

Tax Alert

17 November 2008

Are you ready for your Second Provisional Tax Payment in 2009?

The traditional safe harbour of the "basic amount" for the Second Provisional Tax estimate is being withdrawn from 1 January 2009.

From January 2009, provisional taxpayers must base their 2nd payment on at least 80% of their actual taxable income. Estimates that turn out to be lower than 80% of the final taxable income (when calculated), will be subject to a 20% penalty on the under-estimate.

Whilst it seems debatable whether the 80% requirement is reasonable, the biggest impact is that there is no longer a quick-and-simple way to avoid the 20% penalty (i.e. the 'basic' option will be gone). Rather, taxpayers will now be compelled – before year-end – to perform a serious estimate of their expected taxable income for the year.

In addition to applying the necessary adjustments that may be required to the internally generated year-to-date results, taxpayers will also have to take a view on matters that are typically to be resolved only after the year-end, like for example :

Audit adjustments

Tax adjustments (e.g. depreciation; accounting gains vs CGT; provisions; non-tax-deductible expenses; tax-exempt income; etc)

Trading stock on hand at year-end

Division of partnership profits

Trust distributions

Value of agricultural crops held in pooling arrangements

IT3 data, for taxpayers with investment income

IRP5 data, for taxpayers with remuneration income

Actuarial valuations (insurers)

Bonus pay-outs (relevant for the payer and for the recipient).



Taxpayers are advised to review their systems to ensure that these estimates can be initiated after 10 or 11 months so that the Provisional Tax Estimate can be finalised in time for the actual payment at year-end. As indicated above, the new rule takes effect on 1 January 2009, meaning that companies with January or February year-ends are immediately affected.

Are you ready to perform the estimate?

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