliation Process)

By law, employers must deduct or withhold employees' tax from remuneration and pay this to SARS monthly on or before the 7th of the following month with the EMP201 declarations; and must also reconcile employees' tax during the interim reconciliation (due end October) and the annual reconciliation (due end May) when tax certificates (IRP5s/IT3(a)s) must also be issued to employees.

What the EMP501 achieves

The Employer Reconciliation Declaration (EMP501) is effectively a summary of all the monthly

Employer Declarations (EMP201s) for the filing period or tax year, and as with the EMP201, also contains information regarding the ETI (Employment Tax Incentive), where applicable.

The EMP501 matches the payroll information regarding the employees' tax deducted or withheld from remuneration – the PAYE, UIF and SDL (Skills Development Levy) liability - as well as ETI, with the payments made to SARS and the information on the employees' tax certificates.

As such an EMP501 reconciliation requires:

- the monthly EMP201 employer declarations for the period detailing the payroll taxes liabilities (PAYE, SDL, UIF), as well as ETI
- all employees' updated details and correct values on their (IRP5s/IT3(a)) tax certificates
- actual payroll tax payments made to SARS.

The values on the EMP201 declarations and the tax certificates should balance with actual payments made to SARS.

An accurate and correct EMP501 reconciliation is important because SARS uses the IRP5/IT3(a) certificate information submitted by employers through the annual reconciliation process to prepopulate the employees' annual income tax returns (ITR12). Employees cannot change this information, so any incorrect information will influence the employee's personal tax assessment.

The reconciliation process also allows employers to review the monthly EMP201 declarations and if any discrepancies are identified, these must be corrected before submitting the EMP501.

Furthermore, ETI refunds (unused ETI amounts) can only be claimed by submitting interim and annual reconciliations (EMP501s). Failure to do so will result in an ETI refund being forfeited.

The solution to a hassle-free EMP501 submission

In theory, if all the employees' details are correct and updated, and each EMP201 for the period was correctly completed, submitted and paid, the EMP501 reconciliation should be quite simple.

In reality, it seldom is.

Here are a few of the most common examples where the recalculated (actual) monthly liabilities could differ from the original liability amount declared on the EMP201s:

- A delay in implementing the correct tax tables resulting in an over/under-deduction of tax.
- Any administrative timing difference in updating your payroll records with updated employee information.
- Differences arising due to fluctuations in monthly remuneration.
- An over/under-deduction where, for example, an employer spreads an employee's 13th cheque tax over a year and the employee resigns before the bonus is due.

Any differences must be reconciled and corrected before the EMP501 can be submitted.

In addition, verified and updated employer and employee information is required to successfully submit the EMP501 reconciliation.

This all adds up to a potentially time-consuming and frustrating process. Of course, the simple solution is to ensure that at all times, the employer and employee information is updated and correct, and that each month, the correct EMP201 declarations and payments are made and that any discrepancies are corrected promptly.

Given the complex nature of employee taxes, a recognised payroll system with automatic updates when tax and other changes are made, is a crucial tool to achieve updated and correct payrolls month after month, and as a result, hassle-free EMP501 reconciliations.

Running out of time?

With the next deadline for this year's final EMP501 reconciliation around the corner, some companies may realise that they are running out of time.

Before the end of May, all employees' information must be verified and updated – including valid ID/passport numbers, employee income tax numbers, residential and postal addresses, payment methods and bank account details, and employee **classifications.** It is not possible to submit the EMP501 reconciliation unless all the mandatory fields for each employee are correctly completed.

The employees' tax certificates must also reflect all the income, deductions, benefits and contributions pertaining to each employee for the period, recorded under the relevant codes.

Keep in mind that this information is legally required, and you may be subject to penalties for missing information.

If there are any errors, the certificates must be rectified and the EMP501 reconciliation resubmitted. This is costly in time and resources and may result in penalties.

Offences and penalties

An employer who, 'wilfully or negligently', amongst others fails to submit monthly declarations; interim and annual reconciliations and/or the annual IRP5/IT3(a)'s is guilty of an offence and is liable, upon conviction, to either imprisonment for up to two years or both imprisonment and a fine.

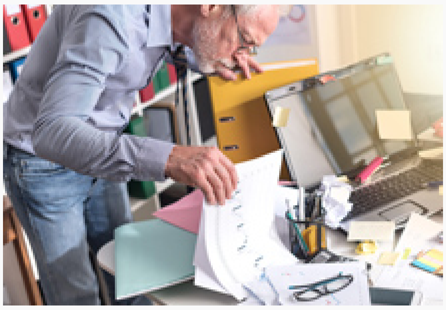
Non-compliance also includes wilful or negligent failure to deliver an IRP5 to an employee or former employee, deducting or withholding employees' tax from employees without paying it to SARS, or failure to keep the correct employee certificates, EMP201 and relevant documentation for audit purposes.

The final reconciliation and submission of employee tax certificates to SARS must take place by the end of May. Not doing so will result in a PAYE admin penalty being imposed on the EMP501 return reconciliation for non-compliance. The penalties are levied in 1% increments over a period of 10 months and are based on the employer's liability for that year of assessment (12 month period). Depending on the number of months outstanding, the penalty is up to 10% of the total employees' tax liability.

Given all these obligations to be met, as well as the penalties that may apply, companies are well-advised to seek assistance from a professional with the necessary knowledge, experience and resources to assist in completing the process in the few short weeks ahead, as well as to ensure hassle-free EMP501 recons in future.

The 7 Signs It's Time to Move Your Business Out of The Garage

"One doesn't discover new lands without consenting to lose sight, for a very long time, of the shore." (Andre Gide)



All of the largest businesses in the world started small. Apple, Google, and Amazon were all famously founded in garages. Now these giant multi-billion-dollar companies occupy multiple office blocks that dwarf football stadiums. This happened because at one time their founders moved them out of the garage and into the office. Moving away from a comfort zone can be frightening, but knowing when to move a business into its own space may be one of the most important decisions a company owner can ever make. How do you know it's time to take the plunge and get your business its own space? Here are the signs.

1. ***You need more employees than home can handle***

   This may seem like an obvious sign. Your business is doing so well that it's time to take on new staff, but you have not done it yet, because you have no idea where you would put their desks. Staff are the lifeblood of any venture and opting not to move your company in this situation would directly and immediately impact its potential for growth.

   This is the simplest scenario to recognise and also the one that needs the quickest attention. It will be better to find the new office space and then hire staff, than to hire them now and find that once you have moved, your business is no longer situated in a convenient location for your staff.

2. ***You need more space***

   While finding a home for staff may not be your issue, finding storage or workspace may be. If your business keeps a lot of inventory on hand or needs large work areas then it's better to find a dedicated space to grow than it is to try and fit it all in your home. While it may be feasible to work surrounded by boxes piled on top of boxes and supplies crammed in the spare bathroom for a while, eventually it's going to become unmanageable and lead to unhappiness in your home and your personal life. Workplaces where everyone needs to work on top of everyone else also cause employees to become unproductive and unhappy, which in turn leads to disappointed customers, and a decrease in business. If you don't find a new space to fit the business, you will soon find the business decreases to fit the space.

3. ***You want to create a brand identity***

   Your brand is about more than simply the service or product you produce. Think about Google's offices and what they say about the company, the image they project, the culture they are able to create among employees and the impression it gives to customers. Working from your home may fit your own personal brand, but it becomes difficult to establish a corporate culture and image when the office itself does not reflect what you stand for.

   Moving into a separate workspace allows a business to tailor that area perfectly to reflect what it is all about, and the needs of its employees and customers, better reflecting the brand you are trying to build. Even if you are happy with your employees working from home, having a small space where they can have meetings with clients, share concerns with HR or attend company functions, helps them to feel a part of something that's bigger than simply your couch at home, and lets them feel like the brand is strong, reliable and somewhere they can easily stake their long-term futures.

4. ***The industry is changing***

   When starting your business you may have had ideas of just who your customers are and what their needs might be. A few years down the line you might be servicing an entirely different customer bracket than expected, selling products you didn't even think of initially or catering to a market that isn't even in your city. Depending on the kind of business you run, the changing demands of your customers can dictate exactly where you should be located and what your office needs to look like.

   Maybe you are losing out on retail opportunities and need to move closer to customer businesses to better service their needs? Perhaps your suppliers will give you cheaper delivery costs if you are located in a different area? Maybe your customers have all semi-grated away from your city? Or perhaps employees with a particular set of skills can't be found in the town where you live?

   Understanding the needs of your business and your industry will help you to determine where to best situate your company and if that place isn't near your home, it's time to consider moving.

5. ***Home distractions***

   Working on a new business from home comes with a number of benefits. It allows a founder to easily fit their lives in around the needs of a new company. There will come a time, however, where that personal life and the needs of the family, will become a distraction to the optimal operations of the company. When the demands of family life, including children, start keeping you from achieving what needs to be done then it is definitely time to move your company into its own space. Being able to establish a good work/life balance will be important if you want to both grow a successful business and have the kind of happy, healthy family life that supports the energy it takes to be an entrepreneur.

6. ***Money***

   At the end of the day, money and affordability are going to play the largest part in deciding whether you need your own office space. Perhaps you aren't being taken seriously by the larger brands or need to scale up quickly if you are to grow? Maybe you want to move, but can't quite afford it? Carefully considering the pros and cons of moving will ultimately give you the real answer as to whether it's time to move out of home. The needs of the business and the potential for growth will have to be balanced with the costs of renting and establishing a company space before you can truly determine whether it's time to move out of the garage.

   When you move you must know that the benefits of moving will outweigh the costs of buying office furniture and signing a multi-year lease. You will need to take into consideration, whether you want to own or lease the new space each of which comes with different cost and tax implications, the projected growth of the company over the long term and which employees absolutely need desk space and which can work from their homes. Carefully analysing your budget and balancing it against your needs and projected earnings will give you a clear idea of whether you should move, and if that works out in your favour, and you can 100% afford to pay the bills of the new space, then it would be absolutely foolish not to.

7. ***Balancing the possible tax benefits***

   Running a business from home can allow you some tax benefits dependent on a number of factors including how much of the house is used for the business and what exactly that space is used for. Moving into your own space may, however, provide additional tax relief that can sometimes ameliorate the costs of moving out.

Ask a professional to help you with a careful analysis of the costing and to advise you on whether you stand to benefit in this regard.

Companies: How Will the Reduced Tax Rate and Assessed Loss Rules Affect You?

> ***"What the government gives it must first take away." (John S. Coleman)***

It certainly seemed like a win for taxpayers when Finance Minister Enoch Godongwana announced in his February Budget Speech that the corporate income tax (CIT) rate has been reduced from 28% to 27% for companies with a tax year ending on or after 31 March 2023.

But as we are reminded by John Coleman's quote: "What the government gives it must first take away."

In this particular instance, to give a 1% reduction in the corporate tax rate, government limited the tax relief corporate taxpayers have enjoyed in the past in terms of assessed losses and interest deductions.

According to Treasury, South Africa is following an international trend evident over the past few years to restrict the use of assessed losses and reduce the corporate income tax rate.

What's the link to the corporate tax rate reduction?

The 1% reduction in the corporate tax rate is expected to cost the fiscus R2.6 billion -in the year of assessment commencing on or after 1 April 2022. To 'neutralise' this - and thus achieve a revenue-neutral reduction in the corporate tax rate - two further changes to corporate tax rules have been made.

The first is further limitation of corporate interest deductions, specifically on multinationals; and the second is restrictions on the use of assessed losses to reduce future corporate tax liabilities.

The first involves changes to, amongst others, the scope and thresholds of the interest deduction limitation, achieved by fixing and limiting the interest deduction limitation ratio to 30% of a taxpayer's "adjusted taxable income", instead of the earlier flexible percentage (adjusted upwards and downwards based on the average repo rate) capped at 60%.

What are the new assessed losses rules?

Assessed loss rules were originally created to smooth the tax burden for:

- businesses that require a significant upfront capital outlay, causing assessed losses to accumulate before any profit is realised;
- cyclical businesses that realise losses in some years and profits in others, such as farming operations, and
- companies that suffer temporary setbacks and losses before recovering to become profitable again.

As a result companies could previously offset the full balance of any assessed loss carried forward from a previous tax year against all its taxable income for the current year. In addition, companies could carry over any assessed loss balance remaining to future years indefinitely subject only to the requirement that the company continues to carry on a trade. In effect, it meant that a company would only become liable for income tax once it earned a taxable profit and the balance of the assessed loss was exhausted.

Under the new rules, assessed losses brought forward from a previous year of assessment - regardless of the amount - can only be offset against the higher of R1 million or a maximum of 80%

of taxable income for the current year.

This means that income tax will now always be levied on 20% of the taxable income for the year where the taxable income in the current year exceeds the R1 million threshold, no matter what the assessed loss balance carried forward from previous years may be. This will have adverse tax cash flow implications for some companies.

Small companies unaffected, and losses are not forfeited, unless…

Smaller companies with a taxable income below R1 million will not be affected by the new rules.

Further good news is that companies will not forfeit the balance of the assessed loss that could not be utilised. The balance can be carried forward to the next tax year, provided that the company earns income from trade in the succeeding year of assessment.

However, beware: if a company does not trade for a full year of assessment and no income is earned from such trade, the assessed loss will be lost.

When do the new rules apply, and which companies are affected?

The new rules apply to any year of assessment that ends on or after 31 March 2023, which, in more practical terms, means years of assessment that begin from 1 April 2022 onwards.

It is also important to note that the new limitation will apply to assessed losses generated prior to the effective date, as well as those arising after 1 April 2022.

Some companies will not be affected immediately, for example, companies with no assessed loss balance, or those with a taxable loss.

The cash flow implications, with examples

For those companies affected, the changes will have tax cash flow implications, best illustrated by the way of examples -

Examples

	Example 1	Example 2	Example 3
Previous Rules			
Taxable Income	500	500	500
Assessed loss balance b/f	1000	475	200
Taxable income	-	25	300
CIT @ 28%	-	7	84
AL balance c/f	500	-	-
New Rules			
Taxable Income	500	500	500
80% of taxable income	400	400	400
Assessed loss balance b/f	1000	475	200
% of taxable income	200%	95%	40%
Taxable income	100	100	300
CIT @ 27%	27	27	81
AL balance c/f	600	75	-
Change in tax liability			
CIT pre-change (no restriction on assessed loss balance)	-	7	84
CIT post-change (restriction on assessed loss balance)	27	27	81
Difference	27	20	-3

Table based on an example from Draft Explanatory Memorandum On The Taxation Laws Amendment Bill, 2021

Your Tax Deadlines for May 2022

- 06 May Monthly Pay-As-You-Earn (PAYE) submissions and payments
- 25 May Value-Added Tax (VAT) manual submissions and payments
- 30 May Excise Duty payments
- 31 May Value-Added Tax (VAT) electronic submissions and payments & CIT Provisional payments where applicable.