PRACTICAL ASPECTS IN RUNNING A COMPLIANCE TAX DEPARTMENT

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This document will be of benefit to all Tax Practitioners

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1 INTRODUCTION

1.1 NOTE FROM THE AUTHOR

I have been in the software business for more than 30 years supplying systems to accountants. I said this a year ago and I say it again “Never in my experience have I gone through so much hectic change as in the last few years – more so now than ever before. Such a period of change causes frustration with each new process, rules and new regulations are introduced virtually on a daily basis. Last year we had Covid-19 with huge change and many things that went wrong and the understanding of the new laws!

Everything about what we know in terms of processes and procedures in a practitioner’s tax office is now out of the window, we have moved into a whole new era of digitisation or have we. Clearly those firms who embrace the changes will reduce their costs, reduce their risks and offer their clients a better service.

One of the things about being in a software business for the last thirty years is that we have had a wonderful opportunity to automate practices as the changes have been taking place. As each year goes by we see the additional requirements in a tax practice and the pressure that SARS is placing on tax practitioners. We at Accfin have looked at the way tax practitioners work and come up with a range of wonderful features that will allow the practice to automate as much as possible and save huge amounts of labour. Have a look at the differences in running a manual system in the table provided in these notes as opposed to a back-office system. See how much time you will save.

On my rounds I hear the complaints about the extra work all the tax practitioners have to do and the pressures that have been placed on them to meet deadlines. I also hear of how hard it is to get an objection or error resolved. There is nothing much we can do about the physical interaction that takes place so we at Accfin concentrate as much as possible on the automating routines that take place and we have been pretty successful in e Filing, tax returns, downloading assessments and other bulk processes. All these routines go a long way to saving a huge amount of time which saves costs.

In interacting with many tax practices, it is clear that in many tax practices they are not receiving the attention that they should from their own management. It appears that everything else comes first. This is an attitude that is going to have to change as SARS exerts more and more pressure on practices. By now you have heard about the proposed legislation for criminal intent for non-compliance in section 234 of the It does not get worse than this!

We have all heard the words disruptive technologies. The whole system of revenue collection is going through a major technology shift. When the SARS system was originally devised it was never designed for running the systems of an accountant's tax office. Why should it. And of course, do tax practitioners actually want SARS to have an inside view of their tax practice. The answer of course is no, it's really up to the tax practitioner to design their own system's. Making use of e Filing gives SARS a view of what's going on in our practice. At this point in time we are all going through a major technology shift. Even SARS cannot change their systems fast enough to keep up with the changes in legislation as we have seen with the current provisional tax changes and auto assessment SMS's sent out by SARS.

Therefore, this document is an attempt to take all known information around tax practice management and distil it into one reference source, mix and match with what is realistically happening but with the emphasis on **Risk Aversion**. Now with the advent of "criminal intent" a "how to document", I do realise that systems and procedures are going to change dramatically as we continue through this process and I will endeavour to keep it up to date with the latest information.

Although we criticise and perhaps sometimes harshly, we criticise in a spirit that will invite interaction and help make the whole system better for all concerned. There is no question in the fact that I have embraced all these changes and the criticism I make should be taken constructively.

Mark Silberman March 2022

1.2 INTRODUCTION

This document has been prepared as a guide to help Tax Practitioner's deal with the e Filing and electronic **tax return processes, *provisional tax processes*** and now VAT return processes and how to run their tax practices ***more efficiently***, ***cost effectively*** and most importantly ***reduce risks***. Never before has there being any document that deals with tax compliance issues for a tax practice like this.

Tax practices over the last few years have been battered by the number of new requirements instituted by SARS, with Covid making it far worse. With the advent of electronic filing in regard to provisional tax and individuals, companies and trust tax returns as well as other automated functionality which is available like the download of assessments there is now the need more than ever for Tax Practitioners to become more organized so that they are more automated which will make them more profitable while also becoming more risk adverse.

We all know that the risks in tax practices are high because of all the new compliance rules and the fact that SARS is far more aggressive in its search for tax money, making it more and more difficult to be risk free, as a simple error can land the taxpayer in a lot of trouble. This document will deal with many of the issues of risk, making Tax Practitioners aware of all the legal pitfalls. Now of course for the first time all tax practices are beginning to understand the meaning of a SARS deadline and they know for sure that there are no longer any extensions on deadlines.

This guide is not a tax law reference but is designed to show best practices of compliance and mechanisms reducing all associated risks in running a tax practice. This document will deal with various laws around compliance issues.

1.3 BACKGROUND TO TAX MANAGEMENT SYSTEMS

It's hard to believe that in today's age that some tax practices are not fully computerised or they do have a Tax Management system and it is used as a simple listing system, but not to the full extent. There are still many firms like this, perhaps some even use stand-alone tax calculators, and however there is no question that they are not competitive. There are also some practices that use systems as a bare bones system and do not get much benefit out of their systems. The problem is accounting firms concentrate on audits, accounting and consulting and do not give the tax back office much attention. SARS has changed this because especially in medium size firms downwards all tax practices are what I call ***tax-centric.***

The back-office systems of today are sophisticated and require much more than a decent effort to setup in order to get the best out of them. A well run system generally has a system champion (somebody who makes the system hum) and it normally shows.

I was very fortunate in that I designed the first tax management system in South Africa which launched in 1984. Since then tax management has come a long way. Over the years there have been a number of successful tax management systems which have been used by tax practices to manage their tax departments. The kind of things that tax management systems do is to track and control all functions in a tax department, to do various processing tasks like the calculation of provisional tax, the production of provisional tax forms and various communication aspects, like sending the client a letter or an e-mail or sms to remind the client about a certain payment, or to send the client a reminder by sms not to forget to pay provisional tax or to ask the client to come in and sign the tax return. Essentially a tax management system is a ***management, a control and a client communication system*** all in one to make sure that all tax events in the taxpayer's tax year are taken care of and the clients are advised accordingly.

With the advent of e Filing and tax preparation systems being connected to e-Filing, tax systems become even more important in the accounting firm. These systems can now communicate with SARS electronically and they can now submit forms like provisional tax and tax returns and actually receive receipts for them as well as download assessments and balance of account correspondence from SARS.

The strength of any tax management system must be to ensure that by certain dates various tasks in the tax year are handled effectively and efficiently. The late rendition of a tax return or a provisional tax form will result in taxpayers being penalized which in some instances can be substantial and will result in claims against the practice. For example if a client pays his provisional tax payment of R200 000.00 only one day late the penalty is 10 per cent being R20 000.00 and if this is in regard to the 2nd provisional payment the penalty can be more sizable than the 10% because of the new understatement penalties. If there is an error by the tax practice in regard to any tax matter, the client may very well hold the practice responsible for penalties and interest. For taxpayers there is only one thing worse than paying tax and that is paying penalties and interest because the payment was late or calculated incorrectly. In today's times most damage claims against accounting firms are for provisional tax "botch ups". This is why by running a good electronic system claims for errors will decrease. SARS has published an interpretation note for provisional tax, discussed later in this document which will give an idea of how serious they are about provisional tax and of course the penalties.

Despite the fact that SARS is looking to force all Tax Practitioners (note the new registration procedures) into interacting with them on an electronic basis they have now implemented a system of administrative penalties (and now criminal intent) whereby if you do not advise them of a taxpayer's address there are penalties that are prescribed and would now have criminal intent. We will deal with this later when we discuss risks.

Increased volumes of work that tax practices now have to handle make electronic systems essential. Even small practices with a few hundred clients have bulk processes that they need to control and manage and this is why most successful tax practices cannot operate today without having a management system in place. It is only recently that companies like Accfin have also put together an integrated tax preparation system that will improve the effectiveness of the practice.

Over the years I have visited many firms and there is one thing for sure, it is that the tax office of most firms across the board have been neglected as it has always been more important to get the audit work done or do the consulting and earn the fees. When I visit tax practices I always ask the same questions;

1. How many taxpayers have you got? – Answer "*No Idea*"
2. How many tax returns have you got to do before your deadline or extension date? - Answer "*No Idea".*
3. How many objections and how many queries do you have to process.
4. Do you even know how many notices you have missed.

Another sure thing is that the more taxpayers a Tax Practice has the further behind they are. It seems to me that the smaller Tax Practices are doing much better meeting their deadlines.

The view that this is the way we have been doing it for years and SARS has always given us more time has to change. It is because of this ***tax-centric*** approach that Tax Practices now have to put a whole lot of new effort into tax preparation. We now know for sure that deadlines from SARS will never be extended again.

Above all, a good tax management system today is how the system helps ***manage and reduce the risk in your practice*** reducing the time taken on the various mundane standard tasks. You should at least have the following implemented:

- Planning tasks – planning the whole tax year – Covid and delays have now messed everything up
- Managing the tasks – making sure that the clients and the staff meet their deadlines
- Lists of outstanding obligations monthly and weekly
- Provisional tax review reports early and on time well before due date
- 3rd or top up payment procedures to ensure interest is minimised
- Communication with clients to tell the client their obligations and give them instructions what they need to do like mandate letters and confirmations letters
- Risk aversion procedures – protect your firm from having penalties by passing the risk back to the client

- Back-office that interacts with the SARS e-Filing system

In today's times running a tax practice is more risky then some years ago. One of the ways of reducing risk is to use the tax management system as a means of communicating with the taxpayer client's i.e.

- Tell your clients what they have to do well before the time.
- Explain to clients the risks involved
- Tell your clients what you are going to do.
- Tell them that you have done it.
- Tell them what is going to happen in the future.

1.4 MEANING OF TAX-CENTRIC

Tax-centric is a word I have coined and I base it on the story of some years ago when IBM coined the word NET-CENTRIC. They said that everything in the IT environment was going to revolve around the computer network. Is this not true! Today everything we do revolves around the internet and the cloud.

So what do I mean by Tax- centric? Everything as far as a Tax Practitioner's client is concerned revolves around income tax. Every client of an accounting practice wants to know that his or her tax affairs are in order. Now there are many different kinds of accounting practices in South Africa. Most of them in the medium sized small environment are without doubt Tax-Centric and this means that they have a dedicated tax compliance department whose sole function is to prepare, produce and submit tax returns. The revenue generated by the tax department in these firms is not the main source of revenue of the practice. Perhaps the auditing and accounting divisions or the consulting division of the practice generates far more revenue. However, to the client their tax affairs are the most important thing, for them personally, and for all their business interests. This is what I call Tax-centric.

It could be that the firm handles an auditing assignment with a group of companies that might generate a revenue of say R500,000 from auditing and consulting fees and they do all the tax returns of the directors and the companies involved and this might only generate a revenue of say R20,000. Should the firm slip up on the Managing Director's tax return and he is penalized and has to pay interest, that group as a revenue source is suddenly at risk. Despite the fact that most of the revenue is not produced by the tax compliance department, tax compliance is uppermost in the minds of the accountant’s clients because SARS has got a very active profile in the marketplace.

Compliance Standards and filing of Tax Returns on time in South Africa is improving dramatically – **pre Covid**. Soon this is going to be the norm rather than the exception. We are moving into a world where there will no longer be extensions or not doing something on due date. The good old days are over! It is because of this that many practices have to build a Tax-centric approach into their whole practice.

This guide is an attempt to help Tax Practitioners become more compliant and improve their efficiency and actually make some money out of a tax department while reducing their Risk.

1.5 TAX PRACTICE RISKS

There are many risks associated with running a tax practice, in fact everything you do in a practice is prone to some kind of error or risk, and very often not of your making. Listed below are some of the things that could go wrong and cause a problem in terms of financial and reputational risk as well as being instrumental in losing a client’s total revenue from all sources: -

1. A major tax revolt taking place owing to state capture and mismanagement of economy places the TP in the middle.
2. Having **No Mandate** (a mandate is required by SARS terms and conditions) where the risk is not passed down to the taxpayer may make the Tax Practitioner personally liable for anything wrong on a tax return and open him or her up to being reported to their controlling body.
3. On a tax return submission where a disclaimer and approval of the return by the taxpayer are ignored and the risk of the tax return is not passed back to the taxpayer.
4. Inferior correspondence to clients which does not pass the risk back to the taxpayer for each action, i.e. provisional tax and tax returns.

5. Late payment or no payment at all of provisional tax by the taxpayer. This will occur where there is no follow up or having proper systems in place.
6. Income left out of a tax return negligently or fraudulently can cause the practitioner to be asked tough questions by SARS – now criminal intent legislation is here.
7. Filing returns without provable confirmation from the client. Verbal confirmation is highly risky.
8. No statement of assets filed where this is necessary can render the tax return open forever as it will not prescribe, as this may be seen as a material non-disclosure by SARS.
9. No test of living expenses.
10. The taxpayer or practitioner does not get a SARS notification by way of email or SMS and therefore makes no response resulting in a punitive revised assessment.
11. Leaving payments for the last day is highly risky in the event that something goes wrong.
12. The risk elements of Provisional Tax are horrendous and unless you have a system that gives you all the ins and outs you are doomed to make a mistake.
13. Not knowing that your tax client is not tax compliant.
14. The advent of administration penalties.

2. COMMUNICATING PROPERLY WITH YOUR CLIENTS

2.1 Introduction

Throughout this document we are going to talk about the risks associated with various aspects of tax compliance and tax preparation. One of the key areas that need urgent attention is the way a Tax Practitioner communicates with clients from ***letters of engagement***, ***mandates*** to every day run of the mill ***letters*** and ***e-mails***. Part of this communication will include ***verbal communication***, ***e-mail communication*** as well as ***sms communication***. Good communication always starts with having a ***proper mandate*** or engagement letter in place. We will deal with this later on in this guide.

In today's times meeting with clients can be hugely costly. In big cities think of traffic and the time it takes to get to a client or for the client to get to your office. Then consider crime and protests and the effect it has on travelling and now of course ***work from home***. There is more than a good reason to start having electronic meetings with your clients in order to finalise tax returns. Systems like ***Zoom, Skype*** or ***Gotomeeting*** come into their own for this kind of meeting. I have seen practitioners embrace this practice very successfully.

Tax departments today have a greater need to communicate with their clients more so than ever before. It is a lack of proper communication that is going to cause problems for the firm. All documentation to clients must point out the responsibilities of the taxpayer to provide 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 there is missed communication the Tax Practitioner will be blamed.

We have also reached the stage where the postal service is a dead service so if a Tax Practitioner is not emailing how are they notifying their clients. The only way to go about doing this is by making all your communications e-mail based. If you set this up properly, whatever you send to a client can be sent out as an attachment in a PDF format and save the documentation on your hard drive. 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 Communications

By writing your letters and your emails properly and by even introducing a **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. 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. 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. Now more than ever this is critically important as SARS has introduced its new penalty regime system. Monthly penalties may be generated automatically.

It's a fact that no taxpayer likes to pay penalties and interest and where they can they will hold you responsible.

Detailed below we point out some paragraphs that must be inserted into your letters and emails.

A must in every provisional tax letter;

IN A P1 LETTER

"Your attention is drawn to the fact that should the payment not reach the South African Revenue Services (SARS) on or before 31 August 2016 a penalty of 10% and interest of 15% per annum will be charged on the late payment of provisional tax. The interest and penalty may not be deducted for tax purposes".

IN A P2 LETTER

"Your attention is drawn to the fact that should the payment not reach the South African Revenue Services (SARS) on or before 28 February 2016 a penalty of 10% will be applied and or SARS will consider that your estimated income for the 2nd provisional tax payment is deemed to be zero and will apply the underestimation penalties which could be quite substantial. Interest of 15% per annum will also be charged on the late payment of provisional tax. The interest and penalty may not be deducted for tax purposes".

Explain to your client where and how to pay the tax. Make sure that when you send a payment advice the correct payment reference is properly displayed. Also make sure that the client is aware of SARS payment rules. The client may pay too late i.e. outside the rules or may pay against the wrong reference number and the payment will not be accepted or allocated incorrectly.

"Direct transfers can also be made into the bank account of SARS. The banking details are provided at the bottom of the IRP6 return attached to this email. Please note that the IRP6 return will be submitted to SARS by us on your behalf once you have confirmed the figures. After you have made the payment please advise us that the payment has been made.

Where you use an Estimate lower than the basic amount it is imperative that you point out the consequences to the taxpayer of an under estimation.

"As discussed with you an estimate lower than the Basic Amount was used in order to calculate this provisional tax payment. We have indicated reasons for the lower estimate on our system in the event that SARS queries this lower amount. Paragraph 19(3) of the Fourth Schedule permits the Commissioner to increase any provisional

tax estimate to an amount that he considers reasonable based on information that SARS has in their possession. This only happens after SARS has asked for a justification of the estimate and the estimate is not to SARS's satisfaction. This direction may be used whenever enough information is available to substantiate the increase. Should you be aware of any reason why the last taxable income should not be used as the basic amount, please contact us."

Where you use the last assessed figure of the basic amount…

We have based the calculation on the taxable income per the last year assessed of RXXXXX. In terms of current legislation, the assessed income has been reduced by any taxable capital gains or lump sums or severance benefit payments, and where relevant, the basic amount is increased by 8% per annum for each year behind for the purposes of the estimate.

Paragraph 19(3) of the Fourth Schedule permits the Commissioner to increase any provisional tax estimate to an amount that he considers reasonable based on information that SARS has in their possession. This only happens after SARS has asked for a justification of the estimate and the estimate is not to SARS's satisfaction. This direction may be used whenever enough information is available to substantiate the increase. Should you be aware of any reason why the last taxable income should not be used as the basic amount, please contact us.

Give the taxpayer specific instructions;

"If you are in agreement with the IRP6 and the amount reflected therein, please indicate by return email and make sure you do the transfer to SARS before the 25th February 2015.

P1 AND P2 LETTER

It is imperative that if you have earned a capital gain during the current year that you declare it for provisional tax purposes in order to avoid an understatement penalty.

In the event that you do not advise us of a capital gain that should be included in provisional tax an understatement penalty will be levied by SARS.

REFUND

It has now come to light the fact that in regard to refunds that SARS does not send out any notification that a refund has been processed. This leaves the Tax Practitioner's records unfinished. I would recommend that we build into our assessment letters where there is a refund something to the effect that when the client receives their refund, that they should please notify the Tax Practitioner so that this can be processed against the taxpayer records in their systems.

LETTER FOR P2 OVER A MILLION RAND

Dear Client

We attach your IRP6 provisional tax return. We have completed the calculation based on the information supplied by you which we have used to calculate your provisional tax payment for the P2 2017 payment. We require your confirmation of the calculation by you signing the return and faxing or e-mailing it back to us. The calculation is based on Income of R9999999 and requires that you pay R999999. If you are in agreement with this please make sure your return is properly signed and the form is returned to us and that your payment is made to SARS by dd/mm/yyyy 10 days before the submission date

As you may be aware where the taxable income is estimated to be more than R1 million the taxpayer may no longer base their second provisional tax payments on the basic amount (last assessed taxable income), but must use an estimate which must be within 80% of what is finally submitted on your tax return and assessed by SARS.

If the difference is more than 20% a penalty of up to 20% of the underpayment may be charged by SARS. SARS will not consider waiving such penalty if it is satisfied

that the amount of the estimated taxable income was not seriously calculated with regard to the factors having a bearing on the estimate; or deliberately or negligently understated.

In addition, in terms of Paragraph 19(3) of the Fourth Schedule, SARS may increase any provisional tax estimate to an amount that he considers reasonable. This only happens after SARS has asked for a justification of the estimate and the estimate is not to SARS's satisfaction. This increase in estimate may be used whenever enough information in SARS's possession is available to substantiate the increase.

Please note that if you derive taxable income this year of assessment and you fail to submit the enclosed IRP6 return, SARS can levy a penalty equal to 20% of the difference between the actual tax paid for the year of assessment and any provisional tax paid for the year.

Your attention is drawn to the fact that should the payment not reach the South African Revenue Services (SARS) on or before 28 February 2017 a penalty of 10% will be applied and or SARS will consider that your estimated income for the 2nd provisional tax payment is deemed to be zero and will apply the underestimation penalties which could be quite substantial. Interest of 15% per annum will also be charged on the late payment of provisional tax. The interest and penalty may not be deducted for tax purposes.

Further information about provisional tax, related interest, penalties, estimates and payments is available on request from our tax department. You are urged to communicate with us if you have any issues.

Yours faithfully

ITR14

Where a Tax Practitioner processes an ITR14 tax return you should insert something like this. It's imperative that you enlighten your clients about the extra work that this involves as well as the additional costs involved.

We would like to advise you that as part of SARS risk control mechanism there is a possibility that they will request that we provide them with an additional return called an ITR14SD supplementary declaration. This form will involve the following:

- ***a VAT reconciliation,***
- ***PAYE Reconciliation and***
- ***a Customs and Excise reconciliation.***

It is therefore imperative that before we submit your ITR14 that all the necessary abovementioned reconciliations be completed by your firm. If you have difficulty with this the onus is on you to liaise with our staff so that we can deal with any issues you may have. It is absolutely imperative that all the reconciliations be done before we e-file as differences found after the filing of the ITR14 tax return will lead to difficult explanations being offered to SARS and may result in penalties.

ASSESSMENT LETTERS

In writing an assessment received letter to clients the wording must be considered very carefully. We could so easily provide the following:-

We are in receipt of your assessment which we have attached for your records. We have checked the assessment which is correct and in agreement with our records. Please ensure that you pay R9999 by 99/99/99 in order to avoid any penalties.

or

The assessment correctly reflects a refund due of R9999 due to you. SARS will pay this directly into your bank account. Please notify us when you receive the refund so that we can complete our records.

The paragraphs above appear to be the standard letters that Practitioners write to their clients on assessment. It is my view that the above is just not good enough simply because the fact that SARS issues an assessment does not make the tax return final. In many instances SARS issues a letter or notice for additional information required which in fact does not make the return final. The return only becomes final when SARS indicates that it is final. One should also make the client aware of the prescription periods of a tax return. It would be a good idea to insert this into the mandate or the engagement letter.

One should add the following to a letter on assessment of the taxpayer.

Please be advised that the issuing of an assessment by SARS does not necessarily mean the tax return for the year in question has being finalized by SARS. Even though it is not finalized you are still obliged to pay the amount due mentioned above.

Or

The refund due to you will not be paid until we have satisfied the requirements that SARS has notified us in the letter that we have received. SARS has asked us to provide them with the following additional information as follows:-

IRP5 certificates and medical aid and retirement annuity documentation.

We will communicate with you once SARS has finalized your tax return shortly.

Letter examples

2.3 Digital Signatures

DIGITAL SIGNATURE PLATFORM

Introduction

I have mentioned the word disruptive technologies. We are now in an age where there is no time to carry out all our tasks. The more labour-saving technology that we can use the better it's going to be. South African law embraces digital signatures. This therefore must become the standard to help improve our efficiency.

The Problem

An imperative aspect of any tax department is the ***tracking*** and the ***control*** of provisional tax and tax return forms once they have been emailed to the taxpayer. The bigger the practice the worse it becomes. The Tax Practitioner must have a positive confirmation before they file anything. The Tax Practitioner easily loses control of emails forcing manual follow up each email sent out. This task is time consuming and is prone to error causing risk exposure! Imagine if a system can do this electronically and the follow up is automatic!

The Solution

The solution is automation of the ***confirmation*** or ***denial*** (together with a reason) by the taxpayer client of their **IRP6 document** or **Tax Return**. The solution is available right now.

The How

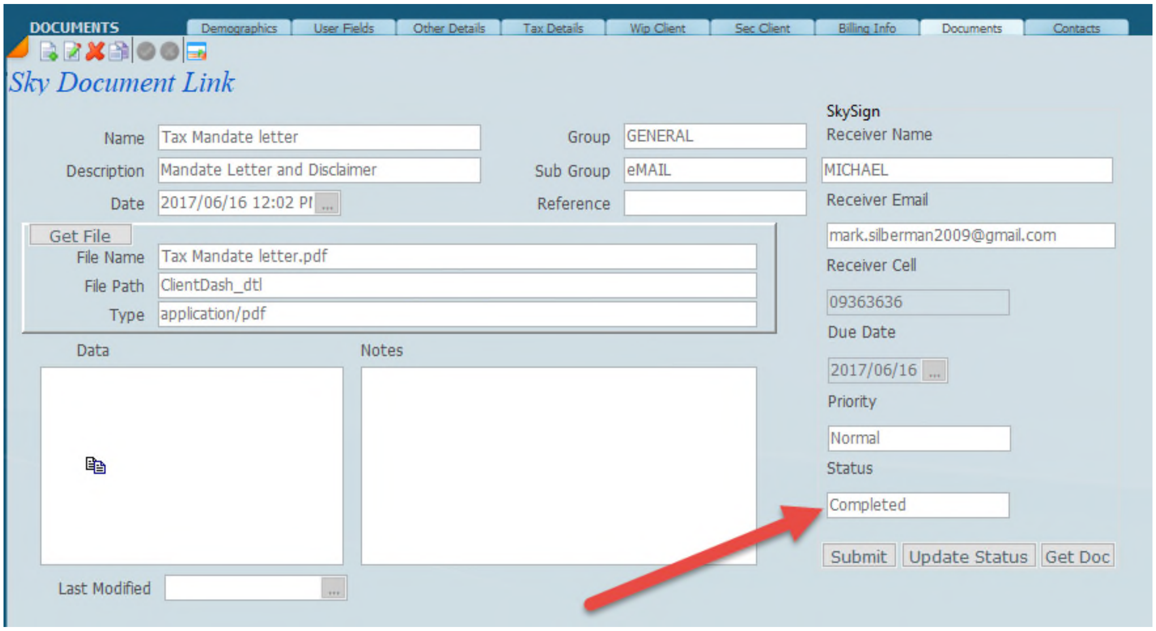
Accfin Software have partnered with the leader in digital signatures in RSA to produce an automated approach to solve the above problem. We see the integration of Sky and a digital signature or confirmation system as a very important aspect in improving the efficiency of a tax practitioner's office, reducing labour costs and risk of errors substantially.

Typically, what happens is that the tax application sends out an email generally with a letter explaining the provisional tax payment to be made as well as a facsimile of an IRP6 form, or a tax pack in respect of a tax return. The email sent out will have the necessary links that direct the taxpayer to the **Sky Sign Cloud**. Log in credentials will be required to get into the ***secure Sky Cloud Server***. The taxpayer will **confirm** or ***deny*** the contents of the form indicating reasons for the denial.

When the taxpayer ***confirms*** or ***rejects*** the IRP6 or tax return by indicating the selection in the ***Sky Sign Cloud*** this will automatically notify ***Sky Tax*** of acceptance or rejection. I.e. there is no human interaction in this process from the Tax Practitioners side. From this point on reports can be produced to deal with those non-responsive taxpayers saving a huge amount of labour and reducing risks.

A further risk reduction technique is that clients can indicate if they have paid the provisional tax when they have done so thus further reducing risk.

The digital signature system works on the same basis as the SARS e Filing system by connecting to the ***Sky Sign Cloud*** and will be transparent to the user interacting with the **Sky Sign Cloud**.


DOCUMENTS
Demographics
User Fields
Other Details
Tax Details
Wip Client
Sec Client
Billing Info
Documents
Contacts
Sky Document Link
Name
Tax Mandate letter
Description
Mandate Letter and Disclaimer
Date
2017/06/16 12:02 PI
Group
GENERAL
Sub Group
eMAIL
Reference
SkySign
Receiver Name
MICHAEL
Receiver Email
mark.silberman2009@gmail.com
Receiver Cell
09363636
Due Date
2017/06/16
Priority
Normal
Status
Completed
Get File
File Name
Tax Mandate letter.pdf
File Path
ClientDash_dtl
Type
application/pdf
Data
Notes
Last Modified
Submit
Update Status
Get Doc

ACCFIN
SOFTWARE THAT WORKS THE WAY YOU THINK

16 June 2017

ANGLO AMERICAN (PTY) LTD
P O BOX 787878
RAEDENE
2124

HARRY CASUAL
HARRY CASUAL
16-06-2017 16:06:55 (UTC+02:00)
Signed by HARRY CASUAL, mark.silberman2009@

Dear MICHAEL

MANDATE FOR TAXATION SERVICES FOR ANGLO AMERICAN (PTY) LTD

We are pleased to confirm the arrangement for ACCFIN Sky to provide your taxation services.

You have requested us to assist you in the preparation and submission to the South African Revenue Services (SARS) of all your income tax returns, to submit the returns according to the time specifications that SARS have stipulated, and to review related tax assessments for correctness. You have also requested us to assist you to respond to queries from SARS and to errors in assessments identified by our review of assessments and to lodge the appropriate objections where considered necessary.

The work performed will be based on our interpretation of the tax law at the relevant time. These tax laws are subject to change occasioned by future legislative amendments and court decisions. You are cautioned to keep abreast of such developments and are welcome to engage our service for this purpose. We confirm that it is your responsibility to provide us with complete, reliable and accurate information in respect of your tax affairs timeously in order for us to provide the required services.

2.4 Conclusion

Writing letters and email is one thing, having a record of them is another thing. Letters and email must be filed so that they are easily accessible. It is absolutely essential that firms get their letter writing and their e-mail systems in order and that the wording is absolutely perfect.

Even more important than writing letters is getting a proper mandate in place which we discuss later. On my recent travels when I ask the question *have you got a mandate?* I kind of get a very sheepish "***No we do not, but we are going to do it soon"***. A well written and thought out mandate will go a long way to ensuring that a tax practice is totally risk averse.

3. HOW COST STRUCTURES HAVE CHANGED

3.1 Introduction

It's about being profitable and about making a decent living, whilst protecting yourself against lawsuits, but in the tax industry this is becoming increasingly more difficult. Errors on systems and errors you as a tax practitioner make are not going to be chargeable in many instances. For many larger firms it is about providing an additional service i.e. the tax service that they have to carry out because they are the accountants of large groups and in many cases the tax service is subsidized by the audit and consulting fees. For smaller firms it has become impossible to recover the fees for tax compliance work where it can't be subsidised by the other fees. In this section we will examine why this is so.

In recent times owing to the falling away of many audits, running a tax department has to become more viable. It is exceedingly important that tax practices make a reasonable profit so that they become efficient and provide their clients with a fantastic service.

SARS through their marketing campaigns have created a climate of fear for taxpayers by their heightened PR campaigns and their heavy handed tactics in the way they conduct themselves. I am sure each practice has many examples of these tactics.

So on the one side we don't have to do audits but let something be wrong in the accounts from a SARS point of view and see what happens.

Tax Practices in today's times need to ensure that they charge ***proper fees*** for all the work that they do and introduce ***risk aversion checks*** by the steps they carry out. It's also a question of making sure that the taxpayer clients of the practice understand exactly what the Tax Practice does so that where additional work is required to fix or sort out a taxpayer the taxpayer understands that they are getting a bill. Make sure you put this in your engagement letter.

You need to get your client to understand that they need to pay for you to fix their problems with SARS as these problems are never your fault.

3.2 SARS inefficiency causes increase in costs

The tax industry over the last 7 years has changed dramatically and it is clear that there is drop in the administration efficiency of SARS even though they were viewed as the most efficient government department, perhaps this comes about because of their cash collection ability. The pandemic and state capture have made things worse causing SARS not to have right capacity to do everything.

The real issue with SARS is getting someone at SARs to make a decision and fix a problem that they have created in the first place. It has become really difficult to sort out a problem. Collection efficiency has improved substantially because that is where all the SARS effort has gone. So in effect if Tax Practitioners do not seek correction of all the errors in assessment, balance of account, misallocations of payments and all other problems the taxpayer may have records that will be wrong as the corrections will definitely not be initiated on the SARS side especially to their detriment of the taxpayer of the client.

There was a time (many years ago) where you could visit SARS or phone and have your problem resolved easily. Now this does not happen because of fear of corruption. So now you can never speak to the same person twice. It’s quite clear when I have run workshops how many attendees are ex SARS personnel. Clearly the skills have moved from SARS into the tax profession. The cost factor in the tax profession has gone up dramatically as SARS has become less efficient and more prone to errors which has resulted in additional time that Tax Practitioners have to put in.

Let’s look at the incorrect assessments situation in the free e-Filing environment, practitioners are still reporting errors although over the last few years this has improved substantially. There are still many problems with misallocations of payments. There are also many system errors that cause problems.

A few situations that have created many hours of additional work for the tax practitioner;-

- Voluntary payment of PAYE
- Deactivating provisional tax status
- Transfer from one tax practitioner to another

- Penalty remission

3.3 SARS has Allocated additional work load to Tax Practitioners

It is not only SARS inefficiency that has created work for TP's but the additional workload that has been passed down to TP's. This additional work load would include;

- The addition of more complicated tax returns. Compare the ITR12, IT12R trust and the ITR14 to the returns of 5 years ago and the care that must be taken in producing those tax returns.
- The addition of the IT14SD which should now be completed before the ITR14 is submitted.
- Making sure that returns are accurate and that there is no material error that can cause assessments to remain open. Non-disclosure of a material item will cause the assessment to remain open.
- Additional work in regard to provisional tax. A complicated P2 can take days to complete especially where its over R2 million.
- PAYE is a very important tax and payroll data must be uploaded twice a year.
- Dividend returns.
- Sorting out SARS errors and missing notices.

Taking all this into account there has over the last 8 years been an additional workload of anything between 3-10 hours per taxpayer per year on average which has been added to the cost structure of each firm. Now if we assume that the tax profession handles the top half million taxpayers in the country at an average cost rate of R300 per hour, this equates to R450 million (on 3 hours) additional time spent which has to be passed on to clients if possible. Smaller practitioners will tell you that they cannot pass any of these costs on to their clients and that they really struggle with this.

We also need to realise that what used to be quite simple and did not take much effort in the calculation of a provisional tax for P2 now requires some serious time for those businesses that do not have a good accounting structure in place. The onus now falls on the Tax Practitioner to help the taxpayer manage this process.

We need to understand that SARS is going through a tremendous modernisation process so it is expected that their productivity and efficiency will improve over a period of time and we have already seen remarkable efficiency improvements. (And then we had State Capture and Covid). We need to start thinking about plans for the future and how important it is to cater for future SARS crackdowns i.e. when are they going to automate statement of asset reconciliations.

As SARS automates a lot of their processes like assessments, tax returns, uploading of PAYE and as these processes become more accurate, on the other side of the coin they tend to be asking for more, so the queries have intensified, the assessments that they process have additional requirements, the audits have grown and, in some instances, we have heard about multiple audits at the same client. Going down to a service center and trying to get some help requires a wait in the queue for hours on end and trying to get a VAT registration is almost impossible until recently, so although there are a lot of aspects that have improved dramatically the workload that they are passing down to Tax Practitioners has grown dramatically.

There is not much that the profession can do about this, but what is vitally important is that those things that can be automated should be automated so that we can save as much time as is possible. There is much in the accounting firm that can be automated.

3.4 The new eFiling costs

Owing to what we have discussed above every practice is going to spend many more additional hours per taxpayer to get all the tax return processes up and running and to comply with all the SARS requirements. It is always going to be harder to recover these costs from clients as the clients are going to resist paying for these additional services especially in the light of tax morality at its lowest level because of the blatant corruption and stealing by government officials.

There is also the bandwidth and cloud cost and the cost of maintaining your profiles on the SARS e-Filing website. There is a cost of errors and problems occurring and the cost of phoning the call center to try and get something resolved.

It has become necessary therefore to automate as much as possible.

3.5 Tax Practitioners own inefficiency causes an increase in costs

Accountants are clearly cobblers without any shoes. The pressure of work attending to client's affairs causes them not to put any thought into the way their practice works. A bit of time, effort and thought and planning would save hundreds of thousands of Rands.

One penalty because of negligence can blow the practice financially.

Simple things as indicated below can save thousands.

3.6 Letters and E-Mail

I have seen tax practices that run in a way that causes their costs to increase dramatically and they do not even realize it. They have been doing it the same way for many years. Practitioners are overburdened with work and because of this they tend to work on a defensive basis so no thought gets put into the processes that are required in a tax department.

Let's take a simple thing – the firm has to write letters or emails to clients about their tax affairs. The question we should ask is how many firms don't do automated letters.

Let's say the annual requirements are as follows:

- Approval letter to client
- Assessment letter
- 2 Provisional tax letters

This means say at least 4 letters per year. Now say a firm has 1000 provisional taxpayers and the firm does not use automatic letter writing out of their back-office system. Let's say on average it takes 5 minutes per letter (even with a Word template) because they have to be typed, addresses have to be sought and inserted and amounts have to be entered. They then have to be checked and signed. Let us now calculate the time.

1000*4*5 = 20,000 minutes or 333 hours or 41 man days.

Now if the cost rate is say R300 per hour then this has cost the firm 333*300 = R99,900.

By converting this to an automatic process straight out of a back office system it is the set up time that has to be spent, but it is this time that is only once off and the rest takes up no administration time whatsoever. Of course, the question to be asked is what we now with the secretaries!

Scenarios that I have come across recently: -

1. Post all correspondence to the tune of R150,000 per annum. Can you believe this?
2. Print the correspondence from a back-office system and then sign scan and email.

3.7 Processing IRP6 Forms

There is a school of thought that says why do we need a back-office tax system? Let's just work from the tax file and the SARS e-Filing system. "SARS sends us the electronic form with the tax already calculated, all we have to do is step through the IRP6 on the e-Filing system". Copies of everything are filed in the tax file or in a separate lever arch file to make access easier.

Of course, in the light of the way the system works this does not apply anymore. Practitioners who relied on this method found themselves wanting because many of the figures on the downloaded forms are incorrect and can't be used. (*See the discussion in provisional tax*) In this manual situation letters and reports are really difficult to produce as they have to be done manually. Of course, if this is the way the firm works and they believe it is efficient then so be it. My experience is that it takes some convincing to convince them otherwise. The manual basis is only really feasible if the firm handles less than 50 taxpayers.

Where the manual basis is kept the practitioner loses out on the following:

- Producing instant reports – This includes groups of reports for taxpayers.
- Instant access to an electronic tax ledger – one glance tells all.
- History of payments and how they were calculated.
- Instant e-mail, and SMS for communication with clients.
- Ability to receive tax records online.

- Interaction of a back office system with SARS e-Filing.
- Duplication by having to enter data into the SARS e-Filing website.
- Digital signatures.

3.8 How can accounting firms get ahead

A back-office tax return e-Filing system which makes use of tax calculation and a tax preparation system is guaranteed to save a tax practice as much as 40 minutes per taxpayer per year depending on the firm's internal procedures. Today there are web enabled systems that run in the cloud. This gives the practitioner the advantage of being able to access data anywhere anytime.

At a cost rate of R300.00 per hour, savings on a 1000 taxpayers are R150 000.00 in time will be achieved.

All Tax Practitioners have been through a trying time over the last 5 years, however owing to the nature of the beast it is always going to be tough for practices to meet their deadlines. SARS are not going to let up. Dates are going to be continually pulled forward. More work is going to be continually added by SARS – Now more than ever a tax practice has to be automated.

Unfortunately the pressure is not going to stop! Tax Practitioners should all be aware that the tax return filing season starts on the **1st July** of each year on time and that the final submission date for electronic submission for individuals for non-provisional taxpayers will be about **20th November** of each year or so we thought. This is set to change as dates will be pulled forward. Taxpayers are now penalized as the fiscus looks for additional revenue in the global downturn. SARS penalty system is becoming totally automatic. **Covid changed all these dates.**

Planning is going to be essential if you are going to meet your deadlines. As part of the planning process you need to take into account the auditing and planning requirements into account when devising your planning schedule. When are financials finished as the tax return can only be started when the audit is finished?

Work out a ***run rate*** for tax return production. Run rate is how many tax returns per day you have to process from the start of the season to meet the deadline that SARS sets. The tax practitioner needs to re-evaluate the run rate every week.

This in effect gives Tax Practitioners roughly 106 working days to produce and e-File tax returns for individuals. Let us assume that half the body of tax returns that you have are individuals. This means that in a tax practice with 1000 individual taxpayers starting on the 1st July the tax department has to produce and submit 10 tax returns per day on average to meet the deadline. In regard to companies you have a little bit more time. You have in fact 145 days starting on the 1st July. This means you have to do 7 company tax returns per day on average. This does not sound a lot but start counting your submitted tax returns from the 1st July and work out your **run rate** and see how you go!

Now if after the first month the firm is far out and then as each month goes by it becomes worse, the practice will never ever recover or catch up?

Practitioners can now build up a tax return in their back office systems and move it around the office electronically without having to produce a single piece of paper. After the return goes through the review and finalization procedures which are built into the software by simply pressing a button the tax return data can be sent electronically straight through to the e-Filing server.

On visits to many practices it was clear to me just how hard workers in tax departments have to work in order to meet the submission obligations. Very often I have heard the story of a Tax Practitioner arriving at 06:00 am and leaving at 22:00 at night. Stats are looking much better with many firms submitting between 85% and 90% of submissions by deadline dates.

3.9 Why will a Back Office Methodology Reduce Costs

Once time is lost it can never be recovered!

On the e-Filing Website

On average a high net worth taxpayer will be loaded 5-7 times (SARS stats) on the e-Filing website system before the return is submitted. The average for the whole tax base is loading the returns 3 times.

There is difficulty in accessing the tax return in a high volume database.

There is no facility to automate the moving of the tax return around the practitioners 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.

There are glitches in saving returns where changes are made with data being lost very often.

One can't complete the return unless all the fields are completed resulting in the stepping through of many fields and entering a zero.

Sending the form to a client can prove difficult with all the different browsers and different versions of Adobe.

One cannot print the form until all the fields are completed.

Entering IRP6 data in a large database is hugely time consuming as one has to find the record enter the data and file. There is a disconnect between the SARS data and your own systems and your tax files.

3.10 On a Back Office System

No saving of a tax return when building up a return as it's automatically saved.

Multiple people can work on and review the return easily.

The ability to find a return easily.

The ability to move the return around the office easily.

Retain statement of assets and liabilities data across all years.

The calculation of income and the statements of assets and the calculation and reconciliation of the capital and living expenses is a huge benefit.

Import company trial balances resulting in quick preparation of ITR14's.

Bulk filing of IRP6's

If one compares the pros and cons it is easy to see that the time saving will be immense. We say that 40 minutes will be saved per tax return using our methodology. The above list certainly makes it a lot more.

3.11 Efficient back-office system will reduce costs

There is absolutely no question that an efficient back-office system will reduce costs substantially. Today there are many firms that will not cope if their back-office system is taken away.

I am convinced that in the long term e-Filing will go a long way to reducing some of the additional hours that Tax Practitioners have to spend on taxpayers certainly in regard to automated processes. E-Filing moves all of the capturing work down to the Tax Practitioner, thus reducing the high number of clerical and capturing errors by SARS. The Tax Practitioner will have the ability to perform the tax calculation before tax return submission ensuring the receipt of a correct assessment. Objections are becoming a question of law and not that of trying to fix clerical errors. In recent times there is a question of many errors by SARS.

Tax Practitioners will find immense savings by the mere fact that tax management systems will give them instant access to the affairs of each and every taxpayer in their practice by simply being able to access any aspect of a taxpayers affairs either internally or interacting on the SARS e-Filing system. And of course this all fits in with the tax practice being tax-centric. With the falling away of many of your clients audit requirements the center of the firm has now become the tax department.

4. LAW THE CHANGING PROVISIONAL TAX PROCESSES

4.1 Introduction

The new electronic processes that SARS have introduced over the years have been a baptism of fire to the Tax Practitioner community. It is understood that change does cause disruption and re-learning, and there are bound to be teething problems and we accept that and plan for it where possible. The problem in South Africa is that there is not sufficient time after tax legislation changes to make the necessary system changes so that the law can be properly implemented by SARS. Sometimes these changes are communicated very late, causing disruption and late delivery of amendments to software. Sometimes the wording of the legislation is really difficult to understand and takes time to unwind.

Take for example the 14 days rule for the determination of the basic amount and the way this has been implemented by SARS on the IRP6. You should be well aware that during the process the figure can change or could be wrong on the website.

From my understanding, National Treasury makes the laws without thinking of their practical implementation on SARS systems and their roll out. In the past, when the laws were changed, SARS had to delay the implementation and even with the delay SARS could not program the changes on their own systems in time.

SARS also introduces policy changes like the ***turnover field*** in order to reduce their risk which is an excellent example of the way SARS introduces policy changes without having a backup of changes in the legislation. There was very little notice and no time for software vendors to make the necessary changes as it was a last-minute thing. Many practitioners I have spoken to just insert a zero. Now if a taxpayer wants Covid relief they have to insert the turnover.

4.2 Provisional Tax changes

Any back-office e Filing system must be super-efficient at provisional tax as the provisional tax system lends itself very nicely to the e-Filing model. The ability to download form data straight into a Tax Management system and then submit the calculated data back to