

Payroll Query



When should year of assessment be entered on the Statutory Details tab

In many occasions an employee was terminated in a previous tax year and receives money in the current tax year.

Depending on what income type of pay-out it is, the below extract from the SARS guide for employers iro employees tax stipulates that variable remuneration will be taxed when paid to the employee (thus at the current tax year).

7B. Timing of accrual and incurral of variable remuneration.—(1) For the purposes of this section—
“employee” means an employee as defined in paragraph 1 of the Fourth Schedule;
“employer” means an employer as defined in paragraph 1 of the Fourth Schedule;
“variable remuneration” means—
(a) overtime pay, bonus or commission contemplated in the definition of “remuneration” in paragraph 1 of the Fourth Schedule;
(b) an allowance or advance paid in respect of transport expenses as contemplated in section 8 (1) (b) (ii); or
(c) any amount which an employer has during any year of assessment become liable to pay to an employee in consequence of the employee having during such year become entitled to any period of leave which had not been taken by the employee during that year.
(2) In determining the taxable income derived by any person during a year of assessment, any amount to which an employee becomes entitled from an employer in respect of variable remuneration is deemed to—
(a) accrue to the employee; and
(b) constitute expenditure incurred by the employer,
on the date during the year of assessment on which the amount is paid to the employee by the employer.
[S. 7B inserted by s. 8 (1) of Act No. 22 of 2012 with effect from 1 March, 2013 and applicable in respect of amounts accrued or expenditure incurred on or after that date.]

For example, if you are paying an employee overtime in March 2017 and then were terminated in January 2017 you will not complete the year of assessment on the Statutory Details tab of the terminated record.

You will need to create a new payroll record with an IRP5 start and end date within the current tax year. Since the employee is not employed by the employer anymore, you are not able to use Statutory Tables tax status to calculate tax (no actual days worked) and must use the Temporary tax status (taxed at 25%). The IRP5 start and end date can be in line within the payment month, the date can be the same, since the days worked will not be affected (since no annualisation of remuneration is done)

In other words: Remuneration should be taxed when it is paid to the employee or when it is accrued (whichever happens first).

This principle sometimes causes problems as a payment can be accrued in a tax year but only be quantified and paid in the next tax year. From 1 March 2013, variable remuneration should be taxed in the month that it is paid to the employee and not when it accrues. This was quite a significant change as this will relief the administrative burden of managing these payments. Variable remuneration is defined as: Overtime, bonuses, commission, travel allowance and leave paid out.

It is thus important to review each situation where income for a previous year is paid to an employee in the current tax year, to ensure the correct process is followed.