

## **HOW DO TAX REFUNDS ARISE? PART 1: By Jonathan Hore**

Tax is a cost to any taxpayer and ideally, one should pay the correct amount of tax and nothing more than what is due. But it often happens that for one reason or the other, we may overpay taxes and then become entitled to tax refunds. But it is not always that you will get your tax refunds processed in time. And you know the feeling; you really want that money like yesterday. You worked for it and it's yours. They say our money is hard-earned and that explains why no-one expects delays in getting their tax refunds. That is the topic of today's tax article. In this article, words importing the masculine shall be deemed to include the feminine. I will analyse the various instances which result in taxpayers having tax refunds claimable from BURS.

### **EMPLOYER DEDUCTS EXCESS PAYE**

Employers are tasked with the responsibility to periodically deduct PAYE from their employees and pay the tax to BURS. Most employers use IT systems to determine the PAYE but some use manual systems. Regardless of how the employers deduct the tax, it is ideal for each employer to do a PAYE reconciliation towards 30 June of each year to ensure that corrections are done in cases where PAYE is over-deducted or under-deducted. If the reconciliations are done, then one should not have to claim a refund from BURS simply because the employer deducted more tax than due.

### **YOU WORK FOR LESS THAN 12 MONTHS**

It can also happen that an employee earns more than P 12 000 per month and as such, their employer will deduct tax using the highest bracket of 25%. That makes sense as that is prescribed by the Income Tax Act. Now, let's assume that for one reason or the other, your employer closes shop when you would have worked for 8 months and you don't manage to secure another job; you will certainly find yourself with a tax refund. Assuming that you earned P 20 000 per month and your employer was correctly deducting PAYE due on that amount of P 3 087.50, you would have paid tax of P24 700 for the 8 months. However, at year-end, the tax on your income of P 160 000 is calculated using the annual tables and yet you would not have worked for a year. Therefore, your correct tax due to BURS will be P 17 050 and yet you would have paid tax of P 24 700. You therefore claim a tax refund from BURS.

### **OVERPAID SELF ASSESSMENT TAX**

Companies are required to pay income tax on the profits they anticipate to make and the tax is paid quarterly in advance before the close of the year. This means that for a company in its 31 December 2018 financial year, it should estimate and pay the tax by 31 March 2018, 30 June 2018, 30 September 2018 and 31 December 2018. Any shortfalls, would be payable by the time of submission of the income tax return. It often happens that taxpayers pay the tax in advance anticipating more profits in a particular year but then the profits may dip and that causes them to have overpaid tax.

The other reason that may cause companies to have tax refunds is when they would have suffered withholding taxes at source and yet they will be in a tax loss situation. As you may know, a company which makes tax losses does not have to pay tax. However, if that company is into construction, its clients are required to deduct the 3% tax and remit it to BURS, regardless of whether or not the company is making tax losses. Situations like the one above result in a scenario where the company will be paying tax through withholding taxes and yet it won't be making any tax profits. The result is obvious; the company finds itself with tax refunds claimable from BURS.

**VAT OVERPAID**

VAT registrants charge VAT on their sales and they claim back any VAT they suffer in acquiring inputs into their business. To put things into perspective, let's assume that you own a laptop dealership. You will obviously need to either buy laptops from local suppliers or import the same. In either cases, you pay VAT which is called input tax. When you sell the laptops, you charge VAT which is called output tax. Now, assuming that in your July 2018 tax period, you imported laptops and paid input tax of P300 000 and yet the VAT you collected (output tax) when you sold laptops was P200 000, that simply means you overpaid VAT. You are therefore entitled to claim the P 100 000 from BURS, through the VAT return.

**AM SWEATING FOLKS**

Eeish, this job of mine is not easy. I didn't realise that I was typing for such a long time; no wonder why I am now sweating. By the way, this old Dell laptop that I got from my ex-employer still works and I regret to inform you that you will keep seeing these articles for some time. Consider yourself tax-infested! And I am not remorseful either.

Well folks, I hope that was insightful. As Yours Truly says goodbye, remember to pay to Caesar what belongs to him.