April 2019

Employer Reconciliation season is in full swing!

The 2019 tax year annual employer reconciliation process has commenced and employers are required to submit their EMP501 reconciliations to the South African Revenue Service ("SARS") by 31 May 2019.
This relates to the employees' tax period 1 March 2018 – 28 February 2019.

The reconciliation process
The annual reconciliation requires an employer to reconcile the amount of tax withheld from employees with the moneys paid to SARS during the employees' tax period ended 28 February 2019 and the total value of tax declared on the employees' tax certificates. This is also an opportunity for the employer to review the tax treatment of remuneration payments made or benefits provided to employees during the tax year and to correct any errors or omissions.

The reconciliation is submitted by way of the EMP501 form and Employee Tax Certificates [IRP 5 / IT3A] through SARS e@syfile.

Withholding of employees' tax
Every employer who pays or is liable to pay remuneration to any employee is required to withhold employees' tax in respect of that remuneration from the employee (paragraph 2 of the Fourth Schedule to the Income Tax, No 58 of 1962("the ITA")).

As part of the annual reconciliation process, employers should review their records in order to ensure that all items of taxable remuneration was subject to employees' tax withholding as well checking that non-taxable remuneration paid to employees is disclosed correctly. This review should consider whether items of remuneration may have been provided outside of or without the knowledge of the payroll department. Common examples include reimbursement of personal expenses, travel costs reimbursed, staff incentives like gift vouchers processed through finance and wages paid to casual workers from petty cash.

If errors are discovered, these may be corrected through the reconciliation process.

We note that depending on the nature and quantum of the error as well as the circumstances surrounding the error, the employer may wish to declare the default to SARS through the Voluntary Disclosure Programme as available in Chapter 16 of the Tax Administration Act, No 28 of 2011 ("the TAA").

Payments to SARS

Employers are required to pay all employees' tax withheld to SARS by the seventh day of the month (or the last business day before the 7th) following the month in which the remuneration was paid. An EMP201 return is submitted by the employer on a monthly basis to declare the payment to be made.

The EMP201 declarations form the basis of the reconciliation and the monthly values must be reviewed and confirmed. If corrections to the monthly values are required, these can be made via the EMP501 form.

Employee Tax Certificates

The Employee Tax Certificate prepared (in terms of paragraph 13(1) of the Fourth Schedule to the ITA) as part of the reconciliation process, is a summary of all remuneration paid to and employees' tax withheld from each employee. The summary includes allowable deductions (for example in respect of contributions to a retirement fund) and tax credits (for example Medical Scheme Fees Tax Credits) applied in determining the amount of tax to be withheld.

It further requires the employer to declare employer and employee UIF contributions and employer SDL contributions made in respect of each employee.

It is essential that employers correctly disclose remuneration paid to employees as the tax certificate issued by the employer will form the basis on which the employees will submit their personal income tax returns (forms ITR12). Importantly, the certificate will in most cases pre-populate on the specific employee's ITR12 form and cannot be edited by the employee.

A common example of incorrect disclosure resulting in the incorrect assessment of an employee is in the case of South African tax resident employees who rendered services outside of South Africa and try to claim the Section 10(1)(o)(ii) foreign earnings exemption on their tax return. If the employer does not specify that the remuneration paid was in respect of foreign services (by using the foreign services source codes), the employee will not be able to claim the exemption resulting in the employee being assessed for a higher amount of tax.

In our experience, where an individual has been assessed incorrectly based on incorrect disclosure by the employer on the tax certificate, SARS will instruct that the certificate be corrected before considering to amend the assessment. An employer who refuses to correct the certificate may be guilty of a criminal offence in terms of Section 234(g) of the Tax Administration Act, No 28 of 2011.

What to look out for when performing your reconciliation

- Make sure that all remuneration payments made and benefits provided to employees are accounted for;
- Ensure that all employees (including third party contractors who are deemed to be employees) are accounted for;
- Check that your records of payments made to SARS match your Employer Statement of Account and monthly summary on the EMP501;
- Review your payroll wage type mapping to ensure that items of remuneration are correctly discussed on the employee tax certificates.

How can we help?

Whether you need a "health check" to confirm that the correct tax treatment is applied to items of remuneration, a full population reconciliation and recalculation of remuneration and taxes on a line by line basis, or anything in between, KPMG is able to assist.

Our skilled professionals have extensive experience in traditional employees' tax risk assessments and reconciliation support. In addition, working with KPMG's Tax Technology and Innovation team, we use Data & Analytics to review your payroll and EMP501 submission in more detail than ever before.

Should you have questions, experience any difficulties or require any support throughout the employer reconciliation process, please contact us:

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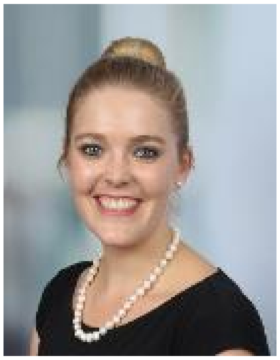

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