Taxman under financial pressure, be cautious of non-compliance

18 August 2020: The 2019/2020 tax filing season kicked off in the last week against a backdrop of a very tough economic climate. The South African Revenue Service (SARS) is under pressure and is focusing on tax administration and improving tax collection.

The Supplementary Budget delivered by the Minister of Finance in June showed that a projected shortfall in tax revenues is expected to be around R300 billion for the 2020/2021 fiscal year. Although measures are being introduced to reduce expenditure, such as a reduction in spending and reviewing the public sector wage bill, there is also a need to focus on increased tax revenues. No new tax measures or tax increases were announced but moderate tax increases of R40 billion over the next four years are expected, with details of these tax proposals to be announced in the 2021 Budget.

Carrie Norden, tax specialist at Allan Gray, says: "South Africa's largest tax bases, being personal income tax, corporate tax and value-added tax, are under pressure as a result of the economic slowdown and taxpayers should expect strict enforcement from SARS as part of their focus to improve tax collection."

She mentions that SARS will aim to increase tax collection by, amongst others, expanding the use of third-party data to find non-compliant taxpayers, by improving the collection of tax debt, and by ensuring that outstanding tax returns are filed and liabilities paid. Taxpayers should be aware of the measures SARS has in place to curb non-compliance, including appointing third parties to access taxpayers' bank accounts to settle outstanding debts, such as banks and investment managers, if they owe tax.

"COVID-19 has changed the tax process and landscape for taxpayers dramatically," says Norden.

"Luckily, a silver lining in this for the taxpayer is that COVID-19 has accelerated the journey of modernisation, with SARS enhancing its efforts to simplify electronic filing requirements to remove the need to visit SARS branches. The tax filing season will now be split over four phases, and SARS will be automatically assessing a significant number of individual taxpayers in August 2020."

More than three million taxpayers will have their tax returns pre-populated by SARS as part of this process.

"Auto-assessment will see SARS basically doing the filing for you if you accept the pre-populated return. If you are due a refund, SARS will pay the refund to you as per normal, but you need to ensure that your bank details are up to date on SARS's records," explains Norden.

In addition, she notes that if you have been selected as part of this process, it is important to check that all the necessary information on your tax certificates is correctly prepopulated on your tax return. If not, do not accept the auto-assessment result. It is also important to not accept the auto-assessment result if you have additional income to report or deductions to claim, such as donations or medical aid expenses – if so, you will need to rather edit your return and submit it normally via eFiling or the MobiApp.

"It is important to capture all your deductions on your tax return as you may eligible for a tax refund," says Norden, mentioning donations, retirement fund contributions and medical aid expenses as an example. "Ensure your tax return is completed correctly and timeously and that you have settled all outstanding tax debt."

“Remember, while you may be able to claim tax for COVID-19 related measures, such as working at home through lockdown, this will only apply in the new tax year, not for the current year.”

Below Norden summaries her top three tips for filing your tax return this season:

1. Carefully check your tax certificate versus your tax return information and do not accept the auto-assessment if there are discrepancies or if you have additional information to add.
2. Ensure all your deductions are captured as you may be eligible for a tax refund. This includes your retirement fund contributions – the full amount contributed during the tax year should be captured so that SARS has record of it, for this tax year and future years, as excess contributions not deductible in the current tax year will carry over.
3. If you have outstanding tax returns, you should file promptly. Ensure you settle any outstanding tax debt.