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PAYROLL ADMINISTRATION FOR BOOKKEEPERS

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Small Business Mentor

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Course Outline

Webinar Objectives

At the end of this webinar you will:

- Understand how Payroll is administered in South Africa;

Course Outline

- Key Definitions;
- Remuneration;
- Residence Based Taxation;
- Standard Employment and Temporary Employees;
- Travel Allowance;
- Tax Deductions
- Fringe Benefits
- Payroll Reconciliations; and
- Employment Tax Incentives, UIF and Coida.

Definitions

Definitions

A natural person for tax law purposes is:

- an individual,
- a sole proprietor, or
- a partner in a partnership.

Definitions

A legal entity for tax law purpose is:

- a public company,
- a private company,
- a close corporation,
- a trust, or
- any divisional council, municipal council, village management board or like authority.

Employer:

An employer is defined for payroll purposes as being any person who pays or is liable to pay any person (natural or legal) any amount by way of remuneration.

Definitions

Employee:

- any person (including a director of a private company/member of a close corporation), excluding a company, who receives/accrues any remuneration,
- any person who receives remuneration for services rendered to or on behalf of a labour broker,
- any labour broker,
- any class or category of person declared by notice in the Gazette to be an employee, and
- any personal service provider.

Personal Service Provider:

means any company or trust, where any service rendered on behalf of such company or trust to a client of such company or trust is rendered **personally** by any person who is a connected person in relation to such company or trust,
and—

Personal Service Provider:

means any company or trust, where any service rendered on behalf of such company or trust to a client of such company or trust is rendered **personally** by any person who is a connected person in relation to such company or trust,
and—

Definitions

(Personal Service Provider Cont.)

- a) such person would be regarded as an employee of such client if such service was rendered by such person directly to such client, other than on behalf of such company or trust; or

Definitions

(Personal Service Provider Cont.)

b) where those duties must be performed mainly at the premises of the client, such person or such company or trust is subject to the control or supervision of such client as to the manner in which the duties are performed or are to be performed in rendering such service; or

Definitions

(Personal Service Provider Cont.)

- c) where more than 80 per cent of the income of such company or trust during the year of assessment, from services rendered, consists of or is likely to consist of amounts received directly or indirectly from any **one client** of such company or trust, or any associated institution as defined in the Seventh Schedule to this Act, in relation to such client,

Definitions

(Personal Service Provider Cont.)

except where such company or trust throughout the year of assessment employs **three or more full-time employees** who are on a full-time basis engaged in the business of such company or trust of rendering any such service, other than any employee who is a holder of a share in the company or settlor or beneficiary of the trust or is a connected person in relation to such person;

Remuneration

Definitions

Remuneration means any amount of income which is paid or is payable to any person by way of any

Salary

wage

bonus

commission

emolument

superannuation allowance

leave pay

overtime pay

gratuity

fee

pension

retiring allowance or stipend

whether in cash or otherwise and whether or not in respect of services rendered.

Definitions

Remuneration Includes:

- annuities,
- restraint of trade payments,
- 80%/20% of any travel allowance,
- 80%/20% of the cash equivalent of the user of motor vehicle fringe benefit,
- any amount received for services rendered by virtue of any employment or the holding of any office,

Remuneration Includes:

- any amount received in respect of the relinquishment, termination, loss, repudiation, cancellation or variation of any office or employment,
- an allowance or advance included in taxable income by section 8(1)(a)(i), other than a travel, subsistence or public office allowance,

Definitions

Remuneration Excludes:

Definitions

Remuneration excludes:

- amounts paid in respect of services rendered by a person ordinarily resident in South Africa in the course of any trade carried on independently,
- any pension payable under the Aged Persons Act, 1967 or the Blind Persons Act, 1968,
- any disability grant or allowance under the Disability Grants Act, 1968,
- any grant or contribution under the Children's Act, 1960,

Definitions

Remuneration excludes:

- any amount paid to an employee wholly in reimbursement of expenditure actually incurred by the employee in the course of his employment, and
- any annuity under an order of divorce or decree of judicial separation, or under any agreement of separation.

Definitions Cont.

Generally, remuneration is taxable on accrual or receipt, whichever event occurs first.

However, in the case of '**variable remuneration**', PAYE must be withheld on the date which the amount is paid to the employee.

Variable Remuneration:

Bonuses, leave paid out, overtime, commission, and transport expense.

Residence Based Taxation (Section 1)

Definition

From 1 March 2001 the “**residence based**” taxation system replaced the “source based” taxation system that was previously used in South Africa.

The residence based system states that an employee must be taxed on his world-wide income in the country where he is resident.

Standard Employment and Temporary Employees

Definition

Employees are in **standard employment** if they work 22 hours or more per week.

Employees are also in **standard employment** if less than 22 hours per week are worked and no other job is held.

Employees that work **less** than 22 hours per week and have more than one job are in **non-standard employment**, and are called temporary employees.

10 Min Break

Travel Allowance

Travel Allowance

A travel allowance is granted to an employee in respect of travelling expenses for business purposes.

This is a fixed allowance that the employee receives every pay period, regardless of actual business kilometres travelled in that period.

Travel Allowance

For PAYE purposes, SARS requires the deduction of PAYE from 80% of a travel allowance, unless the employee uses the vehicle at least 80% for business, then SARS requires the deduction of PAYE from 20% of a travel allowance.

Travel Allowance

Reimbursive Travel Allowance

Current rate is R3.98 per kilometre.

The portion of the reimbursive travel that does not exceed the prescribed rate of R3.98 is excluded from remuneration and not subject to PAYE.

Travel Allowance

Estimating a Travel Allowance for an Employee:

Three elements are required to calculate the travel allowance:

- an estimate of the business kilometres to be travelled in the year,
- an estimate of the private kilometres to be travelled in the year,
and
- the rate per kilometre applicable to the value of the car.

Travel Allowance

Establishing the Rate per Kilometre of the Vehicle:

The determined value of the vehicle is the original purchase price including VAT but **excluding** finance charges and interest.

The rates per kilometre are divided into three components on the schedule, **fixed cost, fuel cost and maintenance cost.**

Travel Allowance

Establishing the Rate per Kilometre of the Vehicle:

The fixed cost element covers the cost of depreciation, loss of interest, licensing and insurance for the year, and must be divided by the total kilometres (private and business) travelled in the tax year to give a fixed cost rate per kilometre.

The fuel and maintenance costs are given as a rate per kilometre, and must be added to the fixed cost rate per kilometre only where the employee bears the cost of these items.

Travel Allowance

Value of the Vehicle (including VAT) R	Fixed Cost R/annum	Fuel Cost c/km	Maintenance Cost c/km
0 – 95 000	31 332	105.8	37.4
95 001 – 190 000	55 894	118.1	46.8
190 001 – 285 000	80 539	128.3	51.6
285 001 – 380 000	102 211	138.0	56.4
380 001 – 475 000	123 955	147.7	66.2
475 001 – 570 000	146 753	169.4	77.8
570 001 – 665 000	169 552	175.1	96.6
exceeding 665 000	169 552	175.1	96.6

Subsistence Allowance

Subsistence Allowance

In order to qualify for a subsistence allowance, the employee must be required to spend at least one night away from his usual place of residence in South Africa. Subsistence allowance payments are excluded from remuneration and are never subject to PAYE, irrespective whether the actual payment exceeds the limits.

Subsistence Allowance

The following are the deemed expense amounts for subsistence allowances for the 2020/2021 tax year:

Travel within the Republic:

- R139 per day/part of a day for incidental expenses only, and
- R452 per day/part of a day for meals and incidental expenses.

Travel outside the Republic:

- A schedule of rates per country, published on the SARS website.

Arbitration Awards

Amounts paid due to unfair dismissal and early termination of the contract is remuneration and is taxable on the payroll.

Long Service Award

Long Service Award

- Long Service is defined as an initial unbroken period of service of at least 15 years and any subsequent unbroken period of service of at least 10 years.
- The first R5 000 of the asset given to an employee is free from tax. The value of the asset that exceeds R5 000 is taxed as an acquisition of an asset.

Severance Benefit Lump Sums - Gratuities due to Retrenchment, Retirement or Death

Retirement fund lump sum benefits and severance benefits are subject to a cumulative exemption of R500 000.

Exempt Income

Exempt Income

All items that are exempt from income are also exempt from remuneration for PAYE purposes, and include:

- war pension,
- payment of compensation in respect of diseases contracted by persons employed in mining operations,
- disability pension,
- workmen's compensation (OID),
- social security under the social security system of any other country,
- pension received from a source outside the RSA,
- income replacement policy pay-outs,
- payment from insurance policies subject to certain conditions,
- unemployment insurance payments (UIF), and
- loss of office lump sums (subject to tax directive).

Exempt Income

In addition to the above, the following items are also exempt but must be reported on the payroll:

- Uniform Allowance
- Relocation Allowance
- Foreign Employment Income
- Bursaries and Scholarships
- Lump Sum Compensation for Occupational Death

10 Min Break

Tax Deductions

Tax Deductions

Statutory Limits

The total annual deduction for any contributions (including buy-back & voluntary contributions) towards retirement funds are limited to the lesser of:

- 27.5% of remuneration (excluding severance benefits and retirement fund lump sums), or
- R350 000.

Tax Deductions

Payroll Giving (Employee Donations)

The maximum value of any donation that may be deducted from remuneration is limited to 5% of balance of remuneration, before taking into account the employee donation tax deduction.

Medical Tax Credits

Tax Deductions

Medical Tax Credits

Medical scheme fees tax credits are allowed as rebates, reducing the PAYE liability of an individual.

The medical tax credits consist of a two-tier system:

- medical scheme fees tax credit, and
- additional medical expenses tax credit.

Tax Deductions

Medical Tax Credits

For medical tax credit purposes, 'dependant' means –

- a person's spouse,
- a person's child and the child of his spouse,
- any other member of a person's family in respect of whom he is liable for family care and support, and
- any other person who is recognized as a dependant of that person in terms of the rules of a medical scheme or fund.

Tax Deductions

Medical Tax Credits

The monthly medical scheme fees tax credit amounts are:

- R319 for the main member,
- R319 for the first dependant, and
- R215 for each additional dependant.

Tax Deductions

Additional Medical Expenses Tax Credits (section 6B)

An employee who is 65 years or older on the last day of the year of assessment, is entitled to additional medical expenses tax credit in respect of medical scheme contributions paid or deemed paid by the employee for himself and/or his dependants.

Fringe Benefits

Fringe Benefits

Fringe Benefits

The term fringe benefit refers to payments made to employees in a form other than cash.

A taxable benefit is deemed to have been granted by the employer to the employee if such benefit is granted as a reward for services rendered or to be rendered.

Fringe Benefits

Fringe Benefits

- Acquisition of an Asset at Less than the Actual Value
- Right of Use of an Asset
- Right of Use of Motor Vehicle
- Meals, Refreshments and Meal and Refreshment Vouchers
- Residential Accommodation
- Free or Cheap Holiday Accommodation

Fringe Benefits

Fringe Benefits (cont.)

- Free or Cheap Services Provided by the Employer
- Low or Interest-Free Loans/Debts
- Medical Aid Contributions
- Medical Costs Incurred by the Employer
- Benefits in Respect of Insurance Policies
- Employer Contributions Towards Retirement Funds
- Employer Contributions Towards Bargaining Councils
- Payment of Debt or Release from Debt

Monthly Reconciliation and Payments

Accounting For PAYE

- Payments must be made before or on the seventh day of the next month.
- The EMP201 (monthly declaration) serves as a remittance advice.
- If the 7th falls on a weekend or public holiday, the payment must be made before or on the last business day before the weekend or public holiday.

Accounting For PAYE

- The EMP201 can be submitted through the latest version of the e@syFile™ Employer application or the eFiling website.
- The EMP201 is submitted per calendar month, for example 2019/03 refers to March 2019.
- A penalty of 10% of the total liability owing to SARS will be imposed on late or outstanding payments.
- The three bank accounts for PAYE, SDL and UIF are consolidated into the PAYE account (SARS – PAYE). Employers will thus only make one payment.

Annual Reconciliation and Tax Certificates

Accounting For PAYE

- In terms of the Fourth Schedule to the Income Tax Act, an employer must submit a tax certificate (EMP501) to SARS at the end of the tax year for every employee as defined above.
- IRP5(a)'s must be issued for those employees from whom employees' tax has been withheld during the tax year, and IT3(a)'s for those employees from whom no employees' tax has been withheld.

Employment Tax Incentives (ETI)

- ✓ The Employment Tax Incentive Act came into effect on 1 January 2014.
- ✓ The initial effective period was three years but it was extended to end on 28 February 2029.

Employer

The employer is eligible to receive the tax incentive if the employer:

- is a private sector employer registered for employees' tax (PAYE),
- is not in the national, provincial or local sphere of government,
- is not a public entity listed in Schedule 2 or 3 of the Public Finance Management Act (other than those public entities designated by the Minister of Finance by Notice in the Gazette),
- is not a municipal entity, and
- is not disqualified by the Minister of Finance due to displacement of an employee or by not meeting

Employee

An individual is a qualifying employee if he/she:

- has a valid South African ID, a valid asylum seeker permit or an ID interms of Section 30 of the Refugees Act,
- is 18 to 29 years old by the end of the month (please note that the age limit is not applicable if the employee renders services mainly (more than 50%) within a special economic zone (SEZ) to an employer that carries on trade within the SEZ who is a qualifying company as contemplated in the Income Tax Act under the SEZ regime, or if the employee is employed by an employer that operates in an industry designated by the Minister of Finance),

Employee

An individual is a qualifying employee if he/she:

- was employed by the employer or an associated person to the employer on or after 1 October 2013, and
- the employee must earn at least the minimum wage as specified by the sectoral determination, collective agreement or bargaining council. If no wage regulating measure is applicable, the employee must earn at least R2 000 for a full month (160 or more employed and remunerated ordinary hours).

Employee

The employee will not qualify if he/she:

- is a domestic worker, or
- is a “connected person” to the employer, or
- earns remuneration of R6 500 or more during a full month (160 or more employed and remunerated hours).

Monthly Remuneration	First 12 Incentive Months	Next 12 Incentive Months
R 0 – R1 999.99	50% of Monthly Remuneration	25% of Monthly Remuneration
R 2 000 – R4 499.99	R 1 000	R 500
R 4 500 – R6 499.99	Formula: $R1\ 000 - (0.5 \times (\text{Monthly Remuneration} - R4\ 500))$	Formula: $R500 - (0.25 \times (\text{Monthly Remuneration} - R4\ 500))$

An employer is not allowed to reduce the PAYE payable in respect of a month if the employer, on the last day of the month,

- failed to submit any return or
- has any tax debt outstanding except if
 - ✓ an agreement has been concluded for a deferral payment,
 - ✓ an agreement has been concluded for compromise of a tax debt,
 - ✓ a tax debt has been suspended pending an objection or appeal, or
 - ✓ the tax debt is less than R100.

Unemployment Insurance Fund (UIF)

Excluded from contributions only (must be included in the Declaration):

- employees who work less than 24 hours per month,
- employees in the national and provincial spheres of government,
- the President, Deputy President, a Minister, Deputy Minister, a member of the National Assembly, a permanent delegate to the National Council of Provinces, a Premier,
- a member of an Executive Council or a member of a provincial legislature, and
- any member of a municipal council, a traditional leader, a member of a provincial House of Traditional Leaders and a member of the Council of Traditional Leaders.

UIF contributions must be based on remuneration as defined in the Fourth Schedule to the Income Tax Act, but excluding:

- pension, superannuation allowance or retiring allowance,
- annuities,
- payments to a labour broker in possession of an IRP30 exemption certificate,
- any amount, including a voluntary award in respect of relinquishment, termination, loss, repudiation, cancellation or variation of any office or employment,
- once-off payments such as lump sum payments from pension, provident or retirement annuity funds,
- restraint of trade payments, and
- commission.

UIF Contributions

- If the employee is not excluded as an employee, then both the employer and the employee must contribute monthly at a rate of 1% of UIF remuneration up to the current limit.
- Employees earning over the current limit of R14 872 per month must pay contributions at the limited amount.
- If the employer is registered with SARS for PAYE purposes, the UIF contribution must be paid to SARS, otherwise to UIF.

Skills Development Levies (SDL)

SDL

Skills development levies are paid on a monthly basis to SARS at a rate of 1% of the leviable amount.

Occupational Injuries And Diseases (OID)

The categories of claimants to whom benefits become payable are:

- employees who suffer a temporary disability,
 - employees who suffer a permanent disability, and
 - dependants of employees who die as a result of occupational injuries or diseases.
- ✓ Employers must complete and submit the annual W.As 8 return by 31 March each year.
- ✓ The OID limit for the 2019/2020 tax year is R458 520.

Q&A

Please use the chat sidebar to the right of the video / presentation on the screen to ask your questions.

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participation**

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