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Global Tax Alert

South Africa introduces tax relief measures in response to COVID-19 at 30 March 2020

On 23 March 2020, the President of South Africa, Cyril Ramaphosa, issued a statement on the "Escalation of Measures to Combat COVID-19."

In this statement, the President announced a set of measures aimed at providing relief through the tax system for businesses in distress with specific focus on small and medium sized businesses (turnover of less than R50 million (around US$3 million per annum).

Further guidance around these measures was provided on 29 March 2020 when National Treasury and the South Africa Revenue Services (SARS) published draft explanatory notes on COVID-19 tax measures. The measures will take effect from 1 April 2020 and are summarized below.

Expansion of the Employment Tax Incentive program for tax-compliant employers

The Employment Tax Incentive (ETI) is an incentive that was introduced by SARS to encourage employers to hire young job seekers. It reduces the cost of hiring young people by effectively reducing the amount of employees' tax (PAYE – Pay As You Earn) needed to be paid by the employer (typically on higher earning employees' wages) without affecting the employee's salary.

In order to minimize the loss of jobs, it is proposed that the ETI program be extended for tax-compliant employers registered with SARS as at 1 March 2020 for a limited period of four months beginning on 1 April 2020 and ending on 31 July 2020, as follows:

- Increasing the maximum amount of the monthly ETI claim for currently eligible employees:
  - From R1,000 to R1,500 for the first qualifying twelve months
  - From R500 to R1,000 for the second qualifying twelve months.
- Allowing a monthly ETI claim of R500 for employees aged:
  - 18 to 29 years, who are no longer eligible for the ETI because the employer has previously claimed ETI in respect of these employees for 24 months
  - 30 to 65 years, who would ordinarily not be eligible for the ETI because of their age
- Accelerating the payment by the SARS of ETI reimbursements from twice a year to monthly.

Measures directed at small to medium sized enterprises (SMMEs)

To assist with alleviating the cashflow burden arising from the COVID-19 outbreak, the following measures are proposed for tax-compliant SMMEs:[1]

- For the period 1 April 2020 to 31 July 2020, tax-compliant SMMEs will be allowed to defer the payment of 20% of their **employees' tax liabilities** without incurring any penalties or interest. The deferred liability will become payable in equal installments over the six-month period commencing on 1 August 2020, with the first payment due on 7 September 2020.
- For the period 1 April 2020 to 31 March 2021, tax-compliant SMMEs[2] will be allowed to defer a portion of the **first and second provisional tax payments** without incurring any penalties or interest as follows:
  - The first provisional tax payment (due from 1 April 2020 to 30 September 2020) will be based on 15% of the estimated total tax liability.
  - The second provisional tax payment (due from 1 April 2020 to 31 March 2021) will be based on 65% of the estimated total tax liability.
  - To avoid interest charges, provisional taxpayers with deferred payments will need to pay the full tax liability when making their third "top up" provisional tax payment.

The above measures will be given legal effect in terms of two bills to be tabled when Parliament re-convenes later this year for retrospective enactment. These bills are the Disaster Management Tax Relief Bill and the Disaster Management Tax Relief Administration Bill. The draft bills and explanatory memorandums will be published for public comment on the National Treasury and SARS websites by 1 April 2020.

There are additional relief measures that will be addressed in future Alerts including:

- Binding General Ruling 52 issued by SARS to allow for an extension of the time periods to export movable goods or apply for a refund from the **Value-Added Tax** (VAT) Refund Administrator, where these periods cannot be met because of circumstances beyond the control of the qualifying purchaser or the vendor.
- A VAT exemption on "essential goods" and full **import duty rebate** on importation during the COVID-19 pandemic if the goods are imported for the relief of distress of persons impacted by COVID-19. "Essential goods" are broadly goods that may be manufactured or traded with during the COVID-19 pandemic.[3]
- The introduction of the COVID-19 Temporary Employer-Employee Relief Scheme (COVID-19 TERS) to pay employees a portion of their salary during the temporary closure of their employer's business operations. This is to be facilitated through the **Unemployment Insurance Fund** (UIF).

Together with the Commissioner of SARS, National Treasury will also be considering additional exceptional adjustments to assist with COVID-19 relief efforts and to the tax treatment of newly formed funds in this regard.

Endnotes

1. Defined in the draft explanatory notes as any business with an annual turnover not exceeding R50 million.
2. Defined in the draft explanatory notes as any **company** conducting a trade with an annual turnover not exceeding R50 million (around US$3m per annum). The eligibility criteria for **individuals** carrying on a business have yet to be finalised, but one possibility is that they will be eligible if their turnover is less than R5 million (around US$350,000) and no more than 10% of their turnover is derived from interest, dividends, foreign dividends, rental from letting fixed property and any remuneration received from an employer.
3. As set out in Regulation R.398.

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