COVID-19 – Phase II of the Extraordinary Economic Stimulus Package for SA

On Tuesday 21 April 2020, the President of South Africa announced a massive social relief and economic support package for South Africa of R500 billion that would constitute approximately 10% of the Gross Domestic Product (GDP) of South Africa.

The President went further in describing the phases of the economic response:

— Phase I – Measures to mitigate the worst effects of the COVID-19 pandemic on businesses, communities and individuals. This phase began in Mid-March and included a variety of measures such as tax relief and various funding initiatives.

— Phase II – Stabilising the economy by addressing the extreme decline in supply and demand and protecting jobs.


As part of Phase II of the economic response, the following key tax measures have been announced:[1]

Qualifying Taxpayer

Further to our previous tax alert, which defines “qualifying taxpayer”, the Draft Disaster Management Tax Relief Administration Bill (“Bill”) released on 1 April 2020 contained relief in the form of provisional tax and PAYE deferral arrangements for “qualifying taxpayers”. The President has announced an update which will see the threshold for a “qualifying taxpayer” increased from R60 million to R100 million. Reference was made by the President to “turnover” to determine the threshold as opposed to “gross income” as indicated in the Bill. We will await for clarity in this regard.

Employees’ tax Deferral

— It was previously proposed in the Bill that 20% of the employees’ tax (Pay-As-You-Earn) liabilities for “qualifying taxpayers” may be deferred in relation to the four-month period April 2020 to July 2020. The PAYE amounts deferred will be payable to SARS over the six-month period 7 September 2020 to 5 February 2021.

This PAYE deferment has been increased from 20% to 35% for “qualifying taxpayers”.

Skills Development Levies (SDL)

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Skills Development Levies are payable by all employers (resident and non-resident employers). The Skills Development Act 97 of 1998 was introduced to “provide an institutional framework to devise and implement national, sector and workplace strategies to develop and improve the skills of the South African workforce;…”

The levy is 1% of remuneration. SDL is payable to the South African Revenue Service (SARS) together with the employees’ tax and Unemployment Insurance Fund (UIF) contributions by no later than the 7th of the month following the month in which such remuneration was paid to employees.

The President announced a four-month payment holiday. It is assumed that this four-month period will be the same four-month period which applies to the employees’ tax deferment i.e. April 2020 – July 2020.

At this stage it is unclear, whether the payment holiday would mean that the SDL due in this period would be waived or deferred, however we are of the view that this would be a waiver of the SDL.

Employment Tax Incentive (ETI)

No further changes were made in relation to the ETI. We refer to our recent tax alert (attached) on the latest proposals as relates to ETI.

C19-TERS (UIF) programme

As at 21 April 2020, the UIF’s special COVID-19 benefit has paid out R1.6 billion, assisting over 37 000 companies and 600 000 workers. We refer to our recent tax alert (CLICK HERE) on the latest C19-TERS parameters.

All applications must now be submitted online and email applications are no longer accepted. This is a fluid space and we anticipate seeing more amendments to the relief programme.

Donations to the Solidarity Fund

The President announced that “taxpayers who donate to the Solidarity Fund will be able to claim up to an additional 10 percent as a deduction from their taxable income”.

In terms of section 18A of the Income Tax Act No.58 of 1962 (as amended), taxpayers (including natural persons and companies) may receive a tax deduction limited to 10% of taxable income in relation to donations made to approved public benefit organisations.

It has been proposed that a separate and additional tax deduction be allowed for donations to the Solidarity Fund. Therefore, a taxpayer may potentially enjoy a 20% tax deduction depending on who the donations were made to.

Taxpayers with a turnover in excess of R100 million

The President also indicated that relief would be provided to those business that have a turnover in excess of R100 million, by way of a deferral of taxes on a case by case business. Consequently, there should be no penalties for late payments if the taxpayer can prove that they have been materially negatively impacted in this period. Not much clarity has been provided in this instance, however we are of the view that similar to the “qualifying taxpayer” definition, these taxpayers would need to be tax compliant and that the reference to turnover could be in fact to gross income.

Other

Other tax measures that were referenced included the fast tracking of VAT refunds and relief in respect of the Carbon Tax regime.

Conclusion

It was indicated in the speech that the Minister of Finance will provide further details in respect of the tax related announcements as it relates to the above as well as other items. KPMG Tax and Legal will keep abreast of any changes and inform you of any further updates.

If you have any queries, require assistance or need more information, please contact us:

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Regards
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FOOTNOTES
[1] It is important to note that at this stage the draft legislation relating to the proposed changes have not yet been issued and details surrounding these tax measures will only be able to be identified when such legislation is released.

[2] “remuneration” for SDL purposes is “remuneration” for PAYE purposes with specific exclusions

[3] In terms of the Skills Development Levies Act 9 of 1999