

**IT IS TIME
FOR YOUR TAX
PRACTICE
TO TAKE THE
BLINDFOLD
OFF.**



PROVISIONAL TAX RULES FOR P2

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1. PROVISIONAL TAX P2

INTRODUCTION

Have you noticed how quick the time passes – the days just fly by. Before you know it you will be processing P2 February year ends. If you leave it to 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 way P1 was processed – it's a different mindset. The provisional tax rules as they have always applied are similar but the way you apply the relief is different as the taxpayer can easily run into an understatement 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 is the year end break and the completion of tax returns which will affect your production time.

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 the webinars adhered to my advice. For bigger tax compliant companies they were to claim the relief.

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.

So for P1 where we showed a much lower income it may now have to increase.

IMPORTANT STEPS IN THE PROCESS

Check the taxpayer PT Statement of account for P1. This will tell you if there was a penalty if the relief was disallowed. The statement will tell you if the provisional tax was paid if it was granted.

Review what you did for P1 and see how this is going to affect P2.

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.

If relief is to be claimed ensure that the taxpayer is compliant on the day that the taxpayer pays.

From now until the end of January we will be losing a month in time so the following is suggested.

Sort your provisional taxpayer list into simple, difficult or high net.

Start with working on the high net worth individuals

Where there is bookkeeping to be done get it done.

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.

When calculating income you need to take into consideration the effect that the lockdown had on the business. Example if the taxpayer is in leisure or restaurant business incomes should be reduced substantially.

The situation may have changed in that the taxpayer did not claim relief for the P1 payment does this mean that they cant claim 65% for P2. I don't see why not provided they comply with all the rules.

2. PROVISIONAL TAX AND COVID-19 RELIEF

INTRODUCTION

Please Note: In order for the provisional tax COVID-19 relief to be activated on Sky 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!

The 2nd relief draft document from SARS has been published with additional relief options. It seems that individuals are now included for provisional tax relief under certain conditions. 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.

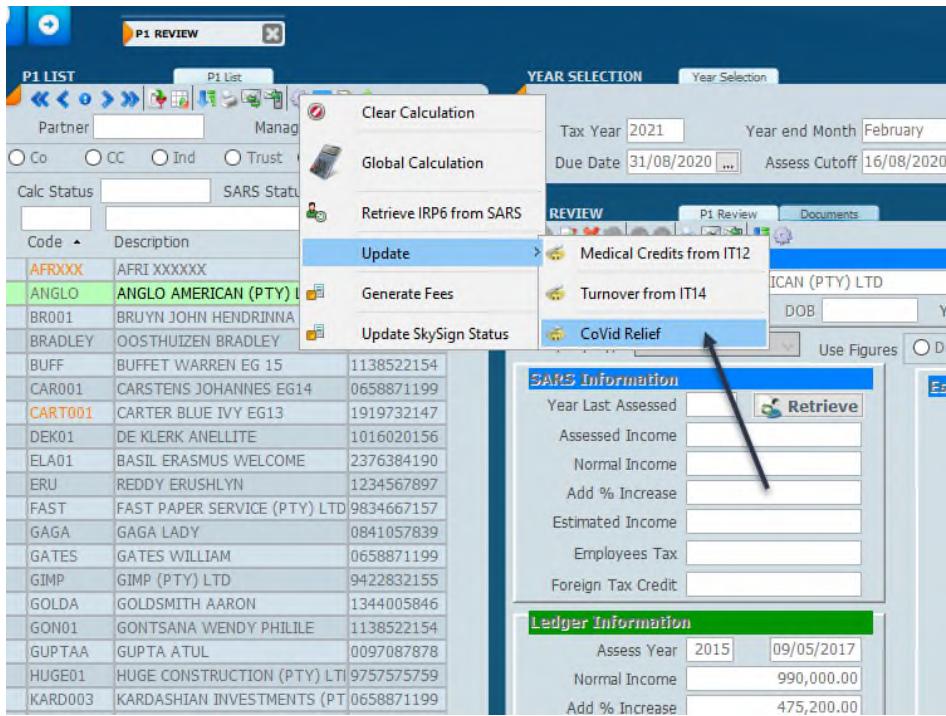
The COVID-19 provisional tax relief may be claimed if the TURNOVER of the company and a trust and individual in business and the turnover does not exceed R100 million and the taxpayer is tax compliant.

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 is less than 20% the individual can apply the provisional tax relief rules. Passive income is investment and rental income.

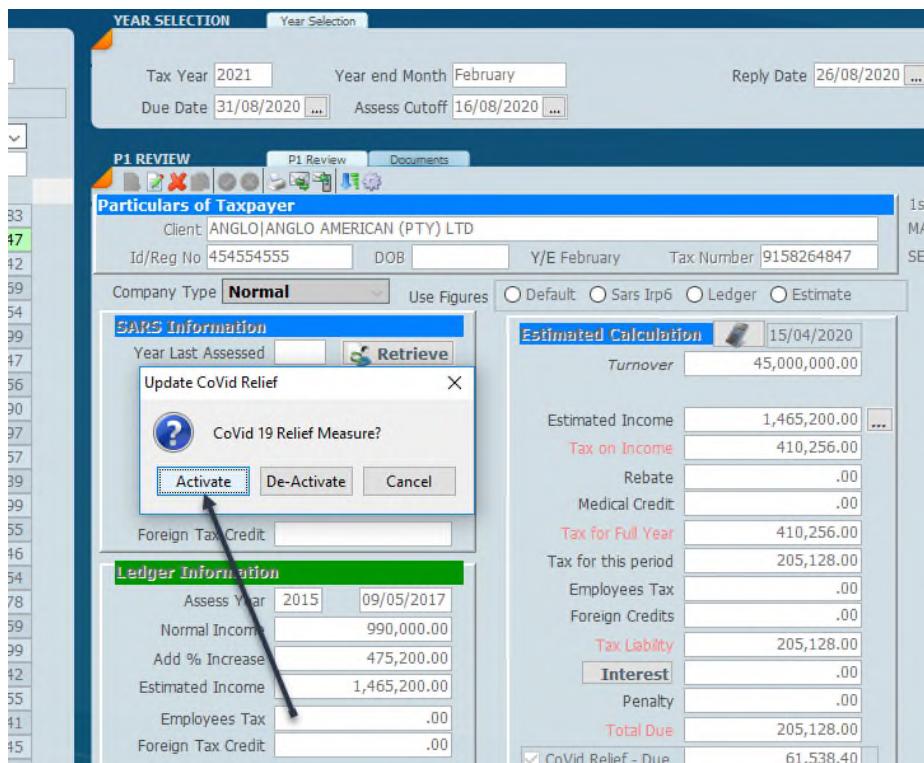
At the time of writing there appears to be a problem with the way the relief is calculated on an individual where PAYE is involved.

SETUP

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



Activate COVID-19 by clicking on the Activate COVID-19 Relief.



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. For more information on this we refer you to our technical briefing on provisional tax which will be found on the link below. 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 appropriate tick boxes.

PROVISIONAL TAX COVID-19 RELIEF RULES

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

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

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.

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. In regard to this the taxpayer if they don't pay the top on time can get more time provided they pay the interest. We will get more interest on this when we get closer to the time.

In the event that the relief is claimed and the taxpayer is not tax compliant then the normal penalties and interest will kick in, it seems that this will only be on assessment, but this remains to be seen.

SKY TAX PROVISIONAL TAX RELIEF CALCULATION P1

The provisional tax review screen is shown below.

P1 REVIEW

Particulars of Taxpayer

Client: ANGLO|ANGLO AMERICAN (PTY) LTD
Id/Reg No: 454554555
DOB: [redacted]
Y/E: February
Tax Number: 9158264847
Position: SENIOR MANAGER

SARS Information

Year Last Assessed:	[redacted]	Retrieve
Assessed Income:	[redacted]	
Normal Income:	[redacted]	
Add % Increase:	[redacted]	
Estimated Income:	[redacted]	
Employees Tax:	[redacted]	
Foreign Tax Credit:	[redacted]	

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

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
<input checked="" type="checkbox"/> CoVid Relief - Due:	61,538.40

Buttons: 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.

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 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 ON P2 FOR JUNE COMPANIES

June will be here soon! Provisional tax on P2 for June companies must be 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. When the P2 is made by the end of June then the payment only has to be 15% which will make the total tax payment 65% of the total provisional tax liability.

PROVISIONAL TAX IRP6 FACSIMILE FORM

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.

1 100%		
Estimated taxable income Turnover Estimated taxable income Tax on estimated taxable income Less: Rebates Less: Medical Credit Tax for the full year First Period: Less half of the tax payable for the full year Less: Employees' tax for this period (6 months) Less: Foreign tax credits for this period (6 months) Tax payable for this period Add: Penalty Add: Interest Total Amount Payable CoVid19 Relief Reduced Amount Payable	1,465,200.00 45,000,000.00 1,465,200.00 410,256.00 0.00 0.00 410,256.00 205,128.00 0.00 0.00 205,128.00 0.00 0.00 205,128.00 143,589.60 61,538.40	
<input checked="" type="checkbox"/>		
Signature of the provisional taxpayer or representative	Name of the provisional taxpayer or representative taxpayer	Date
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: <input type="text" value="ABSA, FNB, NEDBANK, STANDARD BANK"/>		
Payment reference number <input type="text" value="9158264847P00012021"/>		Beneficiary ID/Account number <input type="text" value="SARS-PROV"/>
<i>Income tax reference number P00 period year</i>		

MANAGING THE PROVISIONAL TAX PAYMENTS

Sky Tax has a **receipting system** in place to manage all payments to SARS. Where you know your client has paid the provisional tax simply enter it in the screen below to keep track of the outstanding balance. An example of the receipting screen is shown below for the above payment that was processed.

The screenshot shows the 'Receipt Data Entry' interface. In the 'Particulars of Taxpayer' section, the client code is ANGLO ANGLO AMERICAN (PTY) LTD, ID/Reg No is 454554555, Tax Number is 9158264847, and the entry number is 4. The receipt date is 11/08/2020, and the receipt ref is 1234567. The receipt amount is 61,538.40. The remark field notes a payment of 15% of provisional tax in terms of COVID 19 tax relief. The 'Receipt Allocation' section shows 'Prov 1st' selected. Below this, a table shows the current status of payments: Prov P1 is SUCCESS with an amount due of 205,128.00 and a receipt of 61,538.40, resulting in an amount owing of 143,589.60. There are also entries for Prov P2 and Top Up. At the bottom, a 'Receipts List' table shows the details of the recent payment: Date 11/08/2020, Entry 3, Ref 1234567, Allocation Prov 1st, Interest .00, and Receipt Amount 61,538.40.

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

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.

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

GENERATING A TOP UP PAYMENT

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 Selection Stmt Of Accc

Particulars of Taxpayer

Client: ANGLO|ANGLO ENTERPRISES (PTY) LTD
Id/Reg No: 454554555 DOB: Y/E February Tax Number: 9158264847

1st Year of Liability
MARK SILBERMAN
SENIOR MANAGER

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

PROV P2 Prov P1 Prov P2 Top Up Tax Return Payments

Company Type: Normal

Provisional Payments:

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

Tax Calculation 14/07/2020

Turnover	45,000,000.00
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 for the top up payment.

The screenshot shows two main windows side-by-side. On the left is the 'Particulars of Taxpayer' window, which includes fields for Client ID (ANGLO/ANGLO AMERICAN (PTY) LTD), Id/Reg No (454554555), DOB, and Y/E Freq. It displays a table for 'TOP UPS' with rows for 2021 (SUCCESS) and 2020 (FINALISED). Below this is the 'Provisional Payments' section, showing a table with columns for Estimated Income and Payable. It lists 1st Payment (1,465,200.00) and 2nd Payment (1,465,200.00), totaling 173,589.60. Other Payments are also listed. On the right is the 'REMITTANCE TAX ADVICE' window, which contains fields for Reference number (9158264847), Tax period (202103), Amount payable (173,589.60), and Taxpayer (ANGLO AMERICAN (PTY) LTD). It also includes sections for payment methods (Cash, Cheque, Postal order, Money order), payment locations (any SARS branch office), and payment details (Bank: ABSA, FNB, NEDBANK, STANDARD BANK; Beneficiary ID/Account number: SARS-PROV; Payment reference number: 9158264847P00032021; Income tax reference number: P00, period year: 202103). Notes and instructions are provided at the bottom.

In the event that the income is more than anticipated then a further top up is required by adding an additional top-up record by increasing the income and calculating.

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

Our system Sky Tax can request a virtually instant on demand balance of account for individuals. We are trying to get this for companies and to get the receipts for all tax types, unfortunately there is no guarantee that this will happen.