



Tax Developments in Payroll

A presentation by:
Jerry Botha

Tax Landscape

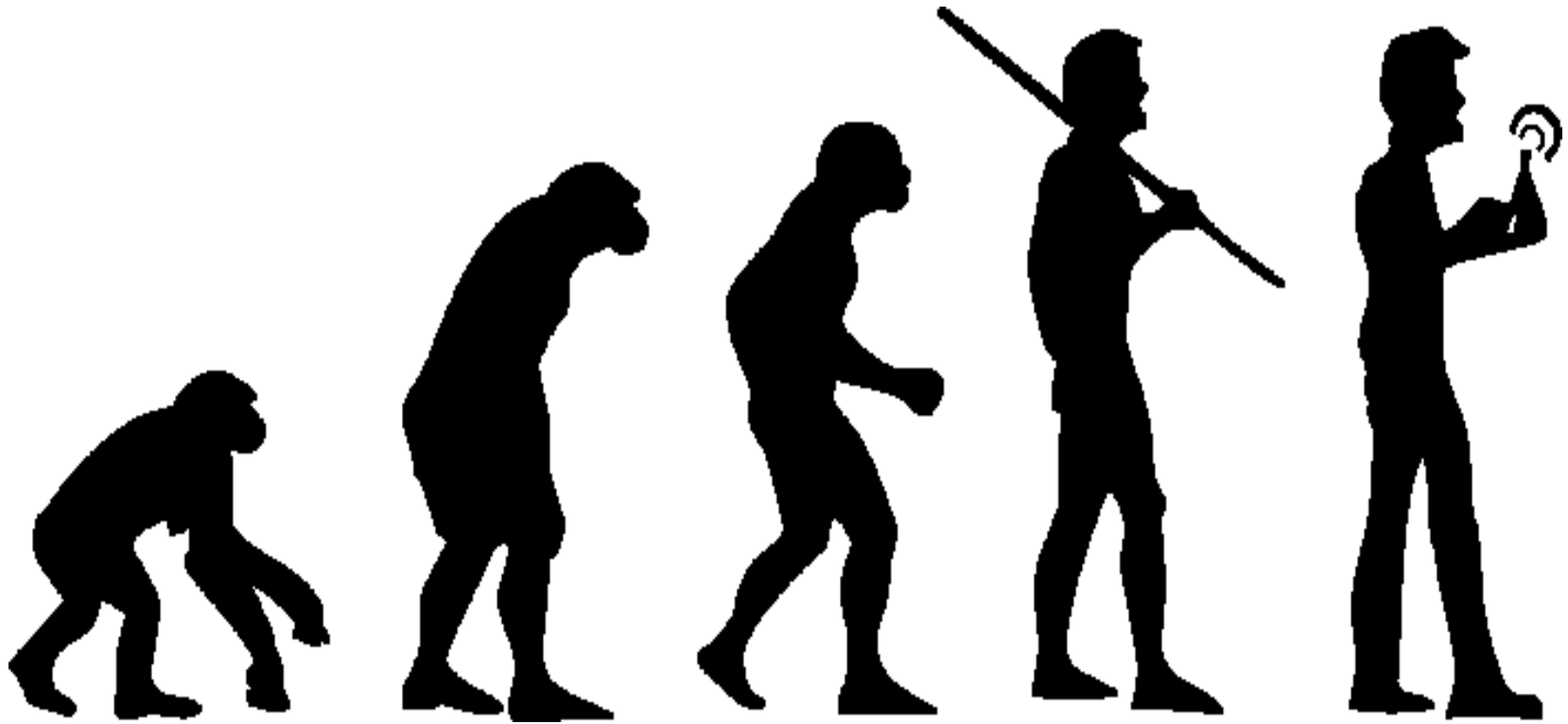
- 1999/2000 = 579 Pages
- Since then = 1,868 Pages
- 2010: Tax Law Amendments – Page Count 198 & 30
- 2011: Draft Bill 190 pages & Explanatory Memorandum of 129 Pages



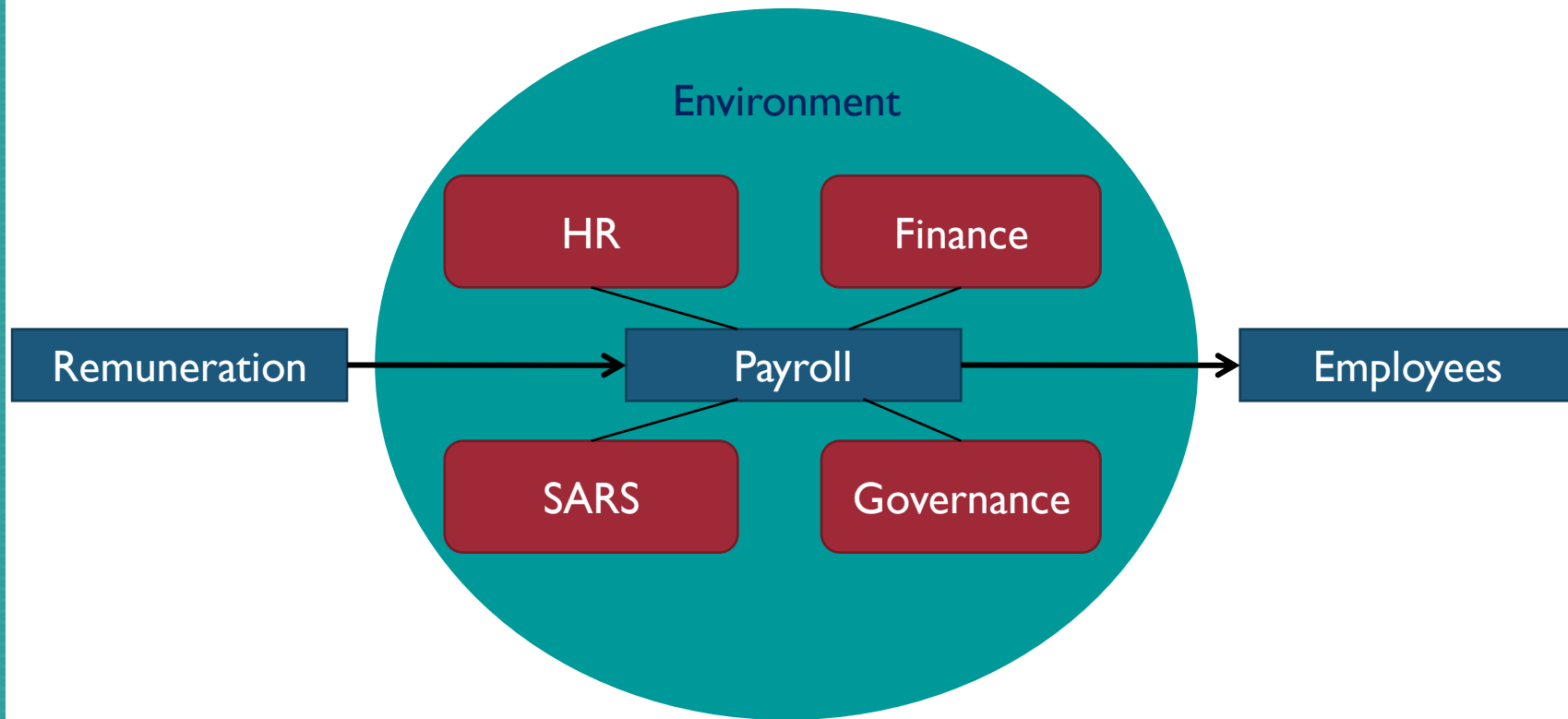
Overview

- Environment
- 4 Tax Developments
- Best Practices
- Lunch

Payroll Evolution



Payroll Environment





Environment

- Primary Function remains ensuring employees get their monthly cash
- Secondary Function remains compliance and risk management
- Future lies with delivery of strategic reward

Risk Matrix





4 Developments

- Medical Aid Credit
- Disability Insurance (in-and-out)
- Life Cover (fringe benefit)
- Retrenchment / Retirement Benefit

New Medical Aid Rule Example #1

Medical Aid Example - 40%		
	Old	New
Salary	10 000	10 000
Medical Aid	1 000	1 000
Relief	<u>-720</u>	<u>n/a</u>
Taxable Income	10 280	11 000
Tax Thereon (before rebates)	-4 112	-4 400
Personal Rebate	896	896
Medical Aid Relief	<u>n/a</u>	<u>216</u>
Take-Home	6 784	6 712

New Medical Aid Rule

Difference Explained	Old	New
Take Home	6 784	6 712
Difference In Take Home	72 per month	
<u>Reason:</u>		
Relief Before	720	
Tax Rate	40%	
Effective Relief	288	
Tax Relief Now	<u>-216</u>	
Difference	72	

New Medical Aid Rule Example #2

Medical Aid Example - 18%		
	Old	New
Salary	10 000	10 000
Medical Aid	1 000	1 000
Relief	<u>-720</u>	<u>n/a</u>
Taxable Income	10 280	11 000
Tax Thereon (before rebates)	-1 850	-1 980
Personal Rebate	896	896
Medical Aid Relief	<u>n/a</u>	<u>216</u>
Take-Home	9 046	9 132

New Medical Aid Rule

Difference Explained		
	Old	New
Take Home	9 046	9 132
Difference In Take Home	86 per month	
<u>Reason:</u>		
Relief Before	720	
Tax Rate	18%	
Effective Relief	130	
Tax Relief Now	<u>-216</u>	
Difference	86	



Medical Aid Credit - Proposal

- R216 for member and spouse
- R144 per dependent

Retirement Fund

Employer Pension Breakdown

Amount on which pension computed	100 000
Employer Contribution:	15%
Employee Contribution:	7.5%
Actual Employer Contribution:	15 000
Actual Employee Contribution:	7 500

Analysis

Employee Contribution		7 500	All to fund
Employer Contribution:		15 000	
Life Cover	2%	2 000	Fringe benefit
Disability (PHI)	1%	1 000	Fringe benefit
Admin Cost	1%	1 000	No impact
Retirement Fund	11%	11 000	All to fund

Disability (PHI) Zero Effect

Tax Computation

Taxable Income Before	10 000
Disability Fringe Benefit	<u>1 000</u>
	11 000
Deduction (Employee Income Protection)	-1 000
Taxable Income Now	10 000

Life Cover More Tax

Tax Computation

Taxable Income Before	10 000
Life Cover Fringe Benefit	<u>2 000</u>
	12 000
Taxable Income Now	12 000

Life Cover Market Movement

Group Life Example

Assumption: Part of employer provided retirement scheme
Approved plan
On death, employee has others sources which places pay out into 36% band per Second Schedule tables
Contribution reflects employer portion towards GLA
Employee marginal tax rate 40%

Current

Contribution Monthly

R 300.00

Benefit on Death

Gross	R	3 000 000
less tax	R	<u>-1 080 000</u>
	R	1 920 000

Result: No fringe benefit on monthly contribution
On death taxed at 36% and net amount payable to estate / beneficiaries

Life Cover Example (cont.)

Future - no adjustment in benefit value

Contribution Monthly

R 300.00
Tax thereon: R 120.00

Benefit on Death

Gross	R	3 000 000
less tax	R	-
	R	<u>3 000 000</u>

Result: Employee take-home reduces with R120 per month.
True death benefit (which members use for planning) increased with R1,080,000

Future - likely market adjustment

Contribution Monthly

R 192.00
Tax thereon: R 76.80

Benefit on Death

Gross	R	1 920 000
less tax	R	-
	R	<u>1 920 000</u>

Result: Employee take-home reduces with R76.80 per month.
True death benefit (which members use for planning) unchanged.

Severance Benefit

Proposed rates	
Taxable lump sum	Rate of tax
0 - R315 000	0 per cent of amount
R315 001 - R630 000	R0 plus 18 per cent of amount exceeding R315 000
R630 001 - R945 000	R56 700 plus 27 per cent of amount exceeding R630 000
R945 001 and above	R141 750 plus 36 per cent of amount exceeding R945 000

- Financial decision
- No election
- Calculator

Travel Allowance

- Calculator
- Risk Sign-off
- Impact on Employee Take Home

Travel Allowance		
Cost Price of Vehicle	300 000	300 000
Total Travel	40 000	5 000
Business Travel (per logbook)	<u>2 000</u>	<u>2 000</u>
Tax Claim	6 593	34 308
In-pocket (40%)	2 637	13 723

Company Vehicle – Essential User

- 80% / 20% rule
- Sign-off

Company Vehicle: Used 80% on Business	80%	20%
Determined Value	300 000	300 000
Fringe Benefit (as disclosed on IRP5)	126 000	126 000
Tax Inclusion	100 800	25 200
Tax Thereon (40%)	40 320	10 080
On Tax Assessment	10 080	10 080
Tax Refund	30 240	-
<i>Monthly Out of Pocket (cumulative):</i>	<i>2 520</i>	

Business Equipment

- Cellular Allowances is wasted spend
- New “mainly” requirement
- Sign-off



SITE Changes

- R60,000 remuneration – final tax
- Low income earners with multiple sources
- 3 year phase out
- 1/3rd of additional tax 2011/12
- 2/3rd of additional tax 2012/13

SITE Example

SITE Example	IRP5 #1	IRP5 #2
Salary	50 000	50 000
Employees' Tax	<u>-</u>	<u>-</u>
Tax Return	100 000	
Tax Thereon	7 245	
2011/12	2 415	1/3rd of liability
2012/13	4 830	2/3rd of liability



General Administrative

- Allocation of Debts by SARS: Oldest Debt First
- Compound Interest Computation by SARS
- Section 105 (A): SARS Lodging complaints of unprofessional conduct
- Tax Administration Bill (23 June 2011)
- Remember Tax Directives
- Communication on employee penalties



Who must submit a tax return

- Where you had more than one source of income, even where you worked on a week somewhere else or had any interest or other income.
- Where you did not work the full 12 months – this is where you will also qualify for a tax refund.
- Where your employment income equals or exceeds R120,000 for the year.
- Where you are older than 65 years.
- Where you had a retirement annuity, medical aid expenses, made donations, received a travel allowance etc. - all these will allow you to qualify for a tax refund

Last word on flexibility

Guaranteed Package		Guaranteed Package		Guaranteed Package	
Package (CTC)	75 000	Package (CTC)	75 000	Package (CTC)	75 000
<i>Includes</i>		<i>Includes</i>		<i>Includes</i>	
Life Cover (1 time)	300	Life Cover (10 time)	3 000	Life Cover (1 time)	300
Pension (5%)	3 750	Pension (5%)	3 750	Pension (20%)	15 000
Medical Aid (basic)	1 000	Medical Aid (comp)	4 000	Medical Aid (comp)	2 000
Cash	69 950	Cash	64 250	Cash	57 700

Payroll Policy

Remuneration

- Optimal delivery of pay
- Return on Investment
- Employee engagement
- Alignment between remuneration and personal financial planning

SARS

- Deadlines
- Compliance
- Governance/ Risk Management

Strategic

- King III Compliance
- Attraction & Retention
- Business Partner

My Action List

- SARS statement of account
- Payroll Policy Update
- Risk Management (sign-off) & Tax Admin Act / Companies' Act
- Get Involved in rest of Africa
- Mapping payroll processes
- Employee engagement – examples
- Is your payroll strategic?
- Do you understand King III (principles 2.25, 2.26 and 2.27) and how payroll becomes a critical business partner of Remco



Questions