



## Provisional Tax: SARS's Early Collection Money Spinner

### Why tax practitioners should expect greater pressure on estimates

Provisional tax has traditionally been viewed by many taxpayers as a routine compliance obligation. Twice a year, the taxpayer or tax practitioner calculates an estimate, submits the IRP6, arranges payment, and moves on to the next deadline.

That view is becoming increasingly dangerous.

In the current fiscal environment, provisional tax is far more than an administrative process. It is one of SARS's most powerful early collection mechanisms. It enables SARS to collect tax before the final assessment is issued and before the normal income tax liability has been finally determined.

From SARS's perspective, the attraction is obvious. Provisional tax accelerates cash collection. It reduces the delay between the earning of income and the payment of tax. It gives SARS a basis to monitor current-year taxable income. It also gives SARS a mechanism to challenge taxpayers who submit low estimates.

For this reason, tax practitioners should expect SARS to pay closer attention to provisional tax estimates, especially where the taxpayer has used the basic amount, submitted a reduced estimate, traded better than expected, or failed to retain proper evidence supporting the calculation.

## **The collection numbers show why provisional tax matters**

The SARS Tax Statistics demonstrate the significance of provisional tax as a revenue collection tool.

For the 2024 tax year, company provisional tax payments amounted to approximately R306.5 billion.

The split was as follows:

<b>Provisional tax period</b>	<b>Amount collected</b>
First provisional period	R129.9 billion
Second provisional period	R167.8 billion
Third provisional period / top-up	R8.8 billion

### **Total company provisional tax R306.5 billion**

Total SARS tax revenue for 2024/25 was approximately R1.855 trillion. Company provisional tax alone therefore represents roughly 16.5% of total SARS tax revenue.

That is an extraordinary figure. It means that company provisional tax alone accounts for about one-sixth of SARS's total tax collection.

The cash-flow impact of even a small increase is significant:

<b>Increase in company provisional tax collections</b>	<b>Additional amount collected earlier</b>
5% increase	Approximately R15.3 billion
10% increase	Approximately R30.6 billion

This is the key point: SARS does not need to increase tax rates to improve early collections. It can achieve a major cash-flow benefit simply by applying pressure to provisional tax estimates.

This is why provisional tax is a “money spinner”. Not because it is a separate tax, but because it brings normal tax into the fiscus earlier.

### **Provisional tax is not a separate tax**

It is important to remind clients that provisional tax is not a separate tax. It is an advance payment system. The taxpayer is required to estimate taxable income for the year and pay normal tax in advance.

The final liability is still determined when the annual income tax return is assessed. However, the provisional tax system requires taxpayers to pay during the year of assessment, rather than waiting until the assessment is issued.

This gives SARS a major timing advantage.

The practical risk is that taxpayers often treat provisional tax as a cash-flow decision rather than a tax calculation. They ask, “How much can I afford to pay?” The correct question is, “What is my estimated taxable income for the year, and can I justify that estimate if SARS asks?”

That distinction is critical.

### **Who is a provisional taxpayer?**

- A provisional taxpayer is not only a company.
- A provisional taxpayer includes:
  - a company;
  - a person, other than a company, who earns income that is not remuneration;
  - a person who earns remuneration from an employer that is not registered for employees’ tax;
  - a person notified by the Commissioner that he or she is a provisional taxpayer;
  - and a labour broker with an exemption certificate.

Most ordinary salary earners are therefore not provisional taxpayers if their only income is salary and PAYE is properly deducted. Their tax is collected monthly through the employees’ tax system.

However, the position changes where the individual earns income outside the PAYE system.

### **The individual trader trap**

The individual trader is one of the most important risk areas.

An individual who trades in his or her own name is generally within the provisional tax system. This includes a sole proprietor, consultant, freelancer, independent contractor, commission earner, professional person in private practice, or any person who carries on a business outside the normal PAYE system.

Examples include:

- an accountant consulting in his own name;
- a bookkeeper running a practice from home;
- an IT consultant invoicing clients directly;
- a plumber, electrician or builder trading as a sole proprietor;
- a doctor, advocate, architect or other professional in private practice;

- a person running an online business;
- a commission earner not fully taxed through PAYE;
- a person with rental income;
- or a person with business income in addition to a salary.

The practical mistake is to assume that the R30,000 rule protects all individuals. It does not.

The R30,000 exclusion applies to an individual who does not carry on any business and whose taxable income from specified passive-type sources, such as interest, dividends, foreign dividends, rental from fixed property and remuneration from an unregistered employer, does not exceed R30,000 for the tax year.

That exclusion does not operate as a general exemption for individual traders.

A sole proprietor or individual carrying on a trade must be treated carefully. Even if the eventual provisional tax payment is nil because taxable income is below the tax threshold, the practitioner should still consider whether the individual falls within the provisional tax system and whether an IRP6 position must be dealt with.

The individual trader is particularly vulnerable because taxable income can change quickly during the year. A few profitable months can make the first or second provisional tax estimate too low. SARS can then ask for the basis of the estimate and may challenge the taxpayer if the number was not properly calculated.

### **Why SARS is likely to challenge estimates**

SARS has every incentive to scrutinise provisional tax estimates.

Where a taxpayer submits a low estimate, SARS may ask whether that estimate is reasonable. SARS may compare the estimate to prior-year taxable income, VAT turnover, PAYE information, third-party data, bank information, assessed income, investment income and other information available to SARS.

The risk areas include:

- using an outdated basic amount;
- reducing the estimate without proper support;
- submitting an estimate below current-year trading results;
- ignoring management accounts;
- ignoring VAT turnover;
- failing to adjust for once-off income;
- failing to consider capital gains;
- using cash flow as the basis for the estimate;
- or submitting a low number because the client does not want to pay.

In practice, the provisional tax estimate must be a genuine estimate of taxable income. It should not be a number selected to manage short-term cash flow.

### **Paragraph 19(3): SARS's pressure mechanism**

Paragraph 19(3) of the Fourth Schedule is central to this issue.

SARS may call upon a provisional taxpayer to justify any estimate made. SARS may also require particulars of income and expenditure, or any other particulars that may be needed.

If SARS is dissatisfied with the estimate, SARS may increase the estimate to an amount it considers reasonable.

The most important practical point is that SARS's increase of the estimate is not subject to objection and appeal.

This is a powerful collection tool.

In a normal tax dispute, the taxpayer may object and appeal against an assessment or certain decisions. In the provisional tax estimate context, however, the increase made by SARS under paragraph 19(3) does not follow the ordinary objection and appeal route.

The taxpayer must therefore deal with the SARS request properly and immediately. A weak response may result in SARS increasing the estimate, which then directly affects the provisional tax liability.

### **The basic amount is not always a safe harbour**

Many taxpayers believe that the basic amount gives automatic protection. That is not correct.

The basic amount may be relevant, but it is not a licence to ignore current-year facts. If the taxpayer's current-year trading position shows that taxable income is likely to be higher, SARS may question why the estimate was not increased.

This is particularly important where the taxpayer's taxable income exceeds R1 million. In those cases, the second provisional tax estimate rules are stricter, and the taxpayer generally needs to be much closer to the final taxable income position.

The practitioner should therefore not ask only whether the basic amount can be used. The better question is whether the estimate can be defended if SARS asks for justification.

### **Practical evidence required**

The main defence against SARS pressure is evidence.

A provisional tax calculation should be supported by a proper working paper and retained on the taxpayer file. This is particularly important where the estimate is reduced or where the taxpayer's current-year position differs from the prior year.

For companies, the file should include:

- the prior-year assessment;
- the basic amount calculation;
- management accounts;
- year-to-date turnover and profit;
- projected income for the rest of the year;
- tax adjustments;
- capital gains or once-off receipts;
- assumptions used;
- client instructions;
- the tax calculation;
- proof of IRP6 submission;
- proof of payment;
- and the SARS receipt.

For individual traders, the file should include:

- year-to-date income;
- year-to-date expenses;
- projected income and expenses;
- other taxable income;
- PAYE already deducted, if any;
- rebates and medical credits;
- capital gains;
- retirement contributions;
- the estimated taxable income calculation;
- the tax payable on the estimate;
- the reason for any reduction;

and confirmation of the client's instructions.

The practitioner should also record why the estimate is reasonable. This note may become the most important document if SARS later asks the taxpayer to justify the estimate.

### **The client instruction problem**

A common practical problem arises where the client instructs the practitioner to reduce the provisional tax payment because of cash-flow pressure.

This instruction must be handled carefully.

The practitioner should not simply submit the reduced estimate. The client must be warned that provisional tax is based on estimated taxable income and not on affordability. If the client insists on a lower estimate, the practitioner should retain the instruction and record the advice given.

This is not only a SARS risk. It is also a professional risk.

If SARS later raises penalties, interest or an increased estimate, the client may allege that the practitioner failed to advise properly. A proper written record protects both the taxpayer and the practitioner.

### **Technology and control**

The provisional tax process must be controlled properly.

It should not be treated as an isolated IRP6 submission. It should be part of the taxpayer's permanent record.

The practitioner should be able to show:

how the estimate was calculated;

what information was used;

what SARS data was available;

what the client instructed;

what was submitted;

what SARS accepted;

what was paid;

and what documents support the position.

This is where proper workflow, document retention, sticky notes, statuses, SARS receipts and calculation records become essential.

AI Taxman can also assist practitioners by identifying the legal issue, helping draft responses to SARS, highlighting paragraph 19(3) risks, and suggesting practical remedies where SARS places improper or excessive pressure on the taxpayer.

It can also assist with the “tricks” of dealing with SARS correspondence: answering the question asked, not over-conceding, providing the correct evidence, challenging vague requests, and ensuring that the response is legally framed.

However, AI does not replace professional judgment. The practitioner must still ensure that the estimate is reasonable and that the file contains the evidence required to support it.

## **Conclusion**

Provisional tax has become one of SARS’s most important early collection mechanisms.

The statistics prove the point. Company provisional tax alone amounted to approximately R306.5 billion for the 2024 tax year and represents roughly one-sixth of total SARS tax revenue. A 5% increase in company provisional tax collections could move more than R15 billion forward. A 10% increase could move more than R30 billion forward.

That is why SARS is likely to place increasing pressure on provisional tax estimates.

The risk is not limited to companies. Individual traders, sole proprietors, consultants, freelancers and professionals in private practice are also exposed. The R30,000 exclusion does not protect an individual who carries on a business.

The practitioner’s response must be practical and disciplined:

identify provisional taxpayers correctly;

calculate estimates properly;

do not rely blindly on the basic amount;

retain supporting evidence;

record client instructions;

warn clients about reduced estimates;

keep SARS receipts;

and be ready to justify the number.

In the new SARS environment, the taxpayer who cannot justify the estimate is vulnerable.

The practitioner who cannot produce the working paper is exposed.

Provisional tax is no longer just a deadline. It is a major SARS collection weapon.