

A Recap on Provisional Tax

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For all individuals and the majority of companies in South Africa the much dreaded second provisional tax return is due at the end of February which is fast approaching. Here are some basic principles to bear in mind when attending to your provisional tax return for this period.

Determination of your estimate of taxable income

There are 2 categories of taxpayers to which different rules apply. Therefore, it is imperative that you make the correct determination as to which category you fall into.

Below R1 million:

- Where your final taxable income (including any capital gain) will be less than R1 million, you are entitled to utilise the basic amount without the concern of any penalty being levied.
- Where you opt to use an amount lower than the basic amount and your final taxable income is not within 90% of the estimate submitted on your IRP6, a penalty of 20% will be imposed on the difference between the estimated tax and 90% of the actual tax less PAYE and provisional tax paid in that tax year.
- Where you are using an amount lower than the basic amount, capital gains must be included in the estimate.

R1 million and above

- Where your final taxable income will be R1 million or in excess of R1 million you are obliged to submit a proper estimate of your taxable income which must be within 80% of the final taxable income.
- Where your estimate falls below 80% a penalty of 20% will be imposed on the difference between the estimated tax and 80% of the actual tax less PAYE and provisional tax paid in that tax year.
- Capital gains must be included in the estimate as these will be included in the final taxable income.

Basic amount

The basic amount is the taxable income, excluding capital gains and lump sums, of the latest preceding tax year, provided the assessment is issued at least 14 days prior to the submission of the provisional tax return. If that assessment is for a tax year older than 18 months, the basic amount is increased by 8% per year. For example, a 2020 last assessed taxable income will be escalated by NIL for the purpose of the second provisional tax payment of 2021, but a 2019 assessment will be escalated by 16%.

COVID Relief

Under certain circumstances, COVID Relief is available for the Second Provisional Payment. If you qualify, you could defer 35 percent of the liability to your top up payment in September 2021.

In order to qualify:

- you must be carrying on a trade with gross income not exceeding R100 million for the tax year ending on after 1 April 2020 but before 1 April 2021;
- the total of your annuities, dividends, interest, foreign dividends, royalties, rental from letting fixed properties (unless this is your primary trading activity) and remuneration is less than 20 percent of your gross income;
- you must be tax compliant at the time of the submission of the return.

Other considerations

First year of assessment

Where a person has not been assessed previously, a reasonable estimate of the taxable income, and not merely a default of NIL, must be made.

Non-submission of a return

Where a return is not submitted within four months of the due date, the estimate of taxable income is deemed to be NIL. Therefore, on assessment a penalty of 20% will arise for the underestimation of provisional tax.

Penalties and interest

- As noted above, with the exception of taxpayers below R1 million that rely on the basic amount, where the estimate of taxable is not within the 90% or 80% (whichever is applicable) thresholds, an

underestimation penalty of 20% is imposed.

- Where the provisional tax return is submitted but the payment is not made timeously a 10% late payment penalty is imposed.
- In addition to the penalties, interest is imposed on taxes not paid timeously at the prescribed SARS interest rate.
- Given that the last day for payment (28 February 2021) falls on a Sunday this year, we would recommend that taxpayers release payments on their banking system at least two days in advance to avoid any late payment penalties.

It is recommended that utmost care be given to the preparation, submission and payment of your provisional tax as the penalties and interest imposed by SARS can be significant if it is not done properly. Should you require assistance, please contact your nearest PKF office.

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