



## **THE START OF THE NEW TAX SEASON**

Don't think you are going to get through the 2022 tax season without a back office system because you are not!

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## 1. THE START OF THE NEW SEASON

We have just completed the 2021 tax year and oh boy it was tough. We said it was different but 2022 is going to be more different. This year Tax Practitioners are going to be all dealing with major shortfalls at SARS and there is going to be increased pressure like never before! The SARS Commissioner announced for 2021 the fact that there was going to be R260 billion shortfall a few months ago. It is likely to be far worse. Therefore it is very important to plan the way we are going to handle this season properly. This year we can't just do what we did in the past as it not the same. We now do have some time to plan and yes we still trying to finish last year. What exactly are we going to be doing until the 1<sup>st</sup> July when the season actually opens.

The plan that I think all tax practices need to adopt is to get their processes and procedures right, to think ahead and start early. In this set of notes I will deal with what we have to do in the short term and what we have to know now and what we have to understand.

In this document we are going to talk about the **planning process** what we have to do now and what we have to send our clients. It's also important that our taxpayer clients need to know their responsibilities and what they have to do and what information they need to provide.

It's because of what is going on and what the business and pandemic world is going through that we have to get our communication strategy right up front so that there is no mixed messaging so that all the clients know exactly where they stand and what they have to do. By having the correct communications strategy you will be making your practice risk averse.

Most important of all we have to take cognisance of where our clients are financially and how they are coping with the lockdown and the loss of business. Practices will have pressures from 2 sources and will need to mitigate this pressure:-

- SARS
- Clients who don't understand what you do.

Most important of all is how do we handle the clients cash flow when it comes to paying tax.

<https://www.acffinsoftware.com/cash-flow.html>

## 2. THE COMMUNICATION PROCESS

### 2.1 COMMUNICATING PROPERLY WITH YOUR CLIENTS

We now talk about the ***new normal!*** We at Accfin have been talking about the new normal for a long time and now Corona Virus has forced the new normal upon us.

What is the new normal;-

The way a Tax Practitioner communicates with clients from ***letters of engagement, mandates, pre-season letters*** to every day run of the mill ***letters*** and ***e-mails***. Part of this communication will include ***verbal communication, now on-line communication, e-mail communication*** with ***digital signatures*** as well as ***sms communication***.

Good communication always starts with having a proper ***mandate or engagement*** letter. Does your firm have one? My estimate of tax practitioners who do not have a mandate is 60% of all tax practitioners.

Face to face is now the old normal and just not on and more costly then on-line. I am nevertheless sure that as everything normalizes that it is not going to be the same again ever as in the past as the new things we are learning will remain.

We are all under huge pressure especially Tax Departments and therefore have a greater need to communicate with their clients. It is a lack of proper communication that is going to cause problems for the firm and create bad will. The mandate or engagement to clients must point out the responsibilities of the taxpayer to provide

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correct and timeous information. Make it their responsibility to do certain things by passing back the risk to them. There must be a clear understanding by the client of what their responsibility is and what the practitioner's responsibility is. We have reached the point where if there is missed communication the Tax Practitioner will be blamed.

The new normal is there is no postal service as it died long ago, we did not need Corona Virus to do this State Capture already did it. If you set up email properly whatever you send to a client can be sent out as an attachment securely in a PDF format and saved. Systems now also have an ability to keep the documentation for quick retrieval. With the advent of digital signatures, electronic documents, letters, tax returns etc. the way you store these documents are going to become exceedingly important.

### 2.2 HOW TO DO COMMUNICATIONS

By writing your letters and your emails properly and by even introducing an **SMS** system to remind clients of their tasks you can avert a huge area of risk for the practice. The SMS system should be used as a constant reminder to clients about their responsibilities which in the event of a dispute will become a critical part of risk aversion and defending yourself against claims.

There are some basic rules that you should adhere to in your communications. Write your letters on the basis that you are ***defending yourself*** in regard to future allegations which may be made against you by your client. Think about things that have happened to you in the past and you have had to defend yourself. E.g. your client has to pay a tax penalty and says they never knew about it and blames you. You need to make sure that you have procedures in place so that each step in the process building up to the provisional payment can be confirmed independently by having audit paper trails that you can show e.g. each step taken, letters, email and even SMS's that says "don't forget to pay your provisional tax".

Write your letters setting out all the responsibilities of the client and passing over the risk e.g. set out the consequences of not paying provisional tax on time and the penalties of paying late or if the tax return is not in on time what the consequences are. SARS has a penalty regime which they may kick into action at any point in time.

It's a fact that no taxpayer likes to pay penalties and interest and where they can they will hold you responsible. Penalties and interest are definitely a sign of the future.

It's my belief that because it's now coronavirus time that SARS will home in on taxpayers who are still there like you have never seen before. There is no better time than now to get your whole tax practice up to an excellent state from a professional and a risk averse point of view.

**At the end of this document we provide a series of links to the letters that you should be writing.**

### **2.3 ENGAGEMENT LETTERS**

The core of the practice's risk aversion strategy is the way you handle your communications. It is of absolute necessity to have a signed mandate or engagement letter. It is in fact a term of the SARS e-filing terms and conditions state that you have to have such a document on file signed by your client.

An engagement letter with the e-Filing terms and conditions should be sufficient to give the Tax Practitioner a sufficient mandate to handle all tax aspects for your clients. In fact the engagement letter that Acffin presents sets out the whole tax year and should be used as an **educational document** for your client as it explains to your client what you do for them.

In my view it is necessary to set up a **separate engagement letter** for the tax department other than an engagement letter that covers audits. I would seriously recommend this because this document has to be reviewed each year as terms and conditions, procedures and circumstances change. Look at the effect of COVID-19.

A major issue that your tax practice will have is the **delivery of communications** and notices to your client as well as to SARS and income notices from SARS. A paragraph detailing where electronic communications must be delivered is as follows and should be inserted in your letter of engagement;

The engagement letter must include the terms and conditions as specified on the SARS e-Filing web site as is detailed below.

## 2.4 MANDATE AND E-FILING TERMS AND CONDITIONS

<https://www.sarsefiling.co.za/TermsConditions.aspx>

The above link will take you to the terms and conditions.

I strongly suggest that the original bullet points contained in the original e-filing terms and conditions published by e-Filing (which have now been removed) be inserted into the mandate and engagement letter which we have done. The e-filing terms and conditions bullet points are listed below.

*Please be advised that South African Revenue Services (SARS) has now forced us to make use of their E-filing Services and we require your mandate for **MY FIRM** to register as an E-filer on your behalf. Once this is done the following additional terms and conditions in regard to E-filing shall apply:*

- ***MY FIRM** the e Filer acts as a duly authorised agent on your behalf.*
- *You will be liable to SARS for the due and timeous fulfilment of all your obligations towards SARS.*
- *Any information submitted by **MY FIRM** to SARS by means of the e Filing service will be based on information received from you and you are responsible for ensuring that such information is true and correct.*
- *Before we submit any information to SARS by means of the E-filing service we will need your confirmation that the information being submitted is a true and correct reflection of what you have provided.*

- **MY FIRM** will not be responsible for any tax liability imposed by SARS for any reason whatsoever.
- **MY FIRM** has disclosed the minimum conditions for the mandate to you;
- Where SARS changes the conditions of E-filing on their website, the effect of such changes will take three months. We will disclose any change and minimum conditions within the three-month period to you.
- You the taxpayer confirm that all liabilities, obligations and penalties due to SARS remain with you.

There is one term and condition on the e-Filing Terms and conditions which must be taken note of and understood - **additional terms of use No 5:**

If the e-Filer is a **registered tax practitioner** or a person referred to in section 240(2)(d) of the Act, the e-Filer must obtain a written mandate from the taxpayer, **which mandate must be provided to SARS** and at a minimum –

1. **detail the authority** granted to the e-Filer by the taxpayer; and
2. **contain an acknowledgement by the taxpayer** that any and all liabilities under a tax Act remains with the taxpayer.

Please do not confuse the mandate and engagement with TPPOA form which is used by tax practitioners who need the power of attorney when they visit SARS to handle a client's affairs.

### ***Tax Return processing and submission***

The issue that I am raising is this:-

“the e-Filer must obtain a written mandate from the taxpayer, **which mandate must be provided to SARS and at a minimum –** “

What is meant by “**must be provided to SARS**”. Does this mean that the Tax Practitioner's must submit (provided to) to SARS a mandate to cover everything? This wording is confusing, because if this is the case then SARS must provide a facility for this. If this is not the case then SARS should change the words. I think what SARS may be trying to say is that the Tax Practitioner should have a signed



mandate in his or her possession which passes the risk of the return back to the taxpayer before any e-Filing can be done.

It appears that this term also applies to a person mentioned in S240 (d) of the TAA.

S 240 (d) provides for someone within the firm who provides advice or completes or assists in completing a document solely—

- (i) to or in respect of the employer by whom that person is employed on a full-time basis or to or in respect of that employer and connected persons in relation to that employer; or
- (ii) under the direct supervision of a person who is registered as a tax practitioner in terms of subsection (1).

### 2.5 MANAGEMENT OF THE TAX RETURN SUBMISSION PROCESS

In this section we talk about how a Tax Practitioner should manage the whole tax return submission process cycle. It's important to manage the process so that no steps are missed which could cause risk to the Tax Practitioner. Later on, we will talk about how ***task management*** helps in this process and we will give some of the steps in the process. Task management is really just about managing each step in the process making sure that you don't miss anything.

Start thinking now about the tax process even though the season only starts in July. You have to actually start from now as everything we know has changed.

### 2.6 THE NEW STEPS IN THE PROCESS FOR TAX RETURN RETRIEVAL AND AUTO-ASSESSMENT

Before we get into the actual steps we need to understand the new procedure introduced by SARS in regard to **auto assessment** and how it's going to affect your tax practice.

***From a tax back office system – Accfin or competitor point of view.***

SARS have been working on getting **3<sup>rd</sup> parties** like banks, insurance companies and medical aids and all companies to upload their data so that tax returns are pre-populated with the data. Owing to this SARS now has sufficient data to generate an assessment automatically.

The first step in doing any tax return is the **retrieval process** where we first of all request retrieval of the tax return we wish to process via Sky Tax or any other tax back-office system or manually on e-Filing. From the 2020 season in regard to ITR12's there is a change in the retrieval process as some taxpayers who have more simple tax returns and fall within the rules SARS has set will now receive an **auto assessment**. The taxpayer either accepts or rejects the auto assessment, by rejecting the auto assessment the taxpayer has the choice of modifying the tax return and correcting it. Currently at this stage the acceptance or rejection has to take place on the e-Filing system and not in any back office system.

Its important to note that by the close of the season that SARS will automatically issue an assessment if no action is taken by the taxpayer. This will even apply to taxpayers who are on a Tax Practitioners profile.

The Tax Practitioner will be able to do the acceptance or rejection on the tax Practitioner profile. We assume later on that this whole process will be done in the tax back office system?

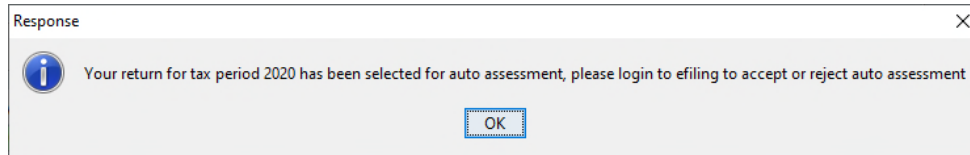
At the time of writing we are not sure who will receive an auto assessment as SARS has not indicated the exact rules on who gets an auto assessment therefore we will have to see how this goes when we start the process of retrieval of the returns.

Taxpayers will be getting SMS messages indicating that they have been chosen for auto assessment. The SMS appears to indicate the amount or refund due.

The **first step** is that you start with the **retrieval process** in Sky Tax or your back office tax system.

Once this is done by clicking on the **response button** the following **message** will appear, which will give you an indication of which way SARS is going on the tax return. If you use another system ask your vendor how you will get this notice.

As a rule the Sky Tax system will give you a response message by clicking on the response button instantly:-



Where there is an auto assessment the Tax Practitioner must log into their tax e-filing profile and retrieve the tax return. On retrieval you will be presented with a banner to **accept or edit** the auto assessment. The return will come down for editing if **edit** is selected and if **accept** is selected an assessment will be issued in the normal manner.

In the Sky Tax or back office system if the auto assessment is accepted SARS will issue an assessment which on request will come down into the back-office system in the normal manner.

In Sky Tax or another tax back-office system retrieve the return again which will come down instantly for completion.

Where there is **no auto assessment** the ITR12 return will come down into the Sky Tax or your back office system as it normally does after 24 hours.

If the auto-assessment is rejected the ITR12 return will come down into the system for completion and the Tax Practitioner may complete it in the normal way.

### **2.6.1 Important Steps in the Procedural Process**

There are a number of critical steps in the tax return planning and procedural process that must be adhered to in preparation of the 2020 season.

The most important steps are:-

- **Mandate letter**
- **Pre-season letter**
- **Approval of tax return before filing**

Ensuring that you have an updated **mandate letter** or **engagement letter** on file is critical to being risk averse in your tax practice and probably the most important step that you carry out before submitting a tax return. The mandate letter is mandatory in terms of the e-filing terms and conditions.

<https://accfinsoftware.lpages.co/accfin-sky-tax-mandate/>

It's also imperative that you write to your clients a **pre-season letter** before you start the process so that your clients understand their responsibilities.

It is important to ensure that the client **approves the tax return** and that you have a signed mandate and disclaimer before you file.

There is a further step that comes to light from the 2020 season being that you need to have approval to **accept or reject an auto assessment** on behalf of your client. It will be standard that if there is any deduction or claim to be made against income that the auto assessment must be rejected.

There should be documented steps in the process that at least deals with the following even if you are a very small practice.

**\* Check that the mandate is signed and up to date**

If you **don't** have a signed mandate in your possession do not submit the tax return as SARS could hold you responsible for anything that SARS finds wrong with the tax return. It's imperative that you pass the risk back to the taxpayer.

**\* Taxpayer to approve the return or the auto assessment.**

Another important step would be to get the taxpayer to sign the return or facsimile or report as acceptance that they agree with the figures that are being submitted to SARS. It's all about risk and it's imperative to make sure that you pass the risk back to the taxpayer.

Each firm should devise a step-by-step procedure or check list whereby each function can be ticked off as completed. The tasking system will take care of all the steps in the process ensuring that your firm becomes risk averse.

**Sky Tax** allows you to manage each step in the process!

If you are manual keep a spreadsheet and keep all the steps that you have followed as proof as to exactly what you have done.

In a back-office tax calculation system one can set up a system to ensure that all the steps are carried out before electronic submission is allowed. An example is that if say the client has not approved the tax return it can't be submitted by mistake.

It is clear that before a Tax Practitioner can submit any document on the e-filing website namely a provisional tax return or an income tax return it is imperative that he gets the clients approval before the document flows through to SARS. In other words, the client must indicate that they have agreed with the return prepared by the Tax Practitioner and the practitioner should have evidence to this effect.

This has to do with money and especially in regard to provisional tax and could result in penalties if there is any mis-communication. When this goes wrong see how long the client remains your client? Big clients are easily lost when something goes wrong in their tax.

It is also no good to have an email for the approval from the client unless you can file it and access it if you really need to. It is certainly not a good idea to accept a verbal ok for both provisional tax and for tax returns as the client could easily deny this when something goes wrong.

For convenience there should be a disclaimer for every tax return that the taxpayer must sign.

***This tax return is prepared by My Firm based on information received from you. You confirm that you have signed the letter of mandate and you indicate your agreement with the net income as shown in this documentation and confirm that the figures are supported by the information and supporting records that you have supplied to us by signing this page. You confirm that all liabilities to SARS remain your liabilities. You also confirm that we can go ahead with the filing of your income tax return. On signature of this page we confirm that we will proceed with the electronic submission of your tax return.***

Before the Tax Practitioner submits the return electronically the client must sign the printed report which is retained in the taxpayers file. Digital signatures would help tremendously with this task and make the whole process electronic.

Running or managing the various processes in a tax department is extremely difficult owing to the stop start nature of the tax return process and the large number of people involved in the process. Owing to the short season 2020 is going to be more difficult than ever before. The more taxpayers you have the more control over the management control you need . We at Accfin have developed a technology which we call ***task management*** which is integrated into all aspects of our software. Tasks help manage the process or the steps of each function in building up a tax return using the cradle to the grave approach.

By making use of task management systems a user or the manager of a tax department can define the steps in the process that they wish to manage. The steps could be simple, perhaps a three-step process or they could be more complex perhaps a ten-step process. Later in this section we define some of the tasks that you would need to consider.

A **Task** can be either electronic or manual or can be part of a CRM system. It is just that if these tasks are manual they would be much harder to control. With the electronic approach used in Sky Tax solution you will easily be able to see exactly what tasks are outstanding at any point in time by running our specialised filters.

### 2.6.2 Some Risk Control Aspects

There are numerous articles and papers on risk control. Tax departments now have to take extra care as they cannot afford mistakes which could result in claims against them either by the client or by SARS or mistakes that can affect their reputation.

Completing tax returns can be likened to doing audits. There are rules and procedures that have to be followed in order for the auditor to get to an opinion that he can sign off on the financials. The same applies to tax returns. There are rules and procedures that must be followed that will allow a practitioner to sign off on a tax return and be satisfied that all the rules and procedures have taken place and that *his or her good name is protected*.

Filing a tax return is like signing a balance sheet and could be more risky. Section 234 of the tax administration act now makes any error or any rule as specified not attended to by the taxpayer a criminal action with a fine or jail term of up to 2 years. The provision specifically talks about a negligent action being a criminal event. A Tax Practitioner does not want to find themselves in this position where they neglected to attend to some aspect on behalf of their client and the client get charged.

### 2.6.3 Tasks That You Should Set Up

Detailed below is a list of suggested procedures or tasks that could be followed in a tax department in order to satisfy risk control and put good management controls in place.

- ✓ Check the **tax status** of the previous year's return.
- ✓ Check to see if there were any **queries** that you need to be aware of
- ✓ Set up a procedure to get the **demographics** correct
- ✓ **Mandate – Make sure** you have an up to date signed mandate.

- ✓ **Pre-season letter – advise client** of deadlines and responsibilities.
- ✓ **Check for the auto-assessment**
- ✓ **Data collection process – make sure** you get all the data to complete the tax return before you start processing the tax return. This will include financial statements and interest and dividend certificates. Make sure you obtain all the necessary information for the statement of assets if required. **It is not good enough to accept that the SARS uploaded is correct.**
- ✓ **Input IRP5** – make sure that you have all the IRP5 forms and that they are correct – pay particular question to the medical aid figures.
- ✓ **Provisional tax** Make sure you confirm the actual payments otherwise the amount due could be wrong
- ✓ **Preparation of schedules in process** – complete all the schedules that you need for supporting figures in the tax return.
- ✓ **Inputting the data into a Tax Calculator** – capture the data making sure that that you select the correct source codes.
- ✓ **Checking the tax calculation** – check the calculation making sure that the figures tie up with your schedules and input documents.
- ✓ **Submit the tax return to a manager for vetting** – manager to review the tax return making sure that it is correct.
- ✓ **Client to sign documents** – arrange for client to sign the return or to sign digitally – make sure that the client understands the full implications of what he is signing.
- ✓ **Submit to E-filing** –submit the data from the back office system to e Filing or manually from e-filing.
- ✓ **Check the assessment** – make sure the assessment is correct.
- ✓ **Finalisation letter** – make sure that a finalisation letter is received from SARS.
- ✓ **Objections** – if an objection is required make sure that it's handled timeously.



**2.6.4 Time lost can never be recovered!**

The approach that is used in tax return production is different to provisional tax returns because tax returns is more of a build-up of the return which if we take all the steps in the process can be by multiple people i.e. review, signoff and submission and can be over a longer period of time.

<b>E Filing Website</b>	<b>Back Office System</b>
Analytics. SARS runs analytics and can tell exactly what you do including if you play “what if” on the travelling allowance. They may as well have a camera in your office.	No Analytics. The first time SARS sees anything from a taxpayer is when the return is filed. Play “what if” without consequences.
On average a high net worth taxpayer will be loaded 5-7 times on the e-Filing website system before the return is Filed. This takes time and there is no control over the process other than manual controls.	The first time SARS sees the tax return is when it’s filed via the Back Office system. There is a huge advantage in building up a return on an external system independent of the website as there is total control of every aspect.
There is difficulty in accessing the tax return in a high volume database as you have to log in each time and there are a number of key strokes to find the tax return. You cannot leave the return open as the system will take you out automatically forcing you to log in again.	Access a tax return instantly irrespective of the size of the database and leave it open indefinitely.
There is no facility to automate the moving of the tax return around the office on the SARS e Filing website. One has to advise others by email or verbally or by printing it out for completion and review taking time.	In building up a tax return the system allows the moving of the tax return around the office automatically through the various stages of preparation, signing and review.
It is difficult for multiple people to work on and review one return.	Multiple people can work on and review the return easily.
There are glitches in saving returns where changes made to a return are often lost.	No saving of a tax return when building up a return as it’s automatically saved on the system. Provided the correct procedure is carried out there will be no loss.
One can’t complete the return unless all the fields are completed resulting in the stepping through of many fields.	One only needs to complete the parts that have to be completed and the rest can be ignored.

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Sending the form to a client can prove difficult with all the different browsers and different versions of Adobe.	Not applicable as a report pack can be produced and sent to the client.
One cannot print the form until all the fields are completed.	A report pack can be produced at any time during the building stage.
Running on the SARs e Filing website is a duplication to your own in house systems and files. Returns have to be printed and entered into the filing system.	There is no duplication as all the data is processed internally and then communicated to SARS.

By making use of the Accfin methodology in filing a tax return the practice will save at least 45 minutes per taxpayer per year which can result in substantial savings.