

Changes to

PAYE 2010

a quick guide for employers



www.sars.gov.za

Introduction

On 1 September 2009 the South African Revenue Service released the final specifications for PAYE 2010, outlining the obligations and requirements for employers in respect of employees' tax for the current tax year.

The specifications detail a number of critical changes which will impact employers, payroll administrators, payroll software providers and developers and others involved in the PAYE process – specifically when the annual PAYE reconciliation process begins from early next year.

Among the significant changes are:

- Changes to the IRP5/IT3(a) form, including several new mandatory fields. This will necessitate employers updating their payroll systems and their employees' demographic details
- SARS will empower employers who use e@syFile to register their employees if they don't have a tax reference number. If the employee does provide a tax reference number, the employer can then verify this with SARS
- Enhancing the EMP501 (Employer Reconciliation Declaration), by adding employers' demographic details
- Rationalisation of existing PAYE, SDL and UIF codes to simplify the reconciliation process.

This brochure provides all those involved in the PAYE process with information about the changes and how to prepare to meet their obligations quickly and easily.

Background

In 2007 SARS launched its Modernisation Programme aimed at transforming the income tax process from being largely paper-based and labour-intensive to becoming increasingly automated and electronic.

The first leg of the journey involved sweeping changes to the way in which taxpayers received, completed and submitted income tax returns on the one hand and, on the other, the way in which SARS assessed these returns using automated verification and risk determination methods based on third party data.

Despite the huge successes achieved in 2007, one key obstacle impacted on the ability of SARS to provide fast, efficient and effective assessments to taxpayers, namely the quality of information contained in tax returns and in the possession of SARS (third party data). SARS thus embarked on a redesign of the PAYE process – the foundation of the Personal Income Tax System – in 2008 in partnership with employers, payroll administrators and payroll software vendors.

Part of this was the introduction of new forms: an Employer Reconciliation Declaration (EMP501), Tax Certificate Cancellation Declaration (EMP601) and combined Employee Tax Certificate (IRP5/IT3(a)), as well as free software (e@syFile PAYE) to assist employers with electronic completion of forms offline.

In 2009 SARS continued with these reforms, introducing another new form, an EMP701, which allows employers to make adjustments to previous years' declarations, enhancing e@syFile so it could handle larger volumes of documentation, adding a status dashboard to eFiling and e@syFile for employers to check the status of their submitted documents, and making certain information employers submit to SARS mandatory from a policy perspective.

For the 2010 tax year we intend continuing on our journey of modernisation, building on several of the changes from this year and introducing entirely new elements at the start of the PAYE reconciliation period next year.

PAYE reform presents the following gains:

- **Pre-population of returns**

The upfront reconciliation of PAYE will allow for verified information to be inserted into tax returns by SARS thereby avoiding errors by taxpayers and enhancing the speed of assessment and service. Also, the more demographic information we have on employees, the more we can pre-populate returns. This is in line with international best practice

- **More comprehensive data on employees**

The changes will enable employers to have and maintain a more comprehensive and up-to-date database of their employees. This is good business practice and will enable employers to keep accurate records on their employees.

Major changes to PAYE 2010

1. Mandatory provision of taxpayer demographic information to SARS

From April next year, the IRP5 form will be changing to include mandatory demographic information in respect of all employees. The new or amended mandatory fields include:

- **Transaction Year** – The year in which the employer deducted and paid employees' tax in respect of remuneration paid or payable to an employee. This could include employees' tax on remuneration which accrued during a previous tax year. The transaction year allows employers to submit all certificates generated for the relevant year in one CSV file, instead of having to create multiple submissions.
- **Year of Assessment** – The year in which the income accrued to the employee. Reconciliations will be generated based on Year of Assessment. Where the Year of Assessment is earlier than the Transaction Year, an EMP701 will need to be completed.
- **Period of Reconciliation** – the year and the month that concludes the relevant reconciliation period. This will become more relevant once SARS extends the period of reconciliation from annual to bi-annual in the 2011 tax year – the first reconciliation for the 2011 year of assessment will be due for submission by the end of August 2010 and the Period of Reconciliation will be indicated as 201108.
- **Certificate Number** – A unique number has to be used for each employee and can never be used again. SARS has therefore increased this field from 13 to 30 digits. The format is as follows: 10 digit PAYE reference number of employer, followed by the transaction year and then a unique identifier which may contain numeric and alpha characters. It cannot be shorter than 30 characters. Where certificates have already been issued, these numbers may be padded with the relevant ref no, transaction year and zeros eg. if certificate no 10000001 has been issued for PAYE reference number 7990799999 and year 2009, the certificate number will be 799079999920090000000010000001.
- **Type of Certificate** – It can only be IRP5 or IT3(a) or ITREG (if an employer is registering an employee for income tax). If it is ITREG, none of the fields in the top fields of the form need be completed. See detail on Income Tax Registration for Employees below.
- **Employees' Addresses in a defined format** – SARS is required to align with the formal address structure that is used nationally.
- **Compulsory banking details** – Although employees do provide banking details to SARS on their income tax return, many employees do not provide updated/valid detail which result in tax refunds not being paid to them. SARS would like to validate the bank details that taxpayers have provided on their tax returns against the IRP5/IT3(a).

- **Compulsory Income Tax reference number** – see detail on Income Tax Registration for Employees below.
- **Compulsory ID number for SA citizens and passport number** in other cases; and
- **Tax directives** – We have increased the number of occurrences from one to three so that employers do not have to complete a different certificate for each directive if more than one directive was issued in respect of more than one lump sum payment during the same year of assessment. Also note that the field for a directive number was increased from 13 to 15 digits.

Note: Employers now have the option to use only one certificate for local and foreign income. They no longer have to fill in separate certificates if employees earn both local and foreign income as the codes used will distinguish between local and foreign income – the employer should always use the correct codes in order to ensure that the income tax returns are correctly processed.

2. Income Tax Registration for Employees

For the 2010 tax year, SARS will be providing employers with the ability to either verify their employees' current income tax number or register them for the first time with a new number, if they are not yet registered – as this information is now mandatory on the IRP5/IT3(a).

Employers will be able to do this electronically through e@syFile once it has been updated (we will inform e@syFile users when this takes place in the next few months) or through their payroll systems at the start of the 2010 Employers Tax Season.

During the verification process, if the employee's income tax number that he or she provided to their employer is wrong, SARS cannot give the correct number to the employer due to privacy laws.

The employee must therefore ensure that he provides the correct number to his employer. The responsibility will ultimately rest on the employer to obtain the correct number from the employee.

3. Consolidation of source codes

Certain source codes have been specified as 'sub-codes' and their values must be consolidated into a 'main' source code on the certificate.

Income Source Codes

- 3607/3657 and 3603/3653 and 3610/3660 must be incorporated into 3601/3651.
- 3604/3654, 3609/3659 and 3612/3662 must be incorporated into 3602/3652.

Allowances

- 3706/3756, 3710/3760, 3711/3761 and 3712/3762 must be incorporated into 3713/3763
- 3705/3755 and 3709/3759 and 3716/3766 must be incorporated into 3714/3764.

Fringe Benefits

- 3803/3853, 3804/3854, 3805/3855, 3806/3856, 3807/3857, 3808/3858 and 3809/3859 must be incorporated into 3801/3851.

Deductions

- 4004 must be incorporated into 4003.

The rationalisation of codes must be built into your payroll systems. Either all the codes can be kept and only once the CSV file is created can these be combined, or the codes can be consolidated in the system so that when the CSV file is created there will be no need to then combine them.

4. Enhancing the EMP501 (Employer Reconciliation Declaration)

Employers' demographic details have been added to the EMP501 in order to update the demographic details that SARS has for employers on its systems. Many of these are outdated or missing eg. Trading Name of employer. These will be mandatory for employers to complete as part of their reconciliation declaration.

What employers need to do right now:

SARS recognises that employers are an important partner in this process, and we are now empowering you with greater responsibility than ever before. Your role in administering tax paid on behalf of employees is essential to revenue collection for the purpose of nation building in South Africa.

To start preparing for the changes which are being introduced in 2010, you should:

- Ensure that the people who create your payroll systems (whether an external service provider or internal software developers) are aware of the changes and that they are in the process of changing their systems to align with these. It is recommended that these people read the new Business Requirements Specification (BRS): PAYE 2010 on the SARS website www.sars.gov.za under Tax Types>PAYE or Taxpayers>Employers for more details on these changes.
- Run an internal campaign, asking employees to submit their latest personal information to you (the employer) and update your systems accordingly. Do a data cleanup to ensure that you experience a smooth 2010 submission! This can only benefit you in the long-run as your employee database will be more up-to-date and comprehensive than ever!
- Inform employees that it is their responsibility to supply employers with correct demographic details. It is also their responsibility to register for income tax if they earn above R60 000. However, if they have not done so, the employer has the right to do so on their behalf.
- Start checking if all employees are registered for income tax. You can use the new version of e@syFile which should be available in the next few months (SARS will inform e@syFile users) to verify their income tax reference numbers or register them for the first time (if not already registered). From the start of the reconciliation period in 2010 you should be able to do this through your payroll system by generating an ITRREG form which will be included in your CSV file.

Note: It is important that these changes are made by the start of the next Tax Season for Employers as SARS will not accept the old CSV files generated by payroll systems. Unless the payroll system has been updated, the file will be rejected.

What SARS is doing to assist employers:

- SARS has already met with all the major payroll authors and a number of employer representative organisations, who have committed to updating their systems according to the new changes in the next few months.
- We are working on a new version of our free, offline software, e@syFile PAYE, which will incorporate all these new requirements. Employers who already have e@syFile will be able to upgrade to the latest version in the next few months (you will be notified of the date). Those who don't have e@syFile can download the latest version from the eFiling site (www.sarsefiling.co.za) within the next few months.
- We will provide a dedicated email address: employerunit@sars.gov.za for employers who have queries around these changes.

Thank you for partnering with us as we work towards building a simpler and more efficient reconciliation and tax return process.



e@syFile™
Your desktop **tax helper**

Frequently Asked Questions

Q: Will I be able to complete the new IRP5/IT3(a) tax certificates on e@syFile?

A: Yes. A new version of e@syFile for employers will be released in the near future. It will make provision for all the fields as described in the Business Requirements Specification (BRS): PAYE 2010. This new version will not only contain the functionality as provided for in 2009, it will also enable employers to perform additional functions, for example, to register employees who are not yet registered with SARS.

Q: By making the income tax reference number compulsory on the IRP5/IT3(a) tax certificate, does it mean employees who earn less than R60 000 will have to register with SARS?

A: Although employees earning below R60 000 per annum are still not legally required to apply for registration, SARS will register such employees from the information submitted by employers. SARS will provide employers with the ability to either register employees for the first time if they are not yet registered or verify their employees' current income tax number. This will ensure that only verified information is populated into tax returns thereby further reducing errors and enhancing the processing speed of tax returns and service.

Note: The submission of tax returns annually will remain dependant on the income earned and not on registration. Currently employees who earn less than R120 000 a year from one employer and have no extra income and deductions don't need to submit a return.

Q: Can employees provide joint or third party bank account details if they don't have an account in their own name?

A: Yes. If the bank account is not in the name of the employee, the "Employee Account Holder Relationship" field on the IRP5/IT3(a) must be set to "2 - Joint" or "3 - Third Party", whichever is applicable.

Also note that the “Employee Account Holder Relationship” field will not be available if the “Employee Bank Account Type” is “0 - Not Paid by electronic bank transfer” or “7 - Foreign Bank Account”.

Q: Is employee information such as email address, home telephone number, fax number and cellphone number really necessary on the IRP5/IT3(a) if it will anyway be disclosed on the employee’s individual income tax return?

A: All of these are optional fields on the tax certificate and the information may differ from that supplied on the IT return. Employers are, however, asked to request this information from employees and update their records accordingly for purposes of providing it on the tax certificates – it will be used to contact employees where information provided on the income tax returns is not valid eg. where a tax refund is held up by invalid bank account details provided in the income tax return. Employees should also be requested to inform the employer if any of their demographic information changes in order to enable the employer to populate tax certificates with the latest details.

Q: The draft tax certificate in the Business Requirements Specification (BRS): PAYE 2010 does not contain the employer’s demographic information – is this due to an oversight or is it correct?

A: The employer demographic information no longer forms part of the certificate as the “Certificate Number” now contains the PAYE reference number of the employer, which links the employer demographic information to the employee.

For further enquiries, phone the
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