

PROVISIONAL TAX P2 DURING COVID-19

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INTRODUCTION

You will be processing P2 February year ends very soon. If you leave it too late you are going to be under pressure.

You really need to understand the processes in regard to provisional tax Covid-19 relief as the thinking you do for P2 is entirely different to the thinking for P1- it's a different mindset. The provisional tax rules as they have always applied are similar to past years but the way you apply the relief is different as the taxpayer can easily run into an understatement penalty and at the same time have a major cash flow problem.

We need to understand the rules as we would normally do for provisional tax, but we also need to understand the Covid-19 relief rules.



THE GOLDEN PROVISIONAL TAX RULES FOR P1

The golden rule for provisional P1 was don't claim the relief rather drop the income because of Corona Virus as we were in lockdown. It was much easier rather than finding the taxpayer was not **tax compliant** and facing penalties generated by SARS for something that happened a long time ago. Many of our clients who attended our webinars adhered to this advice. For bigger tax compliant companies they claimed the relief as their cash flow was affected.

THE NEW RULES FOR PROVISIONAL TAX P2

For P2 there is a different set of recommendations because we are coming out of lockdown and the economy is opening up and we have to be within the **provisional tax estimation rules** in order to avoid an under estimation penalty.

The important thing is you have to start early and not leave it for the last minute. P2 because of the strict provisional tax understatement rules for P2 makes it much more complicated than P1. What's more there has been a year end break and deadlines for the completion of tax returns which will affect your production time.

So for P1 where we showed a much lower income because of the Covid lockdown, it may now have to increase because of the economy being more active.

Provisional Tax P2 during Covid-19

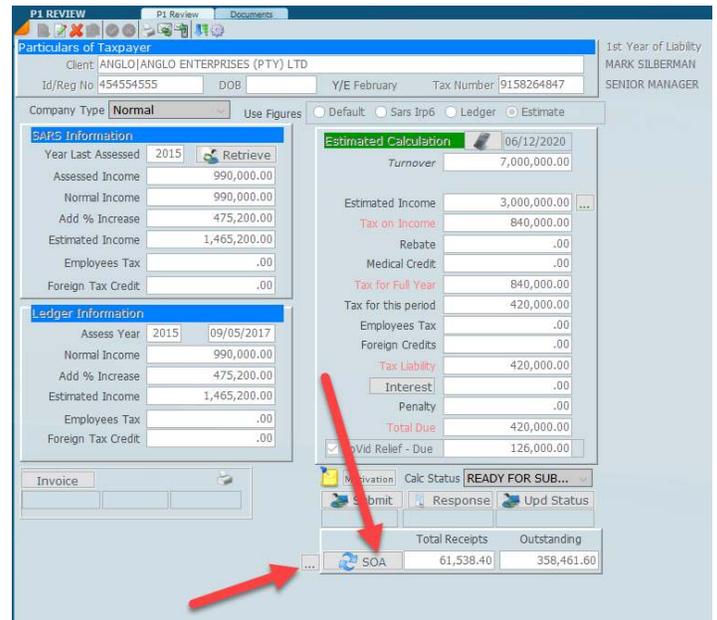


Of course one has to bare in mind the state of business you are calculating which may have closed for a while and been significantly damaged. By looking at the facts of each business cash flow may be a significant factor and will force the taxpayer to claim relief subject to the rule of being tax compliant.

IMPORTANT STEPS IN THE PROCESS

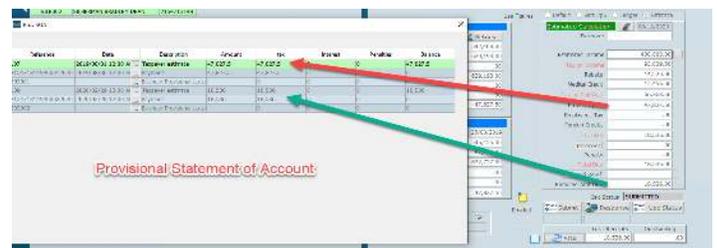
It is critical that you look at the history of what happened with the P1 process.

Check the taxpayer Provisional Tax Statement of account for P1. This will tell you if there was a penalty or if the relief was allowed or disallowed or if there was a calculation problem for P1. The statement will also tell you if the provisional tax was actually paid.



Using Sky Tax click on the **SOA** button and then the **3 dots** to get the detailed statement of account.

Review what you did for P1 and see how this is going to affect P2. The screen below depicts the SOA for the whole year after provisional tax payments were made.



You should also be cognizant of the fact that while you are doing this process you have to be completing 2020 tax returns for provisional taxpayers.

Provisional Tax P2 during Covid-19

If relief is to be claimed ensure that the taxpayer is compliant on the day that the taxpayer submits the provisional tax return.

During this period until the end of January we will be losing a month in time (the December holidays) so the following is suggested:-



- - Sort your provisional taxpayer list into simple, difficult or high net worth. In Sky Tax you can do this with Status and user fields and filters
 - Start with working on the high net worth individuals and check if there income includes business income
 - For individuals it would be a good idea to get accurate PAYE and foreign tax credits
 - Where individuals are in business obtain accurate business results
 - Where there is bookkeeping to be done get it done well before hand
 - It may be necessary where books are not up to date to do a quick and dirty cash forecast in order to justify the estimate – look at this link for a cash projection <https://www.acffinsoftware.com/cash-flow.html>

It is always best **not to claim relief** as this is the safest. However taking cash considerations into account you can take relief provided all the conditions are met, stating **turnover** where necessary and making sure the taxpayer is tax compliant.

In the case of an individual the individual must be in business and passive income cannot be more than 20% of total income. It is essential that the business turnover is submitted on the form.

Provisional Tax P2 during Covid-19

When calculating income you need to take into consideration the effect that the lock down has had on the business. Example if the taxpayer is in leisure or a restaurant business incomes should be reduced substantially, or be zero because of losses incurred.

The situation may have changed in that the taxpayer did not claim relief for the P1 payment and in our view this does not mean that they can't claim 35% of the total tax liability for P2. We don't see why not provided they comply with all the rules. Sky Tax will do this automatically if you claim relief.



PROVISIONAL TAX AND COVID-19 RELIEF WITH SKY TAX

INTRODUCTION

In order for the provisional tax COVID-19 relief to be activated on Sky Tax TURNOVER on the provisional tax ledger must be entered and the COVID-19 tick box ticked on the review page. The same applies to individuals – turnover on the business that the individual undertakes must be entered!

The legislation has been published. Please ensure that you understand what the conditions are.

It is important to understand that as far as provisional tax is concerned taxpayers will calculate the provisional tax in exactly the same way as it has been done in the past using the same laws and provisions. The relief is in the way we make the payments, by SARS giving deferments on the payments depending on when the year end is and when the provisional tax payments fall due. We have been advised that SARS is making no change to their systems as the submission of provisional tax will be exactly the same as it has always been with the same rules, it is just the payment that is deferred. SARS did change their systems by issuing a provisional tax statement of account advising taxpayers if the relief was granted.

The COVID-19 provisional tax relief may be claimed if the TURNOVER of the company, trust and individual in business does not exceed R100 million and the taxpayer is tax compliant.

Provisional Tax P2 during Covid-19

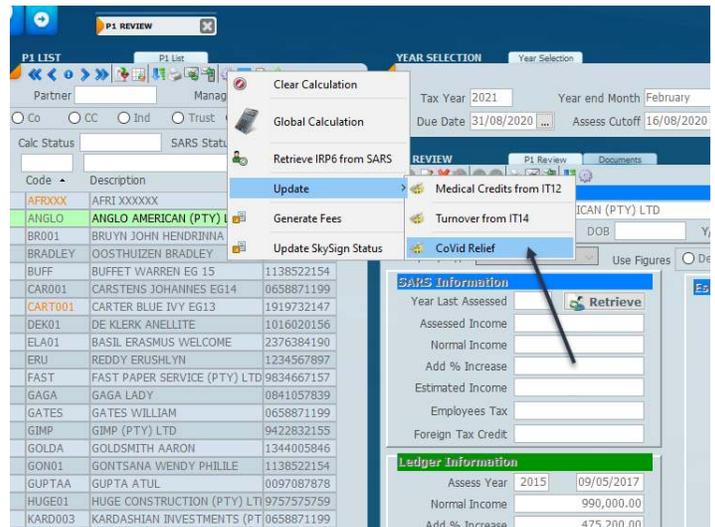
If a business is operated by an Individual, partnership or trust then as long as its Turnover does not exceed R100 million and passive income for an individual is less than 20% of the income relief can be requested.

Passive income is investment and rental income. It may be that the taxpayer did not collect rent and this should be taken into account when doing the passive income calculation.

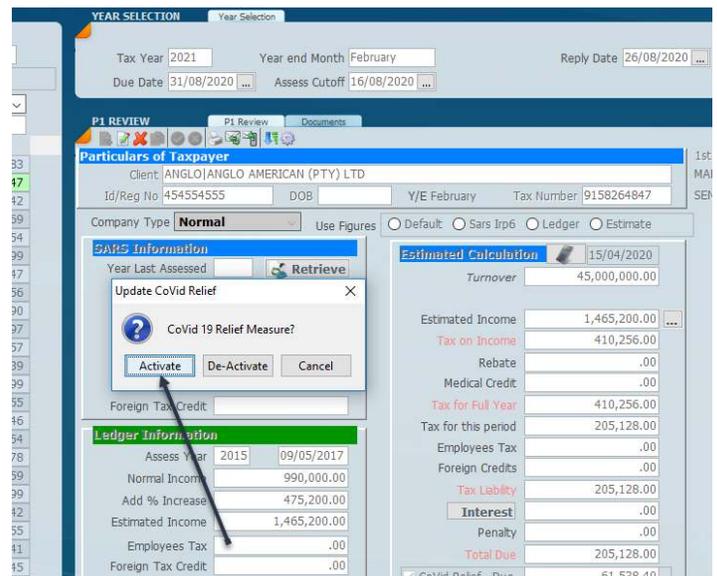
At the time of writing there may be a problem with the way the relief is calculated on an individual where PAYE is involved. We have included an IRP6 to show the correct method of the calculation. SARS agrees with the way we calculate.

SETUP OF COVID RELIEF ON SKY TAX

In order to set up COVID-19 relief in Sky Tax select the function wheel on the top of the provisional tax review screen and click on update and then COVID Relief.



Activate COVID-19 by clicking on the Activate COVID Relief. If you did this for P1 there is nothing further to do.



CALCULATION OF PROVISIONAL TAX

At this point you may run the provisional tax calculation as you would normally do by doing the calculation and the retrieval from SARS, doing all the normal checks and balances to make sure the estimates are correct taking into account the current COVID-19 situation and financial situation of the client. For more information on this we refer you to our technical briefing on provisional tax which will be found on the following link.

<https://www.accfinsoftware.com/sky-tax-academy.html>

After running the calculation and whilst you are doing the review you may implement the relief rules where necessary by adding Turnover and ticking the Covid-19 tick box on the review page as shown further down.

PROVISIONAL TAX COVID-19 RELIEF RULES

If **P1** is payable between **1 April 2020** and **before 1 October 2020** if relief is claimed the provisional tax payment is 15% of the total tax liability. The 15% will be calculated before the tax liability is halved for P1. This means that the total payment for P1 is 30% of the total tax liability.

If **P2** is payable after **1 April 2020** but **before 1 April 2021** the payment is 65% of the total tax liability, making the relief of 35% of the total.

This means that if the company or individual is claiming the relief by the time, they make the P2 payment they must have made provisional tax payments that total 65% of provisional tax due for the year based on the P2 income estimate.



Provisional Tax P2 during Covid-19

The balance remaining of 35% owing to SARS is to be payable by the time the P3 or top up payment is due, if not, interest will kick in at the normal SARS rates. It should be borne in mind that if the P3 or top-up payment is made six months after the year end for June taxpayers and seven months after the year end for February companies no interest or penalties will be payable. If the top-up payment is not made on time interest will be payable from that point on at normal SARS's rates. The taxpayer if they don't pay the top-up on time they can get more time provided they pay the interest. At this point the taxpayer will be in a better position to know what their final income is.

In the event that the relief is claimed and the taxpayer is not tax compliant then the normal penalties and interest will kick. The penalty will kick in when SARS issues the POA.

SKY TAX PROVISIONAL TAX RELIEF CALCULATION P1

The provisional tax review screen is shown below.

YEAR SELECTION Year Selection

Tax Year 2021 Year end Month February Reply Date 26/08/2020

Due Date 31/08/2020 Assess Cutoff 16/08/2020

P1 REVIEW P1 Review Documents

Particulars of Taxpayer

Client: ANGLOJANGLO AMERICAN (PTY) LTD 1st Year of Liability
Id/Reg No: 454554555 DOB: Y/E February Tax Number: 9158264847 MARK SILBERMAN
Senior Manager

Company Type: **Normal** Use Figures: Default Sars Irp6 Ledger Estimate

SARS Information

Year Last Assessed	Retrieve
Assessed Income	
Normal Income	
Add % Increase	
Estimated Income	
Employees Tax	
Foreign Tax Credit	

Ledger Information

Assess Year	2015	09/05/2017
Normal Income	990,000.00	
Add % Increase	475,200.00	
Estimated Income	1,465,200.00	
Employees Tax	.00	
Foreign Tax Credit	.00	

Estimated Calculation 09/04/2020

Turnover	45,000,000.00
Estimated Income	1,465,200.00
Tax on Income	410,256.00
Rebate	.00
Medical Credit	.00
Tax for Full Year	410,256.00
Tax for this period	205,128.00
Employees Tax	.00
Foreign Credits	.00
Tax Liability	205,128.00
Interest	.00
Penalty	.00
Total Due	205,128.00
CoVid Relief - Due	61,538.40

Invoice

Motivation Calc Status

Submit Response Upd Status

Once the ledger has been calculated we can put the review screen into edit mode and tick the COVID-19 relief tick box, recalculate to get the right tax due.

In the above screen the amount of R205,128 will be e-filed but only R61,538.40 will be paid which is 15% of the total tax due of R410,256.00. It is understood that SARS will keep the details of the outstanding amounts and display it in the provisional SOA.

SKY TAX PROVISIONAL TAX RELIEF CALCULATION P2

The same principle will apply when the P2 provisional tax payment is calculated. The tax submission must be based on the Tax liability calculated.

By the time P2 is paid by the company the P2 payment must be 65% of the total tax liability where relief is claimed which is based on the estimate and therefore there should only be an amount of 35% that should be outstanding. The shortfall of 35% to be paid by the time that the top-up or P3 is due must be paid to avoid interest, thereafter interest will kick in.

PROVISIONAL TAX RELIEF FOR COMPANIES OTHER THAN FEBRUARY

Rules of the Relief

Our reading of the rules is that relief can only be claimed where P1 falls between **1 April 2020 and before 1 October 2020**. This means that for P1 submissions from 1 October 2020 there is no relief.

If **P2 is payable after 1 April 2020 but before 1 April 2021** the payment for P1 and P2 to be made must be 65% of the total tax liability, making the relief of 35% to be paid when the P3 or top up is due. If the P2 payment submission is after 1 April there is no relief.

June 2020 Year Ends

Provisional tax on P2 for June companies in 2020 was calculated as you would normally do. Where a provisional tax payment was made by the end of December 2019 being P1 this would have been based on 50% of the full tax liability i.e. no relief would have been claimed. When the P2 was made by the end of June and relief is to be claimed then the payment only has to be 15% of the total tax liability which will make the total tax payment 65% of the total provisional tax liability for the year ended June 2020.

June 2021 Year Ends

Our reading of the rules in that P1 relief only applies between **1 April 2020 and before 1 October 2020**. This means that for P1 2021 in December for June 2021 and P2 for June 2021 there is no relief.

December 2020 Year End

Provisional tax on P2 for December companies in 2020 must be calculated as you would normally do. Where a provisional tax payment was made by the end of June 2020 being P1 this would have been based on 15% of the full tax liability if relief was claimed. When the P2 is made by the end of December then the total payments have to be 65% of the total provisional tax liability for the year ended December 2020 where relief is claimed.

PROVISIONAL TAX IRP6 FACSIMILE FORM

Provisional Tax P2 during Covid-19

The printing of the provisional tax form will have the following changes and reflect the COVID-19 relief and the payment due. Please note that the IRP6 form will have the payment reference number on it. Please make sure that your clients get the payment reference number. The payment push to the bank can be adjusted to reduce the amount. The SARS statement of account will indicate exactly what the SARS position is.



The above is an example of a P1 form.

<p>ACCFIN SOFTWARE <small>Printed by SKY TAX Copyright of AccFin Software Tel 0861 222 346 / 0861 ACCFIN</small></p> <p>GAGA LADY 5 ROSE BUD SMITH STREET SUNNINGHILL SANDTON</p>	<p>INCOME TAX Return for payment of provisional tax</p> <hr/> <p>PROVISIONAL TAX ADVICE</p> <p>Reference number 0841057839 Date 07/12/2020</p> <p>Tax period 2021 P2 Tax payable on or before 28/02/2021</p>
<p>SARS Historical Information</p> <p>Year last assessed Normal Income Basic Amount</p>	<p>Our Historical Information</p> <p>Year last assessed 2017 Lump Sums 0.00 Taxable Income (excl LS) 2,002,000.00 Less : Capital Gains 0.00 Normal Income 2,002,000.00 % Increase 640,640.00 Estimated taxable income 2,642,640.00</p>

Turnover	1,000,000.00
Estimated taxable income	4,000,000.00
Tax on estimated taxable income	1,649,679.00
Less: Rebates	23,157.00
Medical Credit	0.00
Tax for the full year	1,626,522.00
Provisional tax paid	132,356.50
Less: Employee's tax for this period (12 months)	200,000.00
Less: Foreign tax credits for this period (12 months)	0.00
Tax payable for this period	1,294,165.50
Add: Penalty	0.00
Add: Interest	0.00
Total Amount Payable	1,294,165.50
CoVid19 Relief	569,282.70
Reduced Amount Payable	724,882.80

Signature of the provisional taxpayer or representative _____ Date _____
 GAGA LADY
 Name of the provisional taxpayer or representative taxpayer

<p>Estimated taxable income 1,465,200.00</p> <p>Turnover 45,000,000.00</p> <p>Estimated taxable income 1,465,200.00</p> <p>Tax on estimated taxable income 410,256.00</p> <p>Less: Rebates 0.00</p> <p>Less: Medical Credit 0.00</p> <p>Tax for the full year 410,256.00</p> <p>First Period: Less half of the tax payable for the full year 205,128.00</p> <p>Less: Employees' tax for this period (6 months) 0.00</p> <p>Less: Foreign tax credits for this period (6 months) 0.00</p> <p>Tax payable for this period 205,128.00</p> <p>Add: Penalty 0.00</p> <p>Add: Interest 0.00</p> <p>Total Amount Payable 205,128.00</p> <p>CoVid19 Relief 143,589.60</p> <p>Reduced Amount Payable 61,538.40</p>	<table border="1"> <tr><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td><td>7</td><td>8</td><td>9</td><td>0</td></tr> <tr><td>.</td><td>/</td><td>%</td><td>*</td><td>^</td><td>√</td><td>1/x</td><td>1/x^2</td><td>1/x^3</td><td>1/x^4</td></tr> </table>	1	2	3	4	5	6	7	8	9	0	.	/	%	*	^	√	1/x	1/x^2	1/x^3	1/x^4
1	2	3	4	5	6	7	8	9	0												
.	/	%	*	^	√	1/x	1/x^2	1/x^3	1/x^4												

Signature of the provisional taxpayer or representative _____ Date _____
 Name of the provisional taxpayer or representative taxpayer

Payments can be made at any SARS branch office
 Mondays to Fridays: 08h00 - 15h30
 Closed on Saturdays, Sundays and Public holidays.

Payments can also be made at or electronically to: ABSA, FNB, NEDBANK, STANDARD BANK

Payment reference number 9158264847P00012021 Beneficiary ID/Account number SARS-PROV

Income tax reference number PPO1, valid for year

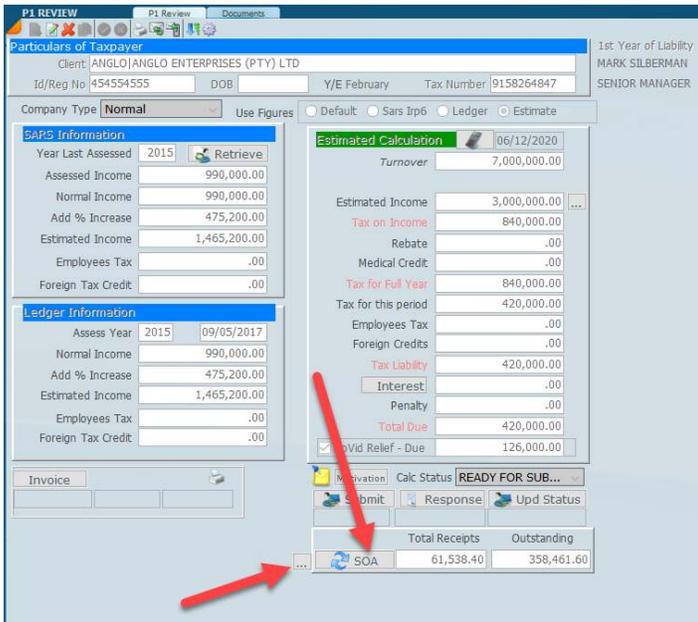
The above form indicates an individual where relief is claimed for P2. Please note that the payment is calculated on the total tax liability of 65% before the deduction of P1, PAYE and Foreign tax credits.

MANAGING THE PROVISIONAL TAX PAYMENTS

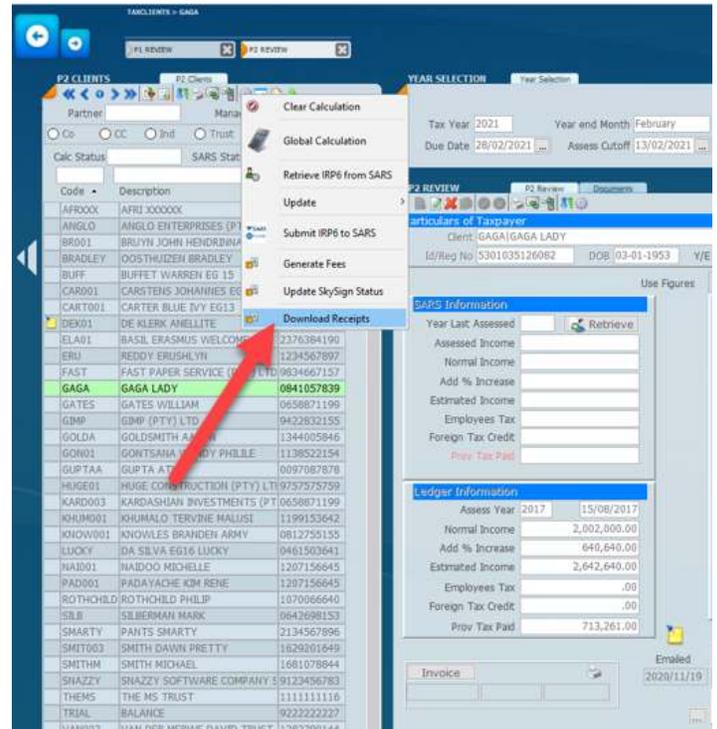
Receipting

Provisional Tax P2 during Covid-19

Sky Tax has a **receipting system** which will automatically download receipts on a global basis as well as the Provisional SOA.



Download receipts globally SARS or globally.



The provisional tax statement of account will display exactly what the status is. Pull the SOA when the P3 is due.

GENERATING A TOP UP PAYMENT

There is a place to manage all payments to SARS. Download the receipts daily and Sky Tax will be updated with receipts and the provisional tax statement of account automatically. An example of the receipting screen is shown below after the payment is processed.

Provisional Tax P2 during Covid-19

Receipt Data Entry

Particulars of Taxpayer

Client Code: ANGLO ANGLO AMERICAN (PTY) LTD MARK SILBERMAN
 Id/Reg No: 454554555 Tax Number: 9158264847 SENIOR MANAGER
 Tax Return Year: 2021 Entry No: 4

Receipt Date: 11/08/2020 Receipt Allocation: Prov 1st
 Receipt Ref: 1234567 Prov 2nd
 Receipt Amount: 61,538.40 Top Up
 Interest Allocation: .00 Bal of Acc

Remark: Payment of 15% of provisional tax in terms of COVID 19 tax relief.

Status	Amount Due	Interest	Receipts		Amt Owing
Prov P1 SUCCESS	205,128.00	.00	61,538.40	11/08/2020	143,589.60
Prov P2		.00	.00		.00
Top Up		.00	.00		.00
Tax Return		.00	.00		.00

Receipts Refunds

Receipts List

Date	Entry	Ref	Allocation	Interest	Receipt Amount
11/08/2020	3	1234567	Prov 1st	.00	61,538.40

The above screen will show the amount due to SARS after the first payment. At this stage there is nothing to be done until we get to the P3 or top up stage provided the relief has been granted.

The P2 payment will be handled in exactly the same way.

Multiple top up payments can be generated at any time by entering the income that you wish to base the payment on.

Looking ahead to Sept 2021 when the P3 or top up is due the top up screen will look like the screen below.

SELECTION

Particulars of Taxpayer

Client: ANGLO ANGLO ENTERPRISES (PTY) LTD 1st Year of Liability: MARK SILBERMAN
 Id/Reg No: 454554555 DOB: Y/E February Tax Number: 9158264847 SENIOR MANAGER

Yr	P1 Status	P2 Status	TopUp	Tax Ret	Submit	Date	Assess	Date	Balance
2021	CALCULATED	CALCULATED			0		0		.00
2020		FINALISED			0		0		.00
2019	FINALISED	FINALISED			0		0		.00
2018	QUERY	PRINTED		CREATED	0		0		.00
2017	CALCULATED			REQUESTED	0		0		.00

PROV P2

Company Type: Normal

Tax Calculation 14/07/2020

Turnover: 45,000,000.00

	Estimated Income	Payable
1st Payment	1,465,200.00	61,538.40
2nd Payment	1,465,200.00	205,128.00
14/07/2020	1,465,200.00	143,589.60

Other Payments

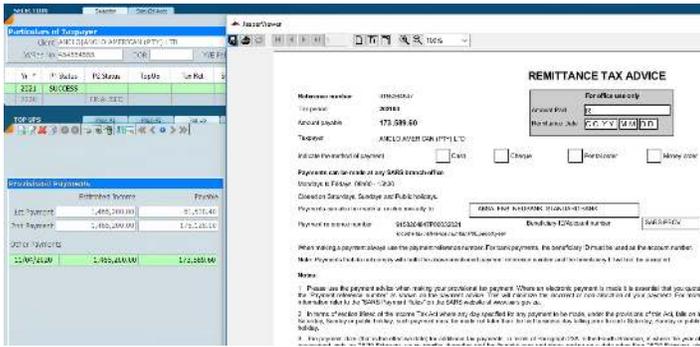
Taxable Income	1,465,200.00
Tax on Income	410,256.00
Rebate	.00
Medical Credit	.00
Tax for Full Year	410,256.00
Prov Tax paid	266,666.40
Employees Tax	.00
Foreign Credits	.00
Tax Liability	143,589.60
Interest	.00
Penalty	.00
Total Due	143,589.60

Calc Status:

The total tax paid on P1 and P2 amounts to R266,666.40 (R61,538.40+R205,128) which is 65% of the total tax liability. The top up payment to be made must then be R143,589.60 being 35% of the remaining provisional tax liability by due date in order to avoid interest. 30 September 2021 for February company and 6 months after the year end for every other company.

On the screen below we print a remittance advice that can be used to send to clients the details of the top up payment.

Provisional Tax P2 during Covid-19



In the event that the income is more than anticipated then a further top up can be made by adding an additional top-up record. This is done by increasing the income and calculating the amount due to SARS taking off the payments already made.

As many top-ups as is necessary can be generated to fit in with the taxpayer's cash flow by increasing the income as required, but interest will be charged.

Please Note

Note 1

Cash Flow after the December holidays is going to be very bad. The delay of the P3 payment may help many companies survive.

Note 2

Our system Sky Tax can request a virtually instant on demand provisional tax statement of account for individuals which will always indicate the balance of account position.

