



# COVID-19 TAX RELIEF MEASURES AFFECTING PAYROLL ALL YOU NEED TO KNOW

**Note:** These are unprecedented times which may lead to ever-changing information. The information in this document is up to date at the time of writing. Please ensure that you are registered on Sage City to keep up to date with any changes and product-specific information. Where relevant, references will be provided to other documents or websites

Due to the COVID-19 pandemic, declared as a national disaster, various relief measures were announced and published. This document will discuss and explain the relief measures affecting payroll.

## Tax Relief Measures

The Ministry of Finance published the draft Disaster Management Tax Relief Bill and the draft Disaster Management Tax Relief Administration Bill on 1 April 2020. These draft Bills provide for relief measures for employers i.r.o. the employment tax incentive (ETI) and PAYE. Although not promulgated yet, these draft Bills provide the necessary legislative amendments required to implement the COVID-19 tax measures. These measures contained in these draft Bills will take effect on 1 April 2020.

## Employment tax incentive (ETI) relief measures

### Background

The employment tax incentive came into effect on 1 January 2014 and was extended to end on 28 February 2029. Qualifying employers can claim an incentive for qualifying employees by reducing the PAYE payable by the employer

A **qualifying employer** is a private sector employer who is registered for employees' tax (PAYE) and who;

- is not in the national, provincial or local sphere of government,
- is not a public entity listed in Schedule 2 or 3 of the Public Finance Management Act (other than those public entities designated by the Minister of Finance by Notice in the gazette),
- is not municipal entity, and
- is not disqualified by the Minister of Finance due to displacement of an employee or by not meeting such conditions as may be prescribed by the Minister by Regulation.

A **qualifying employee** is an employee who;

- has a valid South African ID, a valid asylum seeker permit or valid refugee ID,
- is 18 to 29 years old on the last day of the calendar month or is any age and renders services mainly (more than 50%) within a special economic zone (SEZ) to an employer that carries on trade within a SEZ who is a qualifying company as contemplated in the Income Tax Act under the SEZ regime, or if the employee is employed by an employer that operates in an industry designated by the Minister of Finance,
- was employed by the employer or associated institution on or after 1 October 2013,
- is not a connected person in relation to the employer,
- is not a domestic worker,
- earns at least the minimum wage (the higher of the minimum wage as specified by a wage regulating measure or the National Minimum Wage Act, or if none of these are applicable - R2 000 wage for a full month which is 160 ordinary employed and remunerated hours), and
- earns monthly remuneration of less than R6 500 (i.e. remuneration for a full month, which is 160 employed and remunerated hours must be less than R6 500. If the employee was not employed and remunerated for a full month, the actual remuneration must be grossed-up to 160 hours. Please note that this is remuneration as defined in paragraph 1 of the Fourth Schedule to the Income Tax Act).

The incentive is available for a maximum of 24 months (need not be consecutive) per qualifying employee (previous employment and employment with an associated person must be taken into account), broken up into the 'first 12 months' period and the 'next 12 months period' as per the table below. If the employee was not employed and remunerated for a full month (i.e. 160 employed and remunerated hours) the ETI amount must be pro-rated according to the actual employed and remunerated hours in relation to 160 hours.

Monthly remuneration	First 12 months	Next 12 months
R0 – R1 999.99	50% of monthly remuneration	25% of monthly remuneration
R2 000 – R4 499.99	R1 000	R500
R4 500 – R6 499.99	Formula: R1 000 - (50% x (monthly remuneration – R4 500))	Formula: R500 - (25% x (monthly remuneration – R4 500))

## Proposed relief measures

These measures are deemed to come into operation on 1 April 2020 for a 4-month period until 31 July 2020. These measures will only apply to employers who are registered for employees' tax with SARS on or before 1 March 2020. Changes are indicated in blue.

A **qualifying employee** will be an employee who;

- has a valid South African ID, a valid asylum seeker permit or valid refugee ID,
- is 18 to 29 years old on the last day of the calendar month, or **is 30 to 65 years old on the last day of the calendar month (April 2020 – July 2020)**, or is any age and renders services mainly (more than 50%) within a special economic zone (SEZ) to an employer that carries on trade within a SEZ who is a qualifying company as contemplated in the Income Tax Act under the SEZ regime, or if the employee is employed by an employer that operated in an industry designated by the Minister of Finance,
- was employed by the employer or associated institution on or after 1 October 2013,

- is not a connected person in relation to the employer,
- is not a domestic worker,
- earns at least the minimum wage (the higher of the minimum wage as specified by a wage regulating measure or the National Minimum Wage Act, or if none of these are applicable - R2 000 wage for a full month which is 160 ordinary employed and remunerated hours), and
- earns monthly remuneration of less than R6 500 (i.e. remuneration for a full month, which is 160 employed and remunerated hours must be less than R6 500. If the employee was not employed and remunerated for a full month, the actual remuneration must be grossed-up to 160 hours. Please note that this is remuneration as defined in paragraph 1 of the Fourth Schedule to the Income Tax Act)

**The ETI amounts will increase/change to the following (changes indicated in blue);**

Monthly remuneration	First 12 months	Next 12 months	Months exceeding 24 months/30–65 years of age
Apply to:	Qualifying employees aged 18 to 29 years old or who qualify according to the SEZ criteria.	Qualifying employees aged 18 to 29 years old or who qualify according to the SEZ criteria.	Qualifying employees aged 18 to 29 years old or who qualify according to the SEZ criteria who have already qualified for 24 months, or qualifying employees aged 30 to 65 years old. This column is only valid from 1 April 2020 – 31 July 2020
R0 – R1 999.99	<b>R500 +</b> (50% of monthly remuneration)	<b>R500 +</b> (25% of monthly remuneration)	<b>R500</b>
R2 000 – R4 499.99	<b>R1 500</b>	<b>R1 000</b>	
R4 500 – R6 499.99	Formula: <b>R1 500 - (75% x (monthly remuneration – R4 500))</b>	Formula: <b>R1 000 - (50% x (monthly remuneration – R4 500))</b>	<b>Formula: R500 - (25% x (monthly remuneration – R4 500))</b>

- It is our interpretation that the amount in the 3rd column (i.e. months exceeding 24 months/30-65 years of age) should not be pro-rated if the employee was not employed and remunerated for a full month (160 employed and remunerated hours). The actual remuneration must still be grossed-up to a full month if the employee was not employed and remunerated for a full month to calculate the ETI amount, but the ETI amount must not be pro-rated. We have requested confirmation of our interpretation.
- All other ETI rules/conditions/calculations remain the same
- Employers who are not registered for employees' tax with SARS on or before 1 March 2020 may claim ETI, but not the additional ETI as indicated in the table above.

**ETI refunds:**

SARS will accelerate the payment of employment tax incentive reimbursements from twice a year to monthly as a means of getting cash into the hands of tax compliant employers.

Please note that 'reimbursements' are the 'ETI Carry Forward' value on the EMP201.

\*\*\*Please note that no changes will be made to the payroll system to accommodate this. This will be an administrative requirement by SARS after the employer has submitted and paid the EMP201 before the deadline.

## Examples to illustrate the additional ETI relief

Example 1:

Employer XYZ employs 3 qualifying employees.

- Employee A (aged 22): Has qualified for ETI 4 times before April 2020, the month of April is his 5th qualifying month. All qualifying criteria are met. The employee's monthly remuneration is R3 500.00. Employed and remunerated for a full month.
- Employee B (aged 28): Has qualified for ETI 24 times before April 2020. All qualifying criteria are met. The employee's monthly remuneration is R3 000.00. Employed and remunerated for a full month.
- Employee C (aged 40): Has not qualified for ETI before. All qualifying criteria are met. The employee's monthly remuneration is R6 000.00. Employed and remunerated for a full month

	Before Change (before April 2020)	After Change (from 1 April 2020 until 31 July 2020)
Employee A	R1 000	R1 500
Employee B	R0	R 500
Employee C	R0	R125 (R500 – (25% x (R6 000 – R4 500))
<b>Total ETI:</b>	<b>R1 000</b>	<b>R2 125</b>

Example 2:

Employer XYZ employs 3 qualifying employees.

- Employee A (aged 22): Has qualified for ETI 14 times before April 2020, the month of April is his 15th qualifying month. All qualifying criteria are met. The employee's monthly remuneration is R3 500.00 (grossed-up remuneration). Employed and remunerated for 100 hours.
- Employee B (aged 28): Has qualified for ETI 24 times before April 2020. All qualifying criteria are met. The employee's monthly remuneration is R3 500.00 (grossed-up remuneration). Employed and remunerated for 100 hours.
- Employee C (aged 32): Has qualified for ETI 5 times before. All qualifying criteria are met. The employee's monthly remuneration is R6 000.00 (grossed-up remuneration). Employed and remunerated for 100 hours.

	Before Change (before April 2020)	After Change (from 1 April 2020 until 31 July 2020)
Employee A	R 500	R625 (pro-rata: R1 000 / 160 x 100)
Employee B	R0	R 500 (no pro-rata)
Employee C	R0	R125 (R500 – (25% x (R6 000 – R4 500)) (no pro-rata)
<b>Total ETI:</b>	<b>R 500</b>	<b>R1 250</b>

\*\*\*Sage will be implementing the required proposed changes in the payroll system as soon as possible – further information will follow.

## Pay-as-you-earn (PAYE) relief measures

### Deferral of payment of PAYE for qualifying employers:

A 'qualifying employer' that is a tax resident (or representative) that is registered for employees' tax by 1 March 2020, for a limited period of 4 months from 1 April 2020 – 31 July 2020 will be allowed:

- To pay only 80% of the employees' tax withheld/deducted (PAYE liability) without SARS imposing penalties and interest for the late payment thereof. Therefore, the PAYE payable for April (which must be paid before 7 May) can be reduced by 20% and only 80% will be payable. The same will apply for the following three months of May, June and July.

The remaining 20% must be paid to SARS in 6 equal monthly instalments commencing on 7 September 2020 and ending on 5 February 2021. If these payments are not made before the deadline, SARS will impose penalties and interest.

The employer must still declare the full PAYE liability as calculated by the system during this four-month period, the only change is i.r.o the payment to be made to SARS. SARS will impose penalties if they discover that the employer has understated the PAYE liability for any of the 4 months or if the employer does not qualify due to not being tax compliant.

Currently it is unclear how these deferral payments must be made/processed on the EMP201 (i.e. whether new fields will be made available etc.) and further clarity must be provided in this regard.

'Qualifying employer' is a company, trust, partnership or individual;

- that is a taxpayer as defined in section 151 of the Tax Administration Act that conducts trade
- that has a gross income of R50 million or less during the year of assessment ending on or after 1 April 2020 but before 1 April 2021.
- whose gross income for the year of assessment does not include more than 10% income derived from interest, dividends, foreign dividends, rental from letting fixed property and any remuneration received from an employer, and
- that is tax compliant as referred to in section 256(3) of the Tax Administration Act when relying on a deferral under this Act.

Example:

Employer A is a qualifying employer.

Payroll Month	Gross PAYE liability as calculated by the system and declared on EMP201	Less 20% deferral	Equals 80% payable to SARS	Deadline Date
April 2020	R150 000	R30 000	R120 000	7 May 2020
May 2020	R145 000	R29 000	R116 000	5 June 2020
June 2020	R155 000	R31 000	R124 000	7 July 2020
July 2020	R150 000	R30 000	R120 000	7 August 2020
Cash flow benefit		R120 000		

Payment of deferred PAYE liability (please note that this table excludes the PAYE liability of the payroll month and is only to illustrate the payment of the deferred PAYE – which must be paid together with the month's PAYE liability):

Payroll Month	Amount payable	Deadline date
August 2020	R20 000	7 September 2020
September 2020	R20 000	5 October 2020
October 2020	R20 000	6 November 2020
November 2020	R20 000	7 December 2020
December 2020	R20 000	7 January 2021
January 2020	R20 000	5 February 2021
Total deferred PAYE	R120 000	

\*\*\*Please note that no changes will be made to the payroll system to accommodate this. This will be an administrative requirement by the employer when making EMP201 payments to SARS.

### **Covid-19 disaster relief trust payment excluded from remuneration:**

Receipts from 'Covid-19 disaster relief trust' is excluded from remuneration and therefore exempt from PAYE, UIF, SDL etc.

Currently it is unclear which IRP5 code should be used to report this and further clarity must be provided by SARS. Until we get clarification, you can use IRP5 code 3602 (excluded from PAYE, UIF, SDL etc.)

\*Covid-19 disaster relief trust' means any trust established for the sole purpose of disaster relief in respect of the Covid-19 pandemic, declared a national disaster on 15 March 2020 by the Minister of Cooperative Governance and Traditional Affairs.

### **SDL and UIF contributions relief measures**

There is still no further information regarding the tax relief measures mentioned by the President i.r.o UIF and SDL contributions.

## **Unemployment Insurance Fund (UIF) Benefits**

The Minister of Employment and Labour has announced and published relief measures that will compensate affected workers through existing UIF benefits and the Temporary Employee/Employer Relief Scheme (TERS).

### **Existing UIF Benefits**

The Unemployment Insurance Fund will compensate the employee due to the Covid-19 pandemic through its existing 'illness benefit', 'reduced work time benefit', 'unemployment benefit' and 'death benefit'. Certain documentation/forms must be submitted by both the employer and employee.

Application forms can be downloaded from the Department of Employment and Labour website: [www.labour.gov.za](http://www.labour.gov.za) For any further assistance claiming existing UIF benefits, please contact the Department of Employment and Labour.

You can also refer to the '[Easy Guide for Electronic Claims](#)' on the Department of Employment and Labour website for more information.

\*Please note that the information below is i.r.o. existing UIF benefits for Covid-19, the existing UIF benefits in all other scenarios/cases will remain the same as per the UI Act.

### **Illness benefit**

- Where a contributing employee is in quarantine for 14 days due to the Covid-19 pandemic, the employee shall qualify for an illness leave benefit
- Confirmation from both the employer and employee must be submitted together with the application as a proof that the employee was in an agreed pre-cautionary self-quarantine for 14 days.
- In this instance, the confirmation letters from the employer and employee shall suffice.
- Should an employee be in quarantine for more than 14 days, a medical certificate from a medical practitioner must be submitted together with continuation form for payment.
- This benefit is calculated in terms of the Unemployment Insurance Act (i.e. for every 4 days worked, the employee accumulates one day credit and the maximum credit days payable of 365 days for every 4 years).
- Other required forms and documents: UI19, UI2.7, UI2.2, UI2.8 and a copy of an identification document (for example an RSA ID).
- The Illness benefit i.r.o Covid-19 is effective 26 March 2020 and will remain in operation for a period of 3 months or until it is withdrawn by the Minister, whichever comes first.
- The employer must use code '10' (Illness/medical boarded) as the 'UIF employment status code/ reason for termination code' in the UIF submit file (if the employee is still on illness leave at the end of the month) and on the UI19.

\*\*\* 'Quarantine' means separating a symptomatic individual potentially exposed to a disease from non-exposed individuals in such a manner so as to prevent possible spread of infection or contamination.

### **Reduced work time benefit**

- Where a company implements reduced or short time due to Covid-19.
- A contributor who loses part of his/her income due to reduced working time, despite being still employed is entitled to benefits if the contributor's total income falls below the benefit level that the contributor would have received if he/she had become wholly unemployed, subject to that contributor having enough credits.
- This benefit is the difference between what the employer pays and normal UIF benefits payable in terms of the Unemployment Insurance Act (i.e. for every 4 days worked, the employee accumulates one day credit and the maximum credit days payable of 365 days for every 4 years).
- Required forms and documents: UI19, UI2.7, UI2.1, UI2.8 a letter from the employer confirming the reduced work time is due to Covid-19 and a copy of an identification document (for example an RSA ID).
- The employer must use code '17' (Reduced work time) as the 'UIF employment status code/ reason for termination code' in the UIF submit file (if the employee is still on reduced work time at the end of the month) and on the UI19.

## Unemployment benefits

- A contributor who loses his/her employment due to retrenchment due to the Covid-19 pandemic will be able to claim unemployment benefits.
- This benefit is calculated in terms of the Unemployment Insurance Act (i.e. for every 4 days worked, the employee accumulates one day credit and the maximum credit days payable of 365 days for every 4 years).
- Required forms and documents: UI19, UI2.8, copy of an identification document (for example an RSA ID), and proof of registration as a work-seeker.
- The employer must use the relevant termination code (for example '08' which refers to Insolvency/Liquidation etc.) as the 'UIF employment status code/reason for termination code' in the UIF submit file and on the UI19.

## Death benefit /dependant's benefit

- In the undesirable event where a contributor passes on due to Covid-19, the dependants will qualify for a benefit.
- Benefits are paid to the beneficiaries of the deceased.
- People eligible to apply (in this order) are a spouse, life partner, children and nominated persons.
- Required forms and documents: UI19, UI53, UI2.5, UI2.6, death certificate, identification document of deceased applicant, UI2.8 and copy of the dependant's identification document.
- The employer must use code 02 (Death) as the 'UIF employment status code/reason for termination code' in the UIF submit file and on the UI-19.

## Temporary Employee/Employer Relief Scheme (TERS)

The Minister of Employment and Labour has issued a [Directive](#) called Covid19 Temporary Employee/Employer Relief Scheme (C19 TERS) effective 26 March 2020. This Directive will remain in operation for a period of 3 months or until it is withdrawn by the Minister, whichever comes first.

During this COVID-19 lockdown period, some companies might have to close/shut and for some employers it is not economically possible to continue to pay employees. In this case, the Department of Employment and Labour has created a special benefit under the Unemployment Insurance Fund as per the Directive.

- Should an employer as a direct result of the Covid-19 pandemic close its operations for 3 months or a lesser period and suffer financial distress, the company shall qualify for a Covid-19 Temporary Relief Benefit.
- The benefit shall be de-linked from the UIF's normal benefits and therefore the normal rule (for every 4 days worked, the employee accumulates one day credit and the maximum credit days payable of 365 days for every 4 years) will not apply.
- The benefits will only pay for the cost of salary for the employees during the temporary closure of the business operations.
- An employee who is being paid by the employer during this period is not entitled to this benefit.
- The salary benefits will be capped to a maximum amount of R17 712 per month, per employee and an employee will be paid in terms of the income replacement rate sliding scale (38% - 60%) as provided in the UI Act.
- Should an employee's income determined in terms of the income replacement sliding scale fall below the minimum wage of the sector concerned, the employee will be paid a replacement income equal to the minimum wage of the sector concerned.
- Qualifying employees will receive a benefit calculated in terms of section 12 and 13 of the UI Act, provided that an employee shall receive a benefit of no less than the sector specific minimum wage.



- The TERS payment made to the employee is exempt from income tax in terms of section 10(1) (mB) of the Income Tax Act, therefore, not included in remuneration and excluded from PAYE, UIF, SDL etc. Currently it is unclear which IRP5 code should be used to report this and further clarity must be provided by SARS. Until we get clarification, you can use IRP5 code 3602.
- For the company to qualify for TERS, it must satisfy the following requirements:
  - the company must be registered with UIF,
  - the company must comply with the application procedure for the financial relief scheme, and
  - the company's closure must be directly linked to the Covid-19 pandemic.

### **Application procedure**

- The employers shall apply by reporting their closure to email box [covid19ters@labour.gov.za](mailto:covid19ters@labour.gov.za) and there shall be an automatic response outlining the application process.
- The employer shall be required to furnish the Fund with the following documents:
  - Letter of authority of company, on an official company letterhead granting permission to an individual specified to lodge a claim in behalf of the company.
  - Signed Memorandum of Agreement (MOA) from the employer or Bargaining Council with the UIF.
  - Prescribed template (CSV file) that will require critical information from the employer.
  - Evidence/payroll as proof of last three months employees' salaries.
  - Confirmation of bank account details in the form of a certified latest bank statement.
- An employee who is being paid by the employer during this period is not entitled to this benefit.
- All document submitted will be subject to verification.
- It is our understanding that the employer must use code '17' (Reduced work time) as the 'UIF employment status code/reason for termination cods' in the UIF submit file (if the company is still temporarily closed/shut due to Covid-19 at the end of the month). We have requested confirmation of our understanding.

\*\*\*There is uncertainty i.r.o some of the information required in this prescribed template (CSV file) required by the DoEL. We are investigating this with the required stakeholders and will implement this in our system once clarification is obtained.

For more information regarding TERS, please refer to the [TERS Guide for Employers](#) on the Department of Employment and Labour website.

UIF has also developed a hotline for COVID-19 TERS Benefit enquiries during lockdown period: 012 337 1997.

Workers, companies and stakeholders are urged to follow [@DeptofLabour](#) and [@UIFbenefits](#) on Twitter and visit [www.labour.gov.za](http://www.labour.gov.za) for regular updates.

## Sources

Income Tax Act

Employment Tax Incentive Act

Unemployment Insurance Act

Draft Disaster Management Tax Relief Administration Bill, 2020

Draft Disaster Management Tax Relief Bill, 2020

Explanatory Memorandum on the Disaster Management Tax Relief Bill, 2020

Department of Employment and Labour website: <http://www.labour.gov.za/>

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