

Tax Alert

18 April 2008

Accurate IRP5 information now imperative

While most taxpayers are still grappling with the concept of e-filing, it seems that the South African Revenue Service (SARS) has yet another surprise in store.

The e-filing system has been the subject of much discussion, not only within organisations but amongst every person required to submit a tax return. The debate centred not only on the success of the e-filing system, but also on the possible extension of the application of the system in future.

When the system was introduced PricewaterhouseCoopers (PwC) alluded to the possibility that greater reliance would be placed on the information reflected on IRP5 certificates. As it was the first year of using the e-filing system, SARS was lenient when it came to the accuracy of disclosure on IRP5s.

It would seem that PwC's prediction has been realised.



On 8 April 2008, SARS issued a notice whereby it requested employers not to issue any IRP5/IT3 (a) certificates and to postpone their annual PAYE reconciliation process until further notice.

It would appear that this is a first step in its quest to modernise the personal income tax process from a complex manual process to a simplified automated process. Its aim is to reduce the cost of compliance for all taxpayers and to enhance the ability of SARS to detect and act against non-compliance. One can only speculate that its long-term objective is the integration of the information on employers' IRP501 reconciliations to taxpayers' IT12 annual tax returns.



Should this be the case, the importance of top-quality information produced by payroll systems cannot be overemphasised, as this payroll data forms the foundation of the information used to complete monthly and annual employees' tax-related returns submitted to SARS. Employers will play a vital role in providing correct data, not only in respect of the disclosure of remuneration, but also the correct determination of PAYE deducted and paid to SARS.

It is therefore imperative that the employer's payroll system parameters for employees' tax purposes are correctly configured, in order to process and generate accurate and reliable information.

It is almost certain that should SARS identify discrepancies between the IT12 tax return declarations and IRP5 disclosure of an individual, it would trigger a SARS payroll audit at the employer. This is already evident based on numerous SARS-generated enquires in respect

of mismatches found between IT12 returns and IRP5s submitted during the 2007 filing season. Furthermore, any cancellation of IRP5 certificates following submission of IRP501 reconciliations could also trigger a detailed PAYE audit.

PwC can assist you by reviewing your payroll system parameters to determine whether they are consistent with SARS guidelines and the Income Tax Act. In addition, a review can be undertaken of a sample of payslips and IRP5s to verify whether the correct disclosure was used, based on the new guidelines that SARS will announce within the next month as stated in their notice.

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