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Submission File

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South African Revenue Service
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BY E-MAIL: policycomments@sars.gov.za

Dear SARS

EMP501 RECONCILIATION ERRORS – SARS SURVEY

Introduction

1. Employers are required to submit an EMP501 declaration which reconciles the taxes collected from employees with the monies paid to SARS and the total tax value of employees' tax certificates, for the respective periods (bi-annually).
2. The reconciliation process allows an employer to rectify the total EMP201 payment declaration via the EMP501, rather than via the EMP201. This enables the employer to view and rectify holistically the total value of the tax certificates issued, the total liability declared and the total payments to SARS for the affected periods.
3. SARS has recently sent out a survey to employers in order to try and gauge the reasons for errors when submitting the EMP501 reconciliations. It has come to our attention that employers are uncomfortable with agreeing to complete this survey as it is their perception that the trend of the questions seem to be to get the employers to "acknowledge" that they are making errors in their reconciliations.
4. Many employers engage with SARS when there are errors on their reconciliations in an attempt to resolve these. Furthermore, there are legitimate reasons for the differences that arise and therefore many employers fail to understand the need for this survey.
5. In light of these concerns, we wish to highlight the various practical scenarios arising in the ordinary course of business that would result in EMP501s having to be resubmitted.
6. A few of these scenarios are listed next as it seems that they have not been taken into consideration in the survey. Furthermore, we also note that some of these scenarios have been picked by SARS during filing season and are included in the SARS letter to employers/companies entitled "Rejection of the return submission due to invalid tax directives on the IRP5" that was issued on 15 October 2020.



Scenarios leading to resubmission of EMP501 reconciliations

Tax directive issues:

- Cancelled tax directives not reflecting as "cancelled" on SARS' end. This results in employees incorrectly sitting with two directives which in turns affects the submission of their tax returns.
- CCMA directives returned under code 3907 and not code 3608. This creates a mismatch on the IRP5 where the earning is reported under 3608 (per SARS BRS). This once again results in the employees being unable to submit their returns.
- Incorrect directive applications i.e. from 3920 to 3915 income source codes e.g. withdrawal instead of death / retirement events (classified incorrectly) requiring an amendment on the reconciliation values. These are manual processes and human errors can occur.
- Various "error" messages during filing seasons were received that indicated that the tax directive amount differed with the gross income amount on the tax certificate. Many companies rounded the gross income to the nearest rand whereas the SARS officials at the branch offices told taxpayers that the companies should have dropped the cents only (this message from Branch offices was also in contradiction to the BRS). As the complaints from taxpayers were so bad the companies started to cancel tax certificates for R1. SARS did run a fix on this "error" message after a few weeks.
- Tax directive rejected when submitting ITR12 – reason showing as "lump sum amounts not declared on return".
- Tax directive rejected when submitting ITR12 – reason showing as "tax directive number submitted on return is invalid or incorrect".
- SDL and UIF validations errors on lump sum certificates incorrectly received.

Other issues (including human errors):

- New appointments, late terminations and cost to company changes.
- Reversal of income in respect of employees that left in the previous year (such as clawbacks on remuneration for commission earners or salaries incorrectly paid once already terminated).
- Incorrect tax reference numbers populated on IRP5 tax certificates.
- Incorrect or outdated personal details populated on IRP5 tax certificates or lump sum withdrawal forms e.g. ID number, address details, change in surnames due to marriage and communication details.
- Medical aid changes – payroll not always immediately informed of the changes to update the medical tax credits;
- Incorrect pay periods populated on IRP5 tax certificates.
- Incorrect income codes, eg. employee moved to a different remuneration structure, for instance from SARS code 3601 (remuneration) to 3606 (commission income) and only notices the coding error when the certificate is received; income moved from SARS code 3620 (Non-executive fees – SA resident) to 3621 (Non-executive resident – non-resident) in instances when, for example, payroll was not aware the change in residency of a director;
- Foreign income printing as SA income. Some payrolls don't allow a mix of a foreign and local codes so these have to be adjusted manually. Also in some instances, SARS asks the employer to change the IRP5 by correcting the codes for expats that



have claimed the s10(1)(o)(ii) exemption but the income is reflected under a local code.

- Apportionments of local and foreign income.
- Travel reimbursements – software system incorrectly converted non-taxable travel reimbursement to taxable.
- Dedicated Pool Vehicle & company car fringe benefit corrections. This could occur for instance when a vehicle changed drivers and this was not updated on the system.
- IT88/ITA88 monies paid / captured as PAYE incorrectly resulting in a payment holiday or recon amendment.
- Death claims – in some cases clients informed the company too late that the policy holder passed away, then the company has to back date the death claim.
- The validations of the IRP5/IT3(a) certificate also caused employers to make changes to the PAYE in cases where the SARS system indicated an error of under-deduction.

7. These are just a few of the day to day occurrences that result in the resubmission of EMP501s and are by no means exhaustive. Of course, human error is always present, but many of these errors do not relate to human error but rather to changes from the employees' side that the employer only gets to know about after the certificates have been issued.

8. Submission: In light of the above, it is evident that there are many legitimate reasons why EMP501s need to be resubmitted. Should SARS stop the resubmission of EMP501 forms, employers would be discouraged from reporting errors on IRP5 submissions, and SARS would only have access to potentially inaccurate IRP5 submissions for the purpose of auto assessments.

9. We therefore encourage SARS to rather engage with those employers where SARS has a specific concern rather than require employers in general to fill out a questionnaire that does not seem to take into account all the possible practical and legitimate reasons for resubmission of the EMP501 reconciliations.

10. Understanding the reasons for these differences should also help update the questions in the questionnaire so that they are aligned more to the actual purpose and reason for the questionnaire being sent out.

Should you wish to clarify any of the above matters please do not hesitate to contact us.

Yours sincerely

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The South African Institute of Chartered Accountants