IN the NEWS

HG CHARTERED Accountants

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THE NEW TRAVEL ALLOWANCES: HOW DO THEY AFFECT YOU AND ARE THEY WORKING?

For the new tax year changes were made to how we are reimbursed for business travelling expenses.

Why did SARS make changes and to which type of travel allowance?

Travel allowances have been around for a long time. Initially, they gave considerable benefits to people earning salaries as the fringe benefits tax was less than the economic benefit. SARS in trying to close this gap have made many alterations to travel allowances which have made them quite complex.

There are three types of allowance compensating employees for business travel:

1. Where the employer provides a company-owned car for the employee

2. A travel allowance is given to some staff members whereby the employee uses his or her own vehicle

3. A reimbursement of business travel expenses where the employee is paid a rate per kilometre travelled.

In practice, the first two methods involve a considerable amount of administration and estimation. For example, if a company pays out a travel allowance, it has to work out the cost of a vehicle and the running costs. Employees are given allowances according to their job status and thus the employer will usually offer a different allowance to, say, a junior manager versus a senior manager. The employer also has to work out how much business mileage the employee will do and deduct PAYE accordingly. The employee has to keep a logbook and has to complete the travel allowance section when doing his or her Income Tax return.

The third method has until now only applied if the employee did <u>12,000 kilometres or less</u> business travel during the tax year. The company paid a per-kilometre rate, usually the SARS rate, currently R3.61 per kilometre. If the SARS rate was paid, the process was simple and no PAYE was deducted. If however the employer paid more than the SARS rate or paid out an actual allowance, then the difference was taxed and PAYE was deducted.

The problem with this third method was it was limited to staff doing 12,000 or less business travel kilometres.

The 2018/2019 changes are to the third method above and are intended to simplify matters for businesses, employees and SARS.

The changes made

SARS have scrapped the 12,000 p.a. kilometre cap and have encouraged employers to only pay out the

SARS kilometre rate (i.e. to do away with the first two methods above). This will considerably simplify things for both sides as both employer and employee will have less administration workload. It will also make assessing taxes easier for SARS.

Examples best illustrate this -

Example 1: SARS rate of R3.61 per kilometre used to reimburse travel expenses.

An employee does 30,000 kilometres business travel in the 2018/2019 year

He gets paid out: R108,300. (30,000 kilometres X 3.61 a kilometre)

PAYE: Nil.

Note: the employee needs to keep a logbook to justify the 30,000 kilometres business travel.

Example 2: The employee does 30,000 kilometres business travel and is paid R5 per kilometre plus is given an allowance of R10,000.

PAYE is deducted on the difference between R5-00 and the SARS rate of R3-61

or

30,000 X R1-39 = R41,700

Plus R10,000

Total R51,700 is added to the employee's taxable income and PAYE is deducted as per the tax tables.

Note: As part of the PAYE process, Skills Development Levy (SDL) and Unemployment insurance (UIF) are also deducted.

The employee will have to complete the travel allowance section in his or her Income Tax return and will either get a refund or have to pay in additional tax.

In the event that the employee gets a refund of some or all the PAYE paid, the company will not be able to get back the additional SDL and UIF it has paid (the company picks up half of the costs of SDL and UIF). This is because there is no mechanism to claw back these amounts if the employee gets a refund when doing his or her Income Tax return.

In summary, the SARS revised allowance is clearly easier for all parties. However employees will almost certainly resist using this method, particularly the more senior employees who will see their travel allowance eroded.

Time will tell how successful the revised travel allowance will be.

GOOD STAFF RELATIONSHIPS ARE JUST AS IMPORTANT AS PAY

There are strikes seemingly now all the time and usually the dispute is over wage increases and benefits. On the other side of the coin, when employers speak, they often talk of the country's skills deficit and labour laws.

Recent research in KwaZulu-Natal has highlighted that there are equally important issues for both employees and employers. As it has been shown that a contented labour force is a productive one, it is worthwhile taking a moment to understand this new research.

Why workers quit their jobs

Of the employees surveyed, only 6% cited low pay as their main gripe. Others mentioned "better jobs found" (6%), "a new job with less hours worked" (8%), whilst 10% left to pursue better education and 16% felt their current job was too dangerous. 46% left because of "poor relationships" – 16% of these workers felt their relationships with co-workers were poor and the remaining 30% left due to difficulties with their employer.

Reasons for these relationship breakdowns with co-workers were often mid-level (particularly young or female) black managers being promoted and having problems with the staff they supervised. This led to jealousy and mistrust.

Another factor was workers becoming isolated from their dependents due to the distance from work to their spouses, family and children. Ancillary to this is unemployed family and community members pressurising workers to support them out of the wages they earned. These dependents have been seen to even resort to tactics like witchcraft to ensure they were provided for. This often leaves the worker with only small amounts of money for themselves.

The fact remains however that by far the largest single cause of people quitting their jobs involves a breakdown in the relationship with their employer.

So what do workers want to see in the relationship with their employer?

- Being treated fairly and given equal opportunity ranked high with workers.
- Receiving recognition for their efforts is also important.
- Lower paid workers spoke approvingly of being respected in their jobs, despite their low pay.
- Helping employees with training and education, employing their family members and helping financially with their children's education were also raised.

And what do employers want?

For employers their criteria for employing people were that employees needed to be positive, punctual and reliable.

There is thus a split between employer and employee expectations – one looks mainly to relationships and the other just wants to get the job done efficiently.

It makes sense therefore for you to explore how to satisfy both your employees' needs and those of your business. Understanding what is at the heart of both employee and employer aspirations will greatly help in establishing a stable, productive workforce.

BOX CLEVER WITH CASH WHEN YOU RETIRE

"The question isn't at what age I want to retire, it's at what income." George Foreman

There are many things to consider when you retire. One thing to be careful of is the amount of money you cash in from your retirement savings.

Taking cash from your retirement savings: What to take into account

Friends will tell you that the tax treatment is favourable to taking cash from your retirement fund. This is correct as the first R500,000 is tax free and thereafter the rates of tax are generous versus normal taxation – the maximum tax rate on cash withdrawals is 36% versus a maximum marginal rate of normal tax of 45%. For example, if you draw R1 million the tax will be R117,000 (or 11.7%).

More important is what you do with this cash. Paying off debt is a good thing as a) it will reduce your ongoing monthly commitments and b) if you default on your payments, you risk losing the asset being financed which will be difficult to replace on a pension.

Other people take out cash to buy a business to keep them occupied in retirement and also for the additional income. If you are thinking of doing this, plan carefully to prevent being saddled with liabilities if the business should fail.

Don't be fixated on cash

A more important point is how much income you will need when you stop working. Look at what you are currently earning and if that gives you a satisfactory standard of living, then get your financial adviser to work out if your pension will be equal to current income.

You may well find that this is enough for you to retire on in which case you will not need to draw cash from your retirement funding. Don't forget the power of compounding as maintaining your capital will enhance your monthly pension.

There are many pieces of advice out there. Use your common sense, ask your accountant for guidance specific to your needs, and plan accordingly.

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SARS' NEW SERVICE CHARTER - A POSITIVE STEP

New management at SARS is trying to rebuild the institution as the world class organisation it once was.

Amongst the outcomes it hopes to achieve in this tax year are increases:

- In public trust and credibility,
- In the ease and fairness for taxpayers in their interactions with SARS.

To achieve these goals, SARS has just released a new Service Charter.

Highlights of the Service Charter

The 2018 "Service Charter" replaces the 2007 "Client Charter" which was taken off SARS' website in 2012.

The new Charter starts well by undertaking to be fair and honest with taxpayers, to be courteous, to respect taxpayers' privacy and to allow taxpayers mechanisms to understand and appeal assessments.

In turn, taxpayers need to be timeous and honest in their dealings with SARS, pay all taxes owed, ensure SARS has your correct information, not be involved in or encourage corruption and encourage others to pay their tax.

So far, so good but when it comes to actual interaction between SARS and taxpayers, the word "endeavour" becomes prevalent. For example, SARS will "endeavour" to:

- In peak hours, answer your call within four minutes.
- Complete registrations within two working days (if all the registration conditions have been met).
- Assess eFiled returns within five business days.
- Pay refunds within seven business days of the assessment being finalised, subject to:
    - Nothing else being owed to SARS,
    - All SARS' processes having been completed, and
    - No additional verification or audit is taking place.

    Customs and Excise refunds are to be paid within thirty business days.
- Provide reasons for a queried assessment within forty five business days and consider objections within sixty business days.

In general, at least this should be considered a promising step by SARS to positively re-engage with taxpayers.

What about a Taxpayer Bill of Rights?

There has also been an ongoing debate over a Taxpayer Bill of Rights (TBOR). The Davis Tax Committee has advocated for this, arguing that the relationship between SARS and citizens is fundamental to the social contract between the people and the government. TBORs are considered as being part of international best practice, so let's see what develops.

YOUR TAX DEADLINES FOR AUGUST AND SARS' WORLD MAP OF INTERNATIONAL TAX AGREEMENTS

If you are an individual provisional taxpayer your first 2019 provisional payment is due on 31 August.

P.S. If South Africa's various double taxation agreements, information exchange agreements and other international tax treaties are of interest to you, have a look at SARS' inter-active world map of them on its "International Treaties & Agreements – Map" page **here**.