

30 March 2020

## UPDATE ON GOVERNMENT INITIATIVES TO ASSIST SMMES DURING THE COVID-19 PANDEMIC

As part of our continuous effort to keep you informed of measures available to you during the COVID-19 pandemic, we present a high level overview of the economic and fiscal interventions proposed by National Government, as well as those which have already been finalized to limit the financial impact of the COVID-19 virus on the business community of South Africa.

The following proposed assistance was issued:

1. VAT exemptions
2. Expansion of the Employment Tax Incentive (ETI) criteria
3. Deferral of the Employees tax liability (PAYE)
4. Deferral of the payment of provisional tax
5. SMMES funding procedures
6. Temporary Employee/Employer Relief Scheme (TERS)

### 1. VAT EXEMPTIONS

As a result of the measures put in place under the Disaster Management Act 57 of 2002, “**essential goods**” as defined in Regulation R.398 in Government Gazette No 43148 of 25 March 2020 will be **subject to a VAT exemption and a full rebate of customs duties during the COVID-19 pandemic**, under Item 412.11/00.00/01.00 of Schedule 1 to the Value Added Tax Act 89 of 1991 and rebate item 412.11 of Schedule 4 to the Customs and Excise Act 91 of 1964.

The businesses importing these essential goods would not have to pay VAT.

*Annexure B of Regulation R.398 in Government Gazette No 43148 of 25 March 2020 clarifies essential goods as follows:*

1. Food
  - Any food products, including non-alcoholic beverages;
  - Animal food;
  - Chemicals, packaging and ancillary products used in the production of any food product.
2. Cleaning and Hygienic Products
  - Toilet Paper;
  - Hand sanitizer, disinfectants, soap, alcohol for industrial use, household cleaning products; and personal protective equipment;
  - Chemicals, packaging and ancillary products used in the production of any of the above.
3. Medical
  - Medical and Hospital supplies, equipment and personal protective equipment; and
  - Chemicals, packaging and ancillary products used in the production of any of the above.
4. Fuel, including coal and gas.
5. Basic goods, including airtime and electricity.

## 2. EXPANSION OF THE EMPLOYMENT TAX INCENTIVE (ETI) CRITERIA

The ETI programme makes provision for the employer to claim the ETI in respect of a qualifying employee:

- Who is between the ages of 18 and 29; and
- Has a monthly remuneration of less than R6 500.

Currently the maximum amount of ETI claimable per employee is limited to R1000 in the first year of employment and R500 in the second year of employment.

As a result of the COVID-19 outbreak our Government has proposed the following changes to the current ETI programme to minimize the loss of jobs during this period. The expansion of the ETI programme is limited to a period of 4 months commencing on 1 April 2020.

Increasing the maximum amount of ETI claimable during this four month period for employees eligible under the current ETI Act from R1 000 to R1 500 in the first qualifying twelve months and from R500 to R1 000 in the second twelve qualifying months.

Allowing a monthly ETI claim in the amount of R500 during this four month period for employees from the ages of:

- 18 to 29 who are no longer eligible for the ETI as the employer has claimed ETI in respect of those employees for 24 months; and
- 30 to 65 who are not eligible for the ETI due to their age;
- Accelerating 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 as soon as possible.

This expansion will only apply to employers that were registered with SARS as at 1 March 2020. Further to the above, the current compliance requirements for employers under sections 8 and 10(4) of the ETI Act will continue to apply.

The effective date for the proposed amendments will be deemed to have come into operation for the period 1 April 2020 to 31 July 2020.

## 3. DEFERRAL OF THE EMPLOYEES TAX LIABILITY (PAYE)

For the purposes of this proposal, small or medium sized business is defined to mean any business with an annual turnover not exceeding R50 million.

In order to assist with alleviating any cash flow burden arising as a result of the COVID-19 outbreak, Government proposed the following tax measures for tax compliant small to medium sized businesses:

- **Deferral of payment of 20 per cent of the PAYE liability**, without SARS imposing administrative penalties and interest for the late payment thereof.
- The deferred PAYE liability must be paid to SARS in equal instalments over the six month period commencing on **1 August 2020, i.e. the first payment must be made on 7 September 2020.**

The above-mentioned will not apply to an employer that:

- has failed to submit any return as defined in section 1 of the Tax Administration Act, 2011 (TAA) on the basis required by section 25 of the TAA; or
- has any outstanding tax debt as defined in section 1 of the TAA, but excluding a tax debt
  - in respect of which an agreement has been entered into in accordance with section 167 or 204 of the TAA;
  - that has been suspended in terms of section 164 of the TAA; or
  - that does not exceed the amount referred to in section 169(4) of the TAA.

***Interest and penalties will apply if the employer has understated the PAYE liability for any of the four months.***

The effective date for the proposed amendments will be deemed to have come into operation for the period **1 April 2020 to 31 July 2020 for the deferral of the 20% of the payment. From 1 August 2020 to 31 January 2021 the payment withheld should be paid over 6 equal instalments.**

#### **4. DEFERRAL OF THE PAYMENT OF PROVISIONAL TAX**

Paragraphs 19(1), 21 and 23 of the Fourth schedule to the Act make provision for a provisional taxpayer to submit a return and make provisional tax payment to SARS. The first payment, which is 50 percent of the total estimated liability, must be made within six months after the commencement of the year of assessment and the second payment, which is the total estimated liability reduced by the first payment, must be made by no later than the last day of that year of assessment.

In order to assist with alleviating any cash flow burden arising as a result of the COVID-19 outbreak, Government proposed the following tax measures for tax compliant small to medium sized businesses for a period of 12 months beginning **1 April 2020 to 31 March 2021**:

Deferral of a portion of the payment of the first and second provisional tax liability to SARS, without SARS imposing administrative penalties and interest for the late payment of the deferred amount;

- The **first provisional tax** payment due from **1 April 2020 to 30 September 2020 will be based on 15% of the estimated total tax liability**, while the **second provisional tax payment from 1 April 2020 to 31 March 2021 will be based on 65%** of the estimated tax liability. **Accordingly the total provisional tax payable should amount to 65%** of the estimated tax liability;
- Provisional taxpayers with deferred payments will be required to **pay the full tax liability i.e. 35% when making the third provisional tax payment in order to avoid interest charges.**

*The eligibility criteria for individuals carrying on a business have yet to be finalised, but one possibility is that they will be eligible if their turnover is less than R5 million and no more than 10 per cent of their turnover is derived from interest, dividends, foreign dividends, rental from letting fixed property and any remuneration received from an employer.*

The above-mentioned will not apply to a taxpayer that:

- has failed to submit any return as defined in section 1 of the Tax Administration Act, 2011 (TAA) on the basis required by section 25 of the TAA; or
- has any outstanding tax debt as defined in section 1 of the TAA, but excluding a tax debt
  - in respect of which an agreement has been entered into in accordance with section 167 or 204 of the TAA;
  - that has been suspended in terms of section 164 of the TAA; or
  - that does not exceed the amount referred to in section 169(4) of the TAA.

*Interest and penalties will apply in instances where, upon assessment, it is discovered that a taxpayer does not qualify for relief under the proposed amendments.*

The proposed amendments are deemed to have come into operation on **1 April 2020 and apply to first provisional tax periods ending on or after 1 April 2020 but before 1 October 2020 and to second provisional tax periods ending on or after 1 April 2020 but before 1 April 2021.**

## **5. SMME FUNDING PROCEDURES**

Last week, the Minister for Small Business Development, Ms Khumbudzo Ntshavheni, announced details of the intervention measures to support SMMEs affected by the COVID-19 disaster.

The online application form will be available from 2 April 2020. *It is important to note that only SMMEs that are registered on the database will be considered.*

To register your business please go to <https://smmesa.gov.za>.

Businesses wanting to apply for funding assistance need to meet the following criteria:

- The business must have been registered with CIPC by at least 28 February 2020;
- Company must be 100% owned by South African Citizens;
- Employees must be 70% South Africans;
- Priority will be given to businesses owned by Women, Youth and People with Disabilities;
- Be registered and compliant with SARS and UIF;
- Seda will assist micro-enterprises to comply and request for assistance must be emailed to [debtrelief@seda.org.za](mailto:debtrelief@seda.org.za);
- Whereas small and medium enterprises must ensure own compliance;
- Registration on the National SMME Database – <https://smmesa.gov.za>
- Proof that the business is negatively affected by COVID-19 pandemic;
- Complete the simplified online application platform;
- Company Statutory Documents;
- FICA documents (e.g. Municipal accounts, letter from traditional authority);
- Certified ID Copies of Directors;
- 3 months Bank Statements;
- Latest Annual Financial Statements or Latest Management Accounts not older than three months from date of application – where applicable;
- Business Profile;
- 6 months Cash Flow Projections – where applicable;
- Copy of Lease Agreement or Proof ownership if applying for rental relief;
- If applying for payroll relief, details of employees - as registered with UIF and including banking details – will be required as payroll payments will be made directly to employees;
- SMME employers who are not compliant with UIF must register before applying for relief;
- Facility Statements of Other Funders;
- Detail breakdown on application of funds including salaries, rent etc.
- Application of funds including salaries, rent etc.

## 6. TEMPORARY EMPLOYEE/EMPLOYER RELIEF SCHEME (TERS)

The Unemployment Insurance Commissioner, after consultation with Unemployment Insurance Executive, has also developed a Corona Virus Temporary Employer-Employee Relief Scheme (TERS) to contribute to the containment of the Corona Virus and its impact on job preservation.

Should an employer as a direct result of Covid-19 pandemic need to close, cease and/or suspend its operations for three months or lesser period and suffer financial distress, the company shall qualify for a Covid-19 Temporary Relief Benefit. The benefits will only pay for the cost of salary for the employees during the temporary closure of the business operations.

The amount to be paid per employee is capped to 38% of monthly salary amounting to R17 702, accordingly the **maximum to be paid out will amount to R6 730 per month.**

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.

For the company to qualify for the temporary financial relief scheme, it must be registered with the UIF, 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

Employers must apply for these benefits by reporting their business closure via email to [Covid19ters@labour.gov.za](mailto:Covid19ters@labour.gov.za).

During these challenging times Nexia SAB&T would like to reassure you that our team is dedicated in assisting you and your business with practical advice and assistance for any contingency plans.

Please contact any of your Nexia SAB&T team members for any additional information or assistance.

**Be well and stay safe!**

**Nexia SAB&T**