Axiomatic Consultants

Payrolls in Africa

South African Payroll Association

6 September 2012

Tax reform strategies……

- South Africa recently voted one of the best revenue agencies
- On line filing.. Mauritius, Rwanda, Kenya, Nigeria.. Etc
- Looking to best of breed practices internationally to collect revenue to manage the relationship with tax payers

DOES AFRICA FORM PART OF YOUR BUSINESS STRATEGY?

Are you prepared for the **tax regime changes** in Africa?

Are you taking advantage of the new African **e-filing** systems?

How do you manage your **headcount** in all regions?

How do manage your payrolls?

Axiomatic Consultants

Have you considered the **reputational risks** involved with doing business in Africa?

Axiomatic Consultants

THE CHALLENGES OF MANAGING A PAYROLL IN AFRICA

- Black Swans in Africa are a normal occurrence
- When running a payroll in Africa one should understand that Black Swans are in fact a predictable surprise.
- Careful planning, intuitive foresight and an acceptance of the challenges can however confer a competitive advantage on those companies that get it right!

PAYROLL LANDSCAPE IN AFRICA

- Africa is not a developed continent in terms of tax legislation :
- Tax payers think that the government/s misappropriates tax revenue for their own benefit and they often see little evidence of their taxes being put to good use. **Employees and in-country officials avoid paying taxes where possible**.
- Governments do not trust companies and citizens. In Nigeria Rep. Ibrahim recently stated that more than 50% of collectable revenue was lost annually and thus government could not provide infrastructure for the citizens. **Governments thus do not trust and consequently target international companies.**
- Tax laws are opaque, difficult to interpret and tax offices are seldom helpful. Further, legislation is often badly drafted. **Companies have difficulty ensuring that they are good corporate citizens.**

PAYROLL LANDSCAPE IN AFRICA CONTINUED…

Companies are thus caught between:

- Employees not wanting to pay tax; and
- Governments wanting more tax; and
- Companies being unsure whether they are paying the correct taxes.

CASE STUDY: NIGERIA

- In February 2012 the new Personal Income Tax Amendment Bill was gazetted which simplified the PAYE taxes.
- The problem is that the Bill was passed by both Houses of the National Assembly in June 2011.
- The Gazette published in February 2012 was dated June 2011.
- What is the effective date given that the fiscal year is January to December?
- There remains confusion and some companies have backdated the new tables to January 2012 and others to June 2011.

CASE STUDY: GHANA

- On 25 November 2011 the new tax tables announced in the 2011 Budget were suddenly gazetted.

- On 9 March 2012 the newer tax tables announced in the 2012 budget were gazetted.

- What is the applicable date for PAYE deductions given that the fiscal year is January to December?

- Some companies have introduced the new tables from April 2012 and others from March 2012 on the advice of the same revenue office and in one example, the same official.

CASE STUDY: KENYA

- The National Hospital Insurance Fund (“NHIF”) originally levied a flat fee of Khs 320.00 per month which was to be deducted from employees.
- In April 2012 new rates based on a sliding scale were implemented.
- COTU and FKE (labour unions) threatened strike action in protest against the new contributions.
- The labour Minister announced on 8 May 2012 that the implementation of the higher rates would be suspended for three months – no-one is too sure when this three month period commences from.
- Most companies will now only pay the higher contribution rates once the government has announced the introduction **AND** COTU and FKE agree.

CONFUSING?

- Given the above, would anyone like to hazard a guess to the correct PAYE application of a company car, where the company pays the petrol and servicing, but not the personal mileage in Benin?
- A common misconception is that African countries are not aware of taxes and that multinational companies can get away with not paying the correct PAYE and other statutory deductions. Nothing is furtherer from the truth. Companies need to be cognisant of reputational risk and ensure adherence to **good governance** and becoming a “good corporate citizen” in these countries.

WHAT CAN BE DONE?

- Recognising that Black Swans are in fact predictable surprises and that there will be a constant supply of them, what is the best way to deal with them?

- Mitigate reputational risk and/or brand damage: and

- Enhance financial controls; and

- Ensure good corporate citizenship and build a sustainable business

What can be done?

We believe a consolidated and centrally managed payroll will mitigate most of these risks

Good Governance

A common centrally controlled payroll will ensure the dichotomy presented between employees (wanting to pay less), governments (wanting more) and the company (not knowing what to pay) is mitigated.

IN THE NEWS

- Nigerian Revenue authorities have resorted to a new tactic of arresting the CEO’s and other senior officials of companies that they *perceive* not to have paid correct taxes. A centrally controlled payroll’s primary task is to ensure good governance.

- Kinfe Kayssay, the Managing Director of Air Nigeria, has been arrested by the Federal Inland Revenue Services (FIRS) for allegedly failing to remit taxes worth N4.868, 496,152 billion, a statement signed by Emmanuel Obeta, FIRS Director of Communications & Liaison’ Department

MAINTAINING A GENERIC AFRICAN PAYROLL PLATFORM CONT…

Financial Controls

- A consequence of globalisation is the proliferation of SLA's, cross border charge backs and transfer pricing which require the expertise of an international tax practitioner. This is not within the ambit of the responsibility of payroll but accurate and timeous reporting can mitigate these areas of operation.

- Cash flow management – this is probably the most important aspect of the interaction between Finance and Payroll when operating in emerging/ frontier markets. Central control enhances this interaction and ultimately gives back control.

MAINTAINING A GENERIC AFRICAN PAYROLL PLATFORM CONT…

Consolidation

- Without a central payroll, attempting to consolidate is time consuming or impossible.
- This seriously detracts from HR's ability to furnish meaningful and strategic African compensation information or business intelligence. HR becomes an operational function rather than a strategic partner aligning remuneration to the African business strategy.
- Time apportionment required for various tax functions cannot be adequately controlled.
- An additional spin off is the ability to formulate a generic African HR Policy which recognises regional or country specific anomalies but formalises the important policies. This prevents the normal excuse- "It's always been done like that".

MAINTAINING A GENERIC AFRICAN PAYROLL PLATFORM CONT…

Confidentiality

- A recent emerging trend is the requirement for confidentiality of salary information. Leaks of salaries are common and can have devastating effect on the morale and productivity of the company.

- The reason why this has become topical can probably be attributed to the exorbitant salaries of expats (relative to local salaries) and the emergence of returning nationals who because of their international experience and the demand to “localise” positions, now command expat type salaries.

- A centrally controlled payroll ensures that this sensitive information is not housed in the host country.

Thank you !