Trends 2017: African e-filing opportunities mount as compliance action tightens

By Sharon Tayfield

As we start 2017, one thing we can all be certain of is that compliance issues will continue to play as important a role in a payroll professional's life as they ever have. So what is the year ahead likely to hold in this regard? Read on to find out:

Pan-African trends

1. **Enhanced cooperation between Revenue authorities means employers will need to stay on the ball**

Increasing levels of cooperation between members of the multinational Africa Tax Administration Forum (ATAF) will result in countries across the continent sharing more and more best practice relating to tax legislation and administration efficiency. This scenario should, in turn, lead to improvements in how tax authorities operate. It also means employers will need to be careful that they account correctly for taxation in all of the jurisdictions in which they operate as there will be less room for error.

ATAF was set up in 2008 to promote and facilitate mutual cooperation among African Tax Administrations and other interested stakeholders. It holds the view that "better tax administration will enhance economic growth, increase accountability of the state to its citizens, and more effectively mobilise domestic resources".

2. **Global competition will drive up service standards**

As international companies continue to move into Africa bringing new capital and good business practice with them, standards of service delivery should improve. Increased globalisation and the ability to file documents electronically will also

force local service providers to boost service quality in order to retain international clients. In this context, there are also untapped opportunities for Revenue authorities and employers to make better use of mobile technology.

3. More immigration regulation will be introduced to cut down on foreign workers

On 29 November 2016, Mozambique introduced new regulations on the 'Mechanisms and Procedures' around hiring expatriates. The aim of these regulations was to cut local unemployment and promote the hiring of Mozambican citizens. South Africa has also made the renewal of expatriate work permits more rigorous since 2013.

But this approach is likely to become increasingly common throughout Africa, with growing numbers of rules being introduced to discourage employers from hiring foreign workers. Governments across the continent are under pressure to reduce unemployment and boost local living standards. As a result, these changes are likely to be viewed positively in the domestic context.

4. Action to ensure compliance will continue to mount

Revenue authorities in many African countries are upping the number of taxpayer audits they undertake, while also upskilling staff to enhance revenue collection. Penalties for employers that contravene tax legislation varies across the region, but they are expected to rise in line with the increasing governmental focus on this area. Therefore, payroll professionals will need to monitor compliance ever more rigorously.

Examples include **South Africa**, where tax evasion leads to a penalty of up to 200% of the sum involved and criminal prosecution. In **Nigeria**, a 5% penalty may result as well as interest charges of up to 21% per annum. In **Mauritius**, the penalty if an individual submits a late tax return has been capped at MUR5,000 ($139), while the penalty for late payment of that tax is 2% of however much tax is still outstanding.

To boost awareness of the issue and improve compliance levels, however, some countries are introducing educational programmes. For example, the Uganda Revenue Authority increased its budget expenditure on taxpayer education last year to Shs40 billion ($100,500).

In South Africa, meanwhile, SARS employees took part in a "Walk for Tax" campaign during 2016. Covering a combined distance of 100kms around the country, the aim was to raise awareness about tax at a national level. Commissioner Tom Moyane said: "Walk-for-Tax meant that we get out of our offices to interact with taxpayers. Seeing SARS in the streets – represented by management and staff – is a powerful reminder to South Africans that the 14,500 SARS employees around the country are at their service and ready to help South Africans meet their tax obligations."

To aid the process further, many African tax authorities have already started offering e-filing services in a bid to lower the operational cost of revenue collection and shift the burden of accurate data capture to organisations. As a result, 2017 is likely to see employers being held increasingly responsible for providing information to Revenue authorities in an electronic format.

Country-specific trends

South Africa

The year ahead is likely to see more and more employers applying to claim a deduction in the amount of Pay-as-you-Earn (PAYE) taxation owed to the South African Revenue Services (SARS) courtesy of the ***Employment Tax Incentive***. But here are some other changes:

1. New national minimum wage legislation

On 20 November 2016, Deputy President Cyril Ramaphosa released a report which, if accepted by labour, business and government leaders, could see a proposed minimum wage of R3,500 ($248.57) per month, or R20 ($1.42) per hour, signed into law. If this move takes place, employers are expected to have a two-year adjustment period to implement it. Estimates indicate that about 47% of all workers in the country currently earn less than R3,500 per month so any change would have a substantial impact and repay being closely monitored.

2. Increased incentives for employers to offer bursaries

The Taxation Laws Amendment Bill (TLAB)

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has proposed an increase in fringe benefit tax exemption thresholds for closed bursaries provided by employers in order to assist relatives of employees with their studies. It is due to come into effect from 1 March 2016 (this is not a typing error!) as the aim is to backdate the legislation.

But payroll professionals have called for the implementation date to be changed to 1 March 2017 as payroll software is not normally updated pre-emptively. As a result, such required changes could cause challenges for payroll software suppliers.

The proposal is to increase the income eligibility criteria from R250,000 ($17,760) to R400,000 ($28,403) per annum. Bursary exemption thresholds are also expected to rise from R10,000 ($710) to R15,000 ($1,065) for basic education and from R30,000 ($2,131) to R40,000 ($2,840) for higher education (As the TLAB could have been passed into law by the time this article is published, a careful review of the final details is recommended).

3. Re-characterisation of dividends as remuneration

During the 2016 budget review, it emerged that taxpayers often disguise salary through the use of restricted shares or share-based incentive schemes. SARS is of the view that dividends on these shares have an employment link and should, therefore, be taxed as remuneration - although it has subsequently bowed to the payroll industry's suggestion that these dividends should be treated as income on assessment.

However, employers should still review current share schemes in light of SARS' comments and keep track of any proposed amendments in this area.

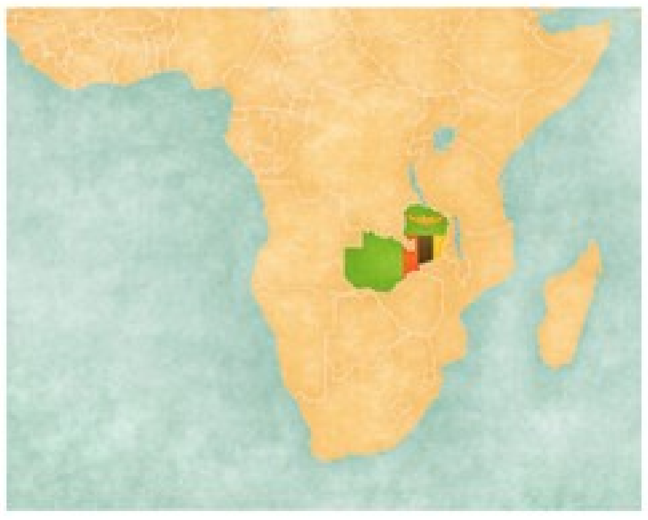
4. Repeal of directors deemed remuneration

In 2002, Paragraph 11C was added to the Fourth Schedule of the Income Tax Act to create a withholding liability for PAYE on the directors of private companies. It would be an understatement to say that this piece of legislation generated more anger among senior managers than any other tax law.

This is because it effectively determined the amount of deemed remuneration to be paid to directors of private companies based on their previous year's remuneration, or on the year prior to that plus 20%, or on a SARS directive. Payroll functions were required to calculate PAYE based on the higher actual remuneration paid or the deemed remuneration.

But the good news is that the TLAB proposal has tabled for this legislation to be repealed, ▶

with effect from 1 March 2017. Once again, payroll professionals will need to review any legislation enacted.



Zambia

The Zambian Minister of Finance, who presented his budget speech on 11 November 2016, announced that forthcoming major tax changes, which come into effect in January 2017, will consist of:

- An increase in the exempt threshold for PAYE to K3,300 ($0.64) per month from K3,000 ($0.58)
- A rise in the top marginal tax rate to 37.5% from 35%
- The introduction of a skills development levy of 0.5%. The levy, which will take the form of an employer contribution, will be calculated based on total gross earnings. The funds raised will be used to boost skills levels across the country.

Kenya

In September 2016, the Kenyan Parliament enacted the Finance Act 2016, which is effective from 1 January 2017. The changes affecting payroll comprise:

- An increase in the resident personal tax relief to KES15,360 ($150.85) per annum from KES13,944 ($136.93) per annum
- Expansion of all income tax brackets by 10%.

Conclusion

Whatever the future holds, we can be certain of one fact: that tax administration and payroll-related legislation will remain as important as ever in a payroll professional's life. Ensuring compliance across multiple countries will continue to be a high priority and access to the correct information will remain critical in ensuring that legislative changes are dealt with in as timely a fashion as possible.

After graduating with a degree majoring in taxation, accounting and managerial accounts and finance, Sharon gained considerable experience in the fields of training, tax issues and financial ICT management, including mergers and acquisitions. She progressed to a position within South African Revenue Services before moving on to Anglo American Property Services, where she became group financial director with responsibility for ICT and payroll. Sharon joined Praxima Payroll Systems in 2001 and steered the company through the development of its own software. It is now a provider of payroll services to some of the largest legal practices in South Africa. She moved to Celergo to take up the role of head of operations UK. She was tasked with rightsizing its operations and refining the payroll processes to improve productivity. Sharon was asked to take on the COO role at Praxima Holdings in 2013 and has helped the company extend its footprint into Africa and beyond. She is a registered tax practitioner and member of CIPP and GPA.