



PROVISIONAL TAX

Christine du Toit from CAP Chartered Accountants

Many taxpayers are unaware of the fact that they are provisional taxpayers or that they should have registered as such. This can result in heavy penalties being levied on late payment as well as interest charged.

You should register as a provisional taxpayer if you receive income other than remuneration from an employer. If, however, your taxable income is less than the tax threshold (level of taxable income that is not taxed taking the tax tables and rebates into account) or the taxable income derived from interest, dividends or the rental from the letting of fixed property does not exceed R20 000 per annum, you are exempt and do not have to register. Note that the tax threshold for 2009 is R46 000 if you are under 65 years of age and R80 000 if you are over 65 years of age for registration purposes. If you receive any income from the carrying on of a business, you unfortunately need to register as a provisional taxpayer and the thresholds then do not apply.

As a provisional taxpayer you need to make two compulsory provisional tax payments during the year. These are advance payments in respect of income tax. The first is payable within the first six months of the tax year, until 31 August. The second is payable by no later than the tax year end, by 28 February.

For the 2009 tax year, you would need to make your first provisional tax payment by 31 August 2008 and the second provisional tax payment by 28 February 2009.

But how are these payments calculated? SARS will issue an IRP6 form that indicates the amount of tax payable according to their records. The taxable income reflected on the IRP6 is known as the basic amount. SARS determines the basic amount from the last assessed income tax return. If the last assessed income tax return is older than two years, SARS will increase the basic amount with 10 per cent per annum outstanding. For the first provisional payment, you can base your tax liability on this amount without running the risks of incurring penalties and interest as long as this amount is not nil. If the basic amount is nil, you need to make an estimate. Any employees' taxes paid for the period 1 March to 31 August can be deducted from the tax liability calculated, after rebates have been taken into account. It is important

to note that any taxable capital gain, as well as any taxable portion of any lump sum, should be excluded from the basic amount. Check your IRP6 to ensure that this is the case.

The problem now comes in with the second provisional tax payment. In the past there was a 'safety net' in that you could use the basic amount per the IRP6 and then only make a third provisional payment by 30 September to ensure that the total liability is settled. This resulted in no penalties or interest for the failure of submitting a higher taxable amount in the second provisional payment in February. Most taxpayers made use of this safety net whereby they retained the cash until the final liability was calculated and paid the outstanding balance with the third voluntary provisional payment. This was good cash flow planning as you extended the payment for seven months.

Due to recent legislation changes, the 'safety net' has been removed. SARS now requires that you ensure that with your second provisional payment you have settled 80 per cent of your tax liability for the year. When assessed later and found that you fell short of this 80 per cent requirement, you will incur additional tax of 20 per cent on the shortfall amount plus interest.

It is therefore important to note that you can no longer just rely on paying provisional tax on the basic amount. Where there has been a significant increase in your taxable income, you must ensure that the tax authorities receive at least 80 per cent of what's due to them by the end of the tax year. It is therefore evident that even government is tightening down on their cash flow management by ensuring that they receive taxes due as soon as possible.



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CAP Chartered Accountants
Tel: 0861 777 CAP
Fax: (021) 914 7789
www.chartered.co.za
info@chartered.co.za

