THE PROBLEM WITH TAX EXTENSIONS AND MISSED DEADLINES
PREAMBLE

This paper discusses the effect that the current requirements for tax extension deadlines have on the whole tax industry. There are some very important issues in regard to the tax community taking place which in my view are resulting in a crises. The missed deadlines effect in the community indicates this. I also have some suggestions for the future which will improve morale and workflow in the industry.

This paper will deal with how tax practices are structured and includes the results of a small survey which shows which types of practices missed their deadlines. I will show the effect of missing deadlines and how it effects the whole industry.

Setting the same extension dates globally for different kind practices which are all very different is only a fraction of the problem. Its unfair to apply the same metrics on TP’s globally when each practice is different and has different circumstances and resources.

The problem is not just about simply completing tax returns or filing but about all the information that is necessary to build a tax return and e-file. The collecting, preparing and building all the data which goes onto the form can take time the linking individuals to companies and trusts will actually influence the extension date and can be different for each type of tax practice.

INTRODUCTION

Based on the requirements of the extension dates and the way that they have been configured it is my contention that the system does not work well and will never work. Depending on the size of the practice, where all accounting services are offered especially by larger practices the set deadlines will not be reached for the reasons indicated below. A limited survey conducted by me indicates this.

We have reached the point where SARS sets the deadline for tax return submissions for thousands of TP’s on the way they see things and what they want but is clearly different to the way each tax practitioner in the profession views it or has the capability of achieving the extension list deadline. RCB’s don’t seem to have any influence over this.

For the 2021 tax year the basis for determination of extension date on individual tax returns was based on the individual taxpayers provisional tax status which did not work for various reasons as indicated below. It also did not work well for February companies as this happens during the busiest time of the year as tax practices during January and February are preparing provisional tax returns for all February companies, trusts and individuals as well as doing financial statements and completing audits and dealing with tax issues.

## THE EFFECT OF MISSING TAX DEADLINES

Missing any deadlines can have a negative impact on both personal and professional life. It can lead to decreased productivity, loss of credibility, and strained relationships with clients because clients really don’t know what their TP’s are going through. Additionally, missing a deadline will result in financial penalties or lost opportunities. In order to avoid missing deadlines, it is important for TP’s to set clear goals, create a plan, have sufficient staff and manage time effectively. It is also important to communicate any potential delays or difficulties to relevant parties as soon as possible.

If SARS is consistently setting unrealistic or unachievable deadlines, it can create a high-stress work environment and lead to burnout among the TP’s trying to meet the deadline. This can also lead to a lack of trust and communication between the setters of the deadline and those trying to meet the deadline. Surely this works both ways. This situation has discouraged new people from entering the profession.

In such a scenarios, TP’s should try to have an open and honest conversation through their RCB’s with SARS about the difficulty of meeting the deadlines they are setting, or ensure that their RCB’s are liaising with SARS. All the players should provide examples of how the deadlines are impacting their work and suggest alternative solutions. This paper tries to make suggestions

It is also important for SARS to be aware of the capabilities of the profession and understand that there are different types of tax practices before they set impossible deadlines for the whole profession. Good communication, realistic deadlines, and understanding the environment are key for the profession to meet the deadlines, not just setting a global deadline for everyone.

We are currently seeing mass demoralisation in the profession and many qualified trainees leaving for jobs overseas.

## HOW TAX PRACTICES ARE STRUCTURED

When setting targets for the whole profession It would be in everyone’s interest to understand how SARS sets tax extension deadlines as every TP firm is different, offer different services and have different structures and resources making the same settings of extensions for the whole group unfair and not workable for some.

Deadlines set by SARS are set on a very simple basis - in the case of individuals and trusts being a provisional taxpayer or not and in the case of companies being 12 months from the year end. In most cases where there is no tax department TP’s do not attend full time to tax services as they perform other very important firm services, like preparation of accounts, audits and consulting. Bigger firms may have tax departments or tax services are carried out by all staff members as part of their auditing or accounting functions. I have summarised the firm types as follows;-

* Full accounting practice with reviews, compilations and no audit
* Full range of accounting services as above with audits
* Accounting firm only with tax services
* Pure tax practice only

Each of these types of firms are structured in a totally different way depending on the partners or sole proprietors. What they do depends on how long they have been in business, their resources and capital structure. The different structures of the different type of firms will have a marked effect on how each type of firm meets their deadlines.

SARS will say that’s the deadline build your firm to meet the deadline. Unfortunately it does not happen that way, because it about making a profit and surviving.

## SURVEY UNDERTAKEN IN OCTOBER 2022 DEADLINE

In order to give an indication of how the different firms are coping with SARS deadlines I have inserted aspects of a recent survey I did on the October 2022 extension deadlines to determine how firms are faring. The following are the results.

The majority of firm types who completed the survey are shown below with the missed number of returns; -

|  |  |  |  |
| --- | --- | --- | --- |
| **Percentage of Type** | **Type of Firm** | **Missed number of tax returns** | **Percentage of Total missed** |
| 50% | Full accounting practices with reviews, compilations and no audit | 4927 | 46% |
| 23% | Accounting only with tax services | 971 | 9% |
| 20% | Full range of accounting services including audits. | 4204 | 40% |
| 6% | Tax practice only | 525 | 5% |
|  | Unknown | 12 | 0 |
|  |  | 10639 | 100% |

It is noted that the bigger firms who provide all the services are the ones that are struggling most with the deadlines and in my opinion have no hope of meeting the deadline.

There were also a number of reasons given for missing deadlines causing the slowdown of the production of tax returns the main ones being listed below with the percentages of the reasons given: -

* 36% of firms said **increase in workload from SARS**
* 29% of firms said **load shedding**
* 18% of firms said **estimating whether a taxpayer was a provisional taxpayer or not**
* 10% of firms said **not enough staff**
* 7% of firms said **updating tax residency status**

Further to the above based reasons which were specifically asked, the comments input by respondents indicated further reasons. These reasons require further analysis and were posted by 126 of 208 respondents mostly, bad comments up to scathing comments.

What stands out significantly from the comments are the following;-

* Wasted time spent correcting auto assessments
* Late uploading of 3rd party data
* Poor messaging by SARS in regard to the extension dates for taxpayers resulting in documentation received late from taxpayers
* Unrealistic setting of extension dates with no hope of achieving deadlines
* Additional work load created by SARS in regard to verification and audits
* Additional work load in regard to trying to get SARS errors fixed

The above results are based on a limited survey. It is important for these surveys to continue in order to find the exact state of affairs.

## THE PROBLEM WITH GROUPS

Most important of all is that many of the directors and members of CC’s and beneficiaries of trusts are connected to companies and CC’s and trusts whose results come out well after the year end. It’s always a good idea to do all the tax returns in a group, the company, the shareholders the CC members and directors together to ensure that every aspect of income is accounted for including the balance on loan accounts for statement of assets and liabilities that need to be entered on tax returns. It is also a good idea to ensure that intercompany loan accounts are balanced which will ensure accuracy of income declared on tax returns.

It is always a good idea to lead with the sources of income for individuals which flow from the businesses they direct from a risk point of view to ensure that nothing is unaccounted. Based on the current system of extensions because on the fact that groups and individuals tax return submission dates are not aligned, make tax production more difficult. In this situation individuals may have to be done a long time before the companies are done necessitating estimates to be made potentially leaving out additional income and interest. Incorrect statements of assets may cause such tax returns to be misstated which opens up another risk element for the taxpayer and for SARS. As we know any information missed on a tax return will not allow the assessment to prescribe.

The situation as it stands is just not workable especially with s234 of the TAA hanging over the taxpayers head for inadvertent errors which are bound to happen in these circumstances as not everything can be done together.

The bigger issue here is that tax returns for both companies and individuals are not going to meet the set deadlines for the next two years. Now add to this the current penalty situation created by lack of capacity in the profession and SARS and of course load shedding can be included. We have all lost an inordinate amount of time owing to pandemic, lockdown, load shedding and state capture which won’t be caught up quickly. Most of the taxpayers who have more complex financial circumstances are in the hands of tax practitioners who will continue to struggle with deadlines.

## WHAT USED TO HAPPEN

We need to look at the past where returns were done on a percentage basis.

Before the modernisation process started in order to obtain an extension for the practice practitioners used to supply lists for all the taxpayers requiring an extension.

Later on it progressed with SARS providing the terms of extension on a percentage based as follows. E.g. 30% by November 50% by December etc. based on the size of the firm. This will give firms time to sort tax returns appropriately and do them more accurately in the order that they come up, easier ones first and more complicated ones later.

Right now with globalization and additional more complex tax legislation returns are going to take longer.

WE NEED TO UNDERSTAND AND BE CLEAR ON THE FOLLOWING

1. Planning a year of tax returns submissions is not a simple matter for TP’s of making a list with expected dates but rather a list with the length of time that each tax return takes which could be substantial and result in links to companies and trusts which also have to be near completion. It will also involve preparing the financials and supporting information.
2. Setting high levels for taxpayers to submit returns in a fashion which is not achievable and SARS not being responsible for undertaking their own deadlines in regard to their own charter destroys trust and is detrimental to SARS and the whole profession.
3. Using provisional tax status for extension purposes which status is almost determined a year in advance and then finalised on assessment has no certainty when making the determination of provisional tax status, owing to many factors including the poor economy, load shedding and SARS system problems. The provisional tax status which could change from month to month is just not a workable option in the tax community and all the ramifications have not been thought through. Provisional taxpayer returns are now far more complicated and generally linked to companies and trusts.
For a taxpayer to believe that they are a provisional taxpayer only to find new rules in place that make them suddenly not a provisional taxpayer, with penalties in place is not acceptable and goes towards taxpayers and TP’s losing faith in SARS. There is a certain level of ethics that are required on both sides of the fence.
4. A bigger issue is the unworkable extension dates for tax returns in a time when everyone has fallen far behind owing to the pandemic so why punish the tax community even further where the desired result is just not going to be achieved. Taxpayers have also taken tremendous punishment through the pandemic and now with admin penalties the non-compliance factor will increase substantially.
5. It is not feasible to do directors and members tax returns without having the groups of all their interests in companies and trusts prepared at the same time when the companies and trusts are completed so that the correct information from the source can be collated for the individuals tax return. The way we are doing it now is making tax compliance status of tax returns very difficult as individual tax returns cannot be completed with total accuracy and without having all the information on hand and in many cases estimates have to be made.
6. There are many individuals linked to trusts and companies who may not be provisional taxpayers and therefore at the time of having to file may not be able to complete the tax return accurately in regard to income and the statement of assets and liabilities.
7. The extension requirements as currently stipulated is just not workable owing to the heavy workload required in December and January, for tax return and provisional tax production where the 2nd provisional tax becomes very onerous and requires a lot more effort than just selecting a basic amount figure and where the pandemic ravaged income.
The time after February is catch up time to try and complete all returns before the next season starts and that’s what many tax practitioners are going to be doing right up to June. I call for engagement on the points discussed and a way to make the extension process easier.

## CONCLUSION

I would suggest that before the 2023 tax return season commences or as soon as possible that there should be a serious engagement between SARS and the RCB’s and that something is agreed upon that will allow the tax industry to comply with the extension dates agreed and allow catch up time. If there is no off ramp to help the profession catch up then non tax compliance is just going to gain ground with thousands of requests for penalty remissions.

The industry wants to comply and complete returns accurately and of course catch up with backlogs and reduce wasted time spent with errors in systems.

Extensions are really for the TP profession and there are many items listed below which should be examined and reduced. The following points should be considered as extensions are not related to taxpayer but to TP’s and therefor should be viewed differently.

1. Taxpayers who do their own returns should be viewed differently. This will be mainly individuals.
2. The same old same old does not work any more SARS needs to take into account what is happening on the ground like load shedding and system errors and SARS meeting their own charter. SARS also needs catch up time.
3. Drop the setting of provisional tax status for the determination of the extension date for individuals which will reduce the work load for the profession and for SARS.
4. Set the metrics of extension date by size of firms. I would suggest using the percentage system with different metrics for different type of firms and size firms.
5. Stop auto assessment for all taxpayers linked to a TP.
6. Give the profession an opportunity to catch up by allowing individual provisional taxpayers an extra month to the end of February and larger firms to the end May to catch up with companies.
7. Its going to be in everyone’s interest to catch up.