E - G U I D E

The ultimate guide to payroll for small businesses

Everything you need to know about setting up a payroll scheme

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Introduction: Building problem-free payroll

The next phase of business building

You've started a business that has expanded to the point of requiring more staff to meet demand. Congratulations! This is a landmark and critical graduation point that many small businesses fail to reach. It also means you'll have more complexities to deal with as you add new staff, namely a new set of processes to pay employees, applicable employee tax, and maintain compliance where applicable. All these things must be done on time, every time.

It's a new world for an entrepreneur to step into and there are many intricacies and scenarios that makes for a unique payroll scheme. It can be difficult to keep the reigns on it all. This guide aims to break down the basics of payroll in phases: setting up a payroll scheme, understanding compliance, processing payroll, options for how to best manage it all, and how to decide which is best for your business.

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Processing payroll step-by-step

The payroll process is comprised of the necessary tasks involved in paying your employees. This process starts before payday so all required details are reported to SARS.

What to do on or before payday

On or before payday, you must:

- Record your employee(s)' pay, including their salary and/or wages and any other pay.
- Calculate and record the appropriate deductions from their pay.
- Calculate the employer's UIF that you will need to pay on their earnings.
- Produce and distribute payslips for each employee, itemising their deductions.
- Report employee pay and deductions to SARS.

Other employee payments to report

Be sure to consider other types of payments that should be accounted for per normal guidelines:

- Bonuses
- Commission
- Leave pay
- Travel claims
- Medical aid
- Maternity leave payments
- Guaranteed payments for employees for days they don't work that aren't paid holidays.

Payroll Tax Year-End

Is your organisation ready?

We understand your day-to-day challenges; which is why we want to try and make your business life easier. We've prepared this guide to help you work more efficiently, giving you more time to do what you do best – run, manage and grow your business. Remember that all companies are required to submit their annual employer reconciliation returns to the South African Revenue Services (SARS) generally within 60 days from the start of the Employer Tax Filing season – unless otherwise specified by the Commissioner. However, we know that the deadline can easily be met with the right support. This guide is a checklist of factors you need to consider and carry through – broken down into three phases: preparing for tax year-end, processing tax year-end, and preparing for next year.

Preparing for and processing your Tax Year-End doesn't have to be the dreaded task so many businesses and individuals make it out to be. To help you get on top of your Tax Year-End before it gets on top of you, we've put together a few steps to follow that will guide you to success!

First things first – and that's preparing for your Tax Year-End. Let's do this!

Phase 1: Preparing for Tax Year-End

Step 1: Verify the following

- PAYE Registration Number
- UIF Reference Number
- SDL Reference Number
- Validate your Company Information

Step 2: Verify your employees' information
Check the correctness of the following:

- Names, ID/Passport Numbers
- Bank Account Numbers
- Income Tax Reference Numbers
- Address and Telephone Numbers
- Directive Numbers

Step 3: Check remuneration data

- Verify your employees' earnings, deductions and employer contributions and ensure it was processed against the correct IRP5 code (see codes in appendix).
- Ensure that the Medical Aid Dependants were reflected correctly for each month in the Tax-Year using the monthly Medical Aid billing statement.

Phase 2: Processing Your Tax Year-End

Once all the preparation has been completed, it's time to get down to the nitty-gritty of it all. And that's processing your Tax Year-End. Here, we've broken down your next mission in a few simple steps for you to follow.

Step 1: Reconcile your PAYE, UIF, SDL and ETI values

Step 2: Once you've reconciled, create the CSV file from your payroll and import it into e@syFile Employer

The following steps need to be completed in e@syFile – if you need assistance with any of the below steps, contact the SARS Support Desk.

1. Verify employer information on e@syFile Employer.

2. Capture all manual tax certificates on e@syFile Employer.

3. Complete the EMP501 Reconciliation Declaration on e@syFile Employer.

4. Submit the electronic information to SARS via eFiling.

5. Back up your submission data – both in your payroll system as well as on e@syFile Employer.

6. Ensure the SARS employer statement of account (EMPSA) correctly reflects your final declared and paid amounts.

Phase 3: Prepping for Tax-Year 2019/2020

What can you do to ensure that 2019/2020 will be your easiest and worry-free Tax-Year yet? Follow these simple steps and get the year off to an organised, fast start!

Key dates and reminders

28/29 February	The last day of the Tax-Year
1 March	New Tax-Year starts
31 May	Deadline for annual employer reconciliation submission
31 October	Deadline for the mid-year employer reconciliation submission

Visit your nearest SARS branch and speak to SME helpdesk representative. While your business is still growing, and you don't necessarily have the resources to hire a private tax practitioner, the SARS SME helpdesk may just be your light at the end of the tunnel. Not only will they be able to help you, but in the process, you will be equipped and empowered to handle your small business tax on your own until you can afford an in-house tax and financial administrator.

Understanding payroll compliance

Tax-related compliance
Most common payroll tax mistakes

Not keeping tabs on local laws and requirements
Globally, regulations are becoming more complex because of continual amendments. Even the most experienced payroll professionals turn to different resources to keep them up-to-date. Missing any important mandates can have significant repercussions for a business, which is why it's important to invest in resources with the expertise keep you informed. We'll explore those options later in this guide.

Misclassifying employees and contractors
Understanding worker classification and getting it right is important because it impacts income and employment tax. It also impacts whether the worker is entitled to applicable benefits and how their compensation should be reported.

Late payments
Deadlines are another complexity of payroll tax – specifically payment due dates. And, depending on your business, there's much more to consider than traditional tax season. It's important to keep a calendar that outlines important dates, so nothing slips through the cracks.

No audit controls
If you're not keeping up with local legislation and don't have a system in place to regularly check for compliance, your business is vulnerable to discovering inconsistencies when it's too late. Businesses that implement processes to control compliance are more prepared in case of an audit and can catch costly inconsistencies in advance.
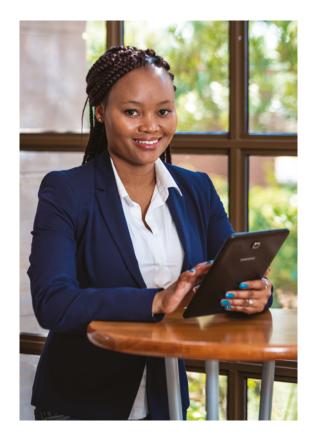
Data inaccuracies
Businesses that use outdated tools to manage payroll data inherently need to spend more time double-checking their figures because of the higher margin of human error. Eighty-eight percent of spreadsheets contain significant errors that can result in overpayment, underpayment, and penalty.

Regulatory compliance
General Data Protection Regulation (GDPR)

The GDPR restates three basic sets of rules relating to personal data: data protection principles, lawful processing, and restrictions on international transfers. Most businesses and individuals should already be aware of these.

However, the GDPR introduces several major new requirements, such as individual rights over the use of their personal data; the right to be forgotten; the right of data portability; and proof of compliance. It comes down to increased protection of individuals' rights and greater accountability for companies and how they manage personal data.

GDPR Checklist for the payroll function

1. Consolidate your personnel and payroll data
If you currently have your personnel and/or payroll data in lots of different locations like spreadsheets, pull everything together into as few locations as possible. Keeping this data in one place will help your payroll team to oversee it properly.

2. Adopt relevant rules and standards
By adopting relevant rules and standards such as ISO27001 – which is a specification for an information security management system – you can make the implementation of GDPR smoother for your business, while also meeting some of the legislation's security requirements.

3. Consider all sorts of data
It's a challenging proposition when it comes to people management but to be GDPR compliant, you need to consider lots of different types of data. How are you handling and storing timesheets? Emails or text messages from employees who are asking for holiday leave? Sick notes?

4. Payslip security
Do you leave printed payslips on your employees' desks? If your business is still using printed payslips, consider upgrading to online payslips, where employees can securely access them – they need to put a password in, for example, before they can see them.

5. Employ or assign a data protection officer if necessary
Certain types of businesses will need to appoint a data protection officer (DPO) – who could be someone contracted from outside your business or an existing employee. Those business examples include public authorities, firms that regularly monitor individuals on a large scale, and companies whose core activities involve the processing of special categories of personal data on a large scale. The DPO will help you to monitor internal compliance and inform your business on its data protection obligations.

6. Remember what data you can and can't collect
Compliance means you won't be able to collect and store lots of personal data if there isn't a purpose for it and consent hasn't been given. Make sure your payroll team is collecting and processing only necessary personal data that is required for each purpose.

7. Give employees full visibility of data you hold about them
Your employees need to know what personal data of theirs your payroll team and business holds. Meanwhile, you will have to respond to subject access requests (SARs) and requests for their personal data to be either rectified or erased. You do have the right to refuse excessive or unfounded personal data requests, however you will need to demonstrate how they are unfounded in your compliance documentation.

8. Create GDPR compliance privacy notices for your employees
Let your employees know what information they are entitled to as per the GDPR's requirement for transparency and this must be done in a way that's clear. Remember, you can't use your employees' data for a different purpose without notifying them. And you might need to offer simple functionality that allows your employees to opt out of the different ways you use their data.
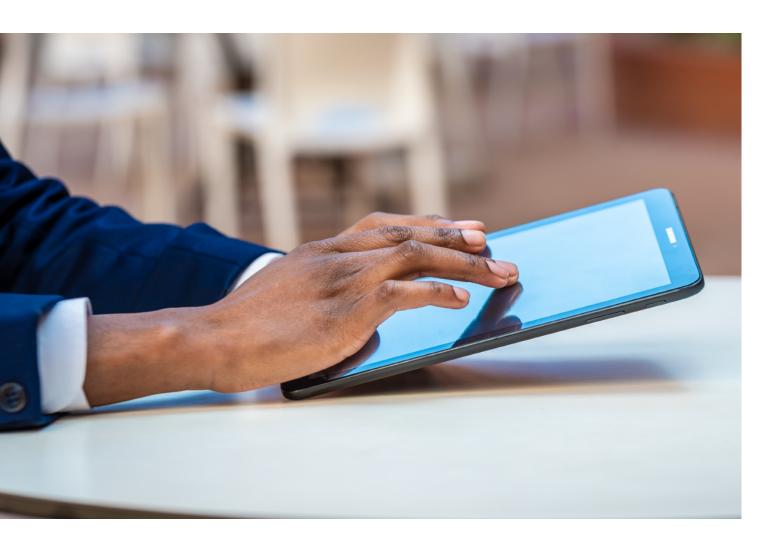
A payroll software provider may be able to help you satisfy some of the security requirements inherently through your software. For example, software that implements password protection for each employee gives them sole access to their personal data. Sensitive employee documents are stored and shared in one place where accessibility rights to things like payroll reports or disciplinary documents are controlled.

You'll also need to establish a procedure to document requests for information and to store the responses to those requests. New-generation payroll management software is equipped with functionality that helps you maintain compliance while responding to different types of requests in a way that protects your employees' personal data rights. For example, to deal with right to erasure requests, newer software includes personal data deletion and correction features, import/export functions, and selection functions to make it simple to isolate and eliminate data as needed.

Businesses still using spreadsheets to manage payroll risk errors in accuracy and compliance, which can be costly even in a single occurrence. Legacy payroll management software can be problematic also because it isn't sophisticated enough to prepare and submit digital returns or keep the correct type of digital records for the mandated period.

Digital transformation is a hot ongoing topic for small businesses. And as payroll is an important part of a business' financial responsibilities, it's natural that they look to see how going digital can make payroll easier. As you decide how to manage payroll at scale for your business, consider if you simply want to modernise processes for scale or transform how your business handles sensitive data and repetitive tasks.

The next section will focus on digital options for small business leaders looking to simplify and modernise their payroll processes.

Options for small business payroll management

Option 1: DIY software

If you have a dedicated payroll resource, can hire a payroll professional, or prefer to handle payroll yourself, an in-house payroll management solution is best. Digital solutions automate the tedious yet crucial parts of the function, allowing the administrator to operate as an overseer without completely relinquishing the connection to the function.

In-house software typically offers the most flexibility and return on investment for small businesses. Not only is in-house software cost-effective, it allows you to protect wage and salary information and maintain control over payroll processing to easily handle last-minute changes.

More confidence, less time
You or your staff can digitally create professional, secure, accurate, and compliant payslips each pay period through a more streamlined manner. It's also a slick way to track absences, attachments, bonuses, expenses, leave pay, hourly payments, UIF, overtime, PAYE, pensions, and salaries.

Automation
Errors from manual data entry are eliminated as you upload hourly pay or salary information only once upon employee hire. The software then creates and prints payslips, IRP5, and payroll reports – usually on customisable stationery. New employees are automatically assessed as they are added to the system to ensure compliance and accuracy. Legislative changes are also automatically updated into the software so there's never a lapse.

Prep for tax season year-round
Today's tools use smart learning to automatically record and track the necessary data for your organisation's tax scheme. They also include annual reporting to help you easily review and file tax documents and payments, which makes the end-of-year easier to manage and takes the stress off you and your staff.

Five signs outsourcing is best for your organisation

1. **Business core is suffering because of payroll tasks.**
   An organisation with senior managers spending time supervising payroll instead of concentrating on their job requirements is an indicator for outsourcing. Outsourcing under these circumstances gives key growth stakeholders vital time back to focus on core business.

2. **Your organisation needs access to payroll specialists.**
   Payroll complexities can grow even more complicated as the staff size increase. Over time you'll need to address occurrences like redundancy, long-service leave, salary packaging, and complex termination. Outsourcing this function means these intricacies are handled by knowledgeable specialists who can guarantee best practice in fairness compliance.

3. **Your organisation doesn't have documented security best practices or governance.**
   Governance forms a critical part of effective risk management. Do you have appropriate disaster recovery processes, system back-up and data storage? How do you address separation of duties and compliance auditing? Outsourcing gives you the benefit of industry best practise. All aspects of your data and all information leading to payroll will be more secure and data managed.

4. **You're concerned about costly non-compliance.**
   It's challenging and costly to maintain compliance in a constantly-changing landscape. Regardless of whether your challenges are income tax, industrial relations, or payroll tax, they are all complex. The cost of getting it wrong (or even proving that you are right) could be sizable. Compliant outsourcing reduces the business risk and exposure.

5. **Your organisation is too reliant on individuals for the entire function.**
   If you're concerned about how much of the payroll process is conducted by too few people in your business, or how much you rely on those few people, you may benefit more from additional outsourced support. The current situation may cause unnecessary stress around payroll, particularly if a vital person is sick or during tax season. Dependence on one or more individual(s) unnecessarily exposes your business to avoidable risks like miscalculations, mistakes or poor compliance management.

Five stages of outsourcing payroll

If you've decided to outsource, it's important to plan your search for a provider thoroughly to ensure the most value for your organisation. Every provider will be eager to sell to you, so it's best to be clear on your requirements through each phase of your plan to outsource.

Scoping
Actively scoping your organisation's specific requirements both now and in the future as it grows.

Proposals and comparisons
Request proposals from providers after you've researched the market. All proposals from potential providers should show:

- An understanding of your organisation's current situation and procedures.
- A detailed recommendation meeting your objectives.
- A clear onboarding process and details on what to expect.
- The benefits of the solution and ROI.
- Transparent pricing.
- SLAs and service guarantees, including service quality, timelines, and deliverables.
- An overview of other offerings available for future business needs.

Demonstration
Seeing the product in operation gives you a visual and practical introduction to the experience for the staff responsible in your organisation. You will be able to take advantage of clever technology which solves issues you may not have grouped into this project.

Implementation
Once you're comfortable with the proposal and demonstration, the provider should execute the implementation plan as agreed with a milestone process that is carefully project managed.

Go-live
A lot of detail should be emphasised around the go-live date of your new payroll process. During the implementation phase you should be provided with a transparent project plan of the information required, delivery timeframes and ownership.

Every go-live is different therefore the Implementation plan should be tailored to your needs. Once your organisation's initial payroll data is migrated, a parallel payroll can be run and data reviewed and compared. Your implementation consultant should discuss the findings with you. At this point you should be able to determine if another parallel is required, which is common.

Choosing your solution

By now, you should have more clarity on which option is right for your organisation. Sage offers a solution suitable for every circumstance, whether you're comfortable handling payroll in-house using our state-of-the-art software or outsourcing with an accountant.

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