Tax
Tax fluctuations in February, the final period of the tax year

For RSA payrolls, February will be the final period in the tax year. In this last period, the payroll system will complete a final tax calculation, based on the employees YTD balance of remuneration. A forced average tax calculation will be completed, and the user cannot make changes to the final tax calculated.

What is the difference between Normal and Average tax?

The Sage system uses two different methods of tax calculation – "Normal" or "Average ".

The method of tax calculation at Tax Year End and upon termination is the same for all employees irrespective of the method of tax calculation that is selected during the year (normal/average).

Average Tax The actual year to date balance of remuneration (including the current period) is annualised using the actual days in the employee's tax year. This method is used in cases where income fluctuates. This method is according to the SARS prescribed method of the 'Annual Equivalent Calculation' according to the SARS Employer's Guide for Employees Tax. The employee will always be in a final tax state which should not result in any PAYE surprises at tax year end.

Normal Tax The assumption is made that the past and future balance of remuneration for the employee's tax year was, and will be, the same as for the current period. Only the current period's balance of remuneration is annualised to calculate the employee's tax.

Scenarios where tax is significantly higher or lower in the final period:

- Employees were on *normal* tax during the year, with variable income which fluctuated from period to period. The payroll system will force an average tax calculation when in the final period

- Manual tax adjustments were made during the year to reduce (or increase) an employee's tax (i.e. tax calculated by the system was manually adjusted by the user)

- Incorrect bonus provisions during the year. When a final tax calculation is performed, the system will take the actual bonus payment into account, ignore the bonus provision amount and then determine the final tax due

Note: The two most common reasons behind PAYE differences in February, is due to incorrect bonus provisions and payroll users making manual tax adjustments during the year.

What to check?

12 Month report

If users made provision for tax on annual bonus on employees TAX screens, print the 12 Month report for each employee. Check that the Bonus Provision amount increases incrementally each month. The year to date value for Bonus Provision as at the end of February, must (more or less) be equal to the bonus amount paid.

If users made any manual tax adjustments during the year, VIP will include the adjusted value to determine if the final PAYE liability is less (or more) than the actual PAYE withheld by the employer. The 12 Month report will reflect a "Tax Adjustment" line and the month/months in which tax adjustments were made.

Users are also able to see if an employee was on normal or average tax during the year. The 12 Month report provides a month by month breakdown of earnings, deductions, company contributions and fringe benefits.

FAQ's

What is the "balance of remuneration"?

Remuneration as defined in paragraph 1 of the 4th Schedule to the Income Tax Act, less allowable deductions (contributions towards retirement funds and employee donations, subject to statutory limits).

What is the "average number of days in the tax year"?

The number of months in service multiplied by the average days per month. With the average calculation the system uses 30.4166 (365/12) as the average number of days per month.

How do I check if employees are on normal or average tax?

The TAX screen is used to specify whether the employee must be taxed according to the Normal or the Average Tax calculation.

Which is the preferred choice, normal or average tax?

When an employee has a fluctuating income as a result of overtime, commission, or any other irregular earnings, an over or under deduction of tax can easily occur throughout the year if the average tax calculation is not used. We therefore recommend that users set payrolls to use the average tax calculation. The average tax calculation is also the PAYE calculation applied according to the SARS Employers Guide for Employees Tax.