

CLIENT GUIDE | BECOMING AN EMPLOYER

Becoming an Employer Guide

Who you answer to, what you owe and why it matters, from PAYE to COIDA

Income Tax Act 58 of 1962 and related payroll legislation | Updated June 2026

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About this guide

Jansen Accountants & Auditors | Becoming an Employer | Updated June 2026

What actually happens when you take on staff: who you now answer to, the obligations you have taken on, why each one matters to your employees and your business, and how the payroll taxes fit in.

Payroll is not really about taxes. It is about people, and the taxes are the consequence. The moment you pay your first employee, you take on monthly and annual duties to SARS, the Department of Employment and Labour, and the Compensation Fund, and each exists for a reason that matters to your staff. This guide explains that whole employer ecosystem in plain terms, then sets out the taxes and returns within it. It reflects the Income Tax Act 58 of 1962, the Unemployment Insurance Contributions Act 4 of 2002, the Skills Development Levies Act 9 of 1999, the Employment Tax Incentive Act 26 of 2013 and the Compensation for Occupational Injuries and Diseases Act 130 of 1993, as at June 2026.

How to read the boxes in this guide

A **JACC insight** explains a point plainly, a **Planning opportunity** points to something worth doing, and a **Common payroll pitfall** warns of what goes wrong. A note from our partner appears where experience matters most.

Professional disclaimer

This guide does not constitute personal advice. Payroll and employment outcomes depend on each employee's package, hours and contract. Have your payroll set up and reviewed by us.

At a glance

The monthly numbers

7th EMP201 and payment due	2% UIF (1% + 1%)	R17 712 UIF monthly ceiling	1% SDL on payroll
R500k SDL exemption threshold	R1 500 Max ETI, first year	R7 500 ETI upper limit	EMP501 Twice-yearly recon

The employer ecosystem

Who you now answer to

Becoming an employer is not one relationship with SARS. It is several relationships at once, each with its own body and its own purpose. This is the whole picture on one page:



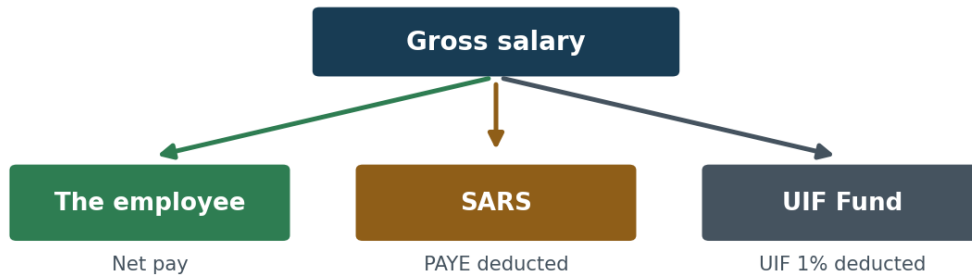
Taking on an employee brings you into contact with four bodies at once, all run through your monthly payroll.

Who you answer to	For what	Why it matters
SARS	PAYE, SDL and ETI, on the monthly EMP201	Collects employees' tax and the skills levy; the ETI reduces your cost
Department of Employment and Labour	UIF declarations and claims	Builds your staff's safety net for when they cannot work
Compensation Fund	COIDA and the Letter of Good Standing	Covers your staff for workplace injury, and you for the liability
The relevant SETA	Skills grants and SDL recovery	Lets you claim part of the skills levy back

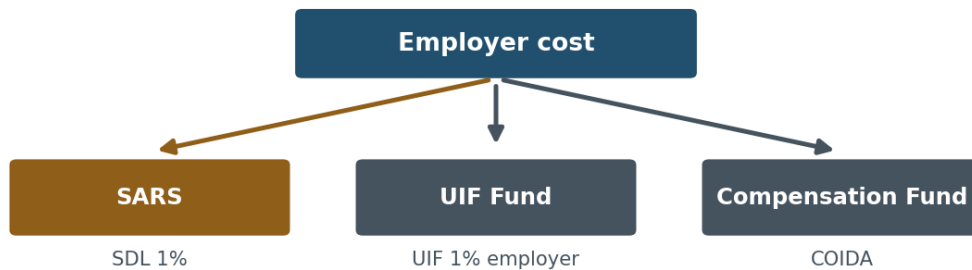
■ Where every rand on the payslip goes

It helps to see the whole flow on one page. Some amounts come out of the employee's salary, and others are an extra cost the employer carries on top. Either way, here is where the money ends up:

From the employee's gross salary



The employer also pays, on top of salary



What is deducted from salary, what the employer pays on top, and where each amount goes.

■ Before you hire your first employee

A readiness checklist

Taking on your first employee triggers most of these at once. Run through this before the first payday:

- Registered for PAYE, and for UIF and SDL where they apply.
- Registered for UIF with the Department of Employment and Labour.
- Registered for COIDA with the Compensation Fund.
- A payroll system set up correctly.
- A written employment contract for each employee.
- The employee's banking and tax details.
- A leave policy and proper records.
- Awareness of your Employment Equity duties if you grow past the thresholds.

JACC insight

You do not need all of this perfect on day one, but you do need to know it exists. The most common first-employer mistake is paying someone for months before registering for PAYE and UIF, then having to catch up with penalties.

■ Registering as an employer

Before the first payday

Register with SARS for PAYE, and for SDL and UIF where they apply. UIF is also registered with the Department of Employment and Labour. Separately, register with the Compensation Fund for COIDA.

- PAYE: register with SARS when you become liable to withhold employees' tax under the Fourth Schedule to the Income Tax Act.
- UIF: register with SARS and with the Department of Employment and Labour.
- SDL: register once your annual payroll is expected to exceed R500 000.
- COIDA: register with the Compensation Fund and submit an annual Return of Earnings.

■ The employer's taxes, in one picture

Four payroll taxes and one insurance obligation come into play. Here they are at a glance, before we take each in turn:

What	Who pays	Rate	Paid to
PAYE	Withheld from the employee	Per the tax tables	SARS, monthly
UIF	1% employee + 1% employer	2% of remuneration (capped)	SARS, monthly
SDL	Employer	1% of payroll	SARS, monthly
ETI	Reduces the employer's PAYE	A rebate, not a cost	Claimed via the EMP201
COIDA	Employer	On a Return of Earnings	Compensation Fund, yearly

■ PAYE

Pay-As-You-Earn

PAYE is the employees' tax you withhold from remuneration each month and pay over to SARS. You calculate it on the SARS tax tables, taking account of the primary rebate, the medical scheme tax credits and allowable retirement contributions. PAYE, with UIF and SDL, is declared on a monthly EMP201 and paid by the 7th of the following month, or the last business day before the 7th if it falls on a weekend or public holiday.

Common payroll pitfall

Late EMP201 payments attract a 10% penalty plus interest, every time. Diarise the 7th, and pay early when it falls near a weekend or public holiday. This is the most common, and most avoidable, payroll penalty.

■ UIF

Unemployment Insurance Fund

UIF is 2% of each employee's remuneration, made up of 1% deducted from the employee and 1% paid by the employer, subject to a monthly remuneration ceiling of R17 712 (so the maximum is R177.12 from each side). Alongside the contribution, your payroll submits monthly employee declarations to the Department of Employment and Labour, through uFiling or an approved payroll system.

■ Why monthly UIF declarations matter

Your staff's safety net

UIF is small in rand terms, but the monthly declarations behind it matter enormously to your employees. Each month your payroll reports each employee's earnings to the Department of Employment and Labour, building up their contribution and earnings history. When an employee needs to claim, that history is what the Fund pays out against. Employees claim for:

- Unemployment, when they lose their job.
- Maternity leave.
- Illness.
- Parental and adoption leave.
- A dependant's claim on the death of a contributor.

Common payroll pitfall

If you do not submit the monthly declarations, your employee may be unable to claim when they most need it, or face long delays while their history is reconstructed. The cost of getting this wrong falls on your staff, which is exactly why it matters. Modern payroll systems generally submit these monthly employee declarations electronically through uFiling or an approved payroll system. The UI-19 is the prescribed form that records an employee's employment and earnings information, and is commonly required when a benefit claim is made.

■ SDL

Skills Development Levy

SDL is an employer-only contribution of 1% of total remuneration. It applies once your total annual payroll exceeds R500 000. Registered employers can recover part of the levy through the relevant Sector Education and Training Authority (SETA), as mandatory and discretionary skills grants, if they submit the required workplace skills plan and training reports.

■ The Employment Tax Incentive

A rebate for young hires

The ETI lets a compliant employer reduce its PAYE bill when it employs qualifying workers aged 18 to 29 earning below a set threshold, for up to 24 qualifying months. It is a genuine saving, not a cost. From 1 April 2025 it applies to qualifying employees earning less than R7 500 a month, and is highest in the first 12 months:

Monthly remuneration	First 12 months	Second 12 months
R0 - R2 499.99	60% of remuneration	30% of remuneration

Monthly remuneration	First 12 months	Second 12 months
R2 500 - R5 499.99	R1 500	R750
R5 500 - R7 499.99	R1 500 less 75% of the excess over R5 500	R750 less 37.5% of the excess over R5 500

From 1 April 2025: the maximum monthly value is R1 500 in the first year, and the employee must earn less than R7 500 a month to qualify. Figures are set by the ETI Act and adjusted from time to time.

Common payroll pitfall

ETI claimed incorrectly is treated as a refund and can attract understatement penalties. The qualifying-employee, minimum-wage, hours and documentation rules are strict, and SARS reviews ETI closely. Have the claim set up and checked before you reduce your PAYE.

COIDA, explained

Insurance, not a tax

Of all the employer obligations, COIDA is the one clients understand least, so it is worth setting out properly. COIDA is the Compensation for Occupational Injuries and Diseases Act 130 of 1993, and it is best thought of as insurance, not tax.

What is it, and why do I pay?

It covers your employees if they are injured, disabled or fall ill because of their work, and it covers their dependants if a worker dies. You pay so that the Compensation Fund, not you personally, carries that cost. It also protects you, because an employee covered by COIDA generally cannot sue you directly for a workplace injury.

Who pays, and how is it calculated?

The employer pays; nothing is deducted from employees. Your annual assessment is determined with reference to your industry tariff, the assessment rate set for that industry, and the annual earnings you declare to the Compensation Fund on the Return of Earnings. Higher-risk industries pay more.

Why do tenders and clients ask for my Letter of Good Standing?

When you are registered and your assessments are paid up, the Fund issues a Letter of Good Standing. Many clients, tenders and main contractors will not deal with you without a current one, because it shows your workers are covered. A lapsed Letter can cost you work.

What happens if I do not comply?

- No Letter of Good Standing, so you lose tenders and contracts.
- Back-assessments for the periods you did not declare.
- Penalties and interest.
- Potential personal liability for an injured employee's costs if you were not registered.

Typical claims

- Construction site injuries.
- Office injuries, such as a fall.
- Factory and machinery injuries.
- Motor vehicle accidents on duty.
- Occupational diseases that develop over time.

■ Fringe benefits

Taxable perks go through payroll

Many non-cash benefits are taxable and must be put through the payroll, not handled on the side. The common ones:

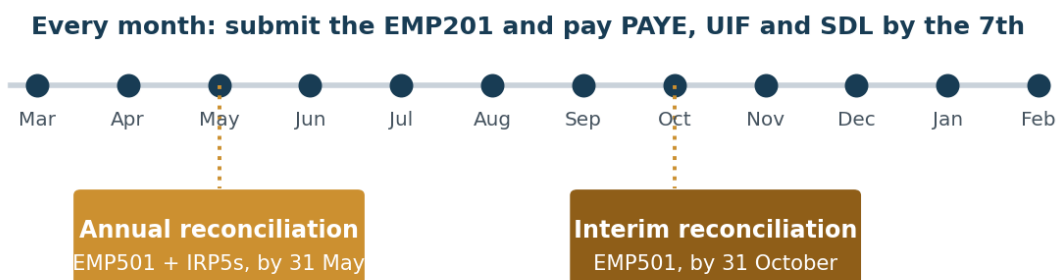
- Company vehicles: a monthly taxable value of 3.5% of the determined value, or 3.25% with a maintenance plan.
- Low-interest or interest-free loans: the difference between the official rate and what you actually charge.
- Employer-provided accommodation, on a statutory formula.
- Medical scheme contributions paid by the employer, and certain allowances.

See also: Our JACC Tax Guide for the fringe benefit and allowance detail, and the travel allowance rules.

■ The payroll year

Monthly and annual duties

Payroll runs on a monthly rhythm with two reconciliation points in the year:



And once a year: the COIDA Return of Earnings to the Compensation Fund.

The monthly EMP201 cycle, the two EMP501 reconciliations, and the annual COIDA return.

■ The EMP501 reconciliation

Why it matters to your staff

Twice a year you submit an EMP501 reconciliation, which ties your monthly EMP201 declarations and payments to the tax certificates (the IRP5s and IT3(a)s) you issue to employees. The interim reconciliation covers the six months to August and is due around the end of October; the annual reconciliation covers the full year to February and is due around the end of May. The exact dates are set by SARS each year.

JACC insight

The EMP501 matters to your staff, not just to SARS. The IRP5s it produces are what pre-populate your employees' tax returns and auto-assessments. If the EMP501 is wrong or late, your employees cannot file correctly and their refunds are delayed. Getting payroll right is a service to your people.

Common payroll pitfall

An EMP501 that does not balance, or IRP5s with the wrong source codes, is a frequent source of SARS queries and the reason employees cannot file their own returns. Accurate monthly payroll is what makes the reconciliation simple, so get it right each month rather than fixing it twice a year.

Contractors vs employees

Why SARS cares

Calling someone an independent contractor does not make them one. SARS looks at the substance of the relationship, not the label, and if a 'contractor' is really an employee, you should have been deducting PAYE all along.

- If you control how, when and where the work is done, the person is likely an employee.
- If they work mainly for you, use your tools and are part of your organisation, likely an employee.
- A genuine contractor runs their own business, carries their own risk and works for several clients.

Common payroll pitfall

Getting this wrong is expensive. If SARS reclassifies a contractor as an employee, you can be liable for the PAYE you should have withheld, plus penalties and interest. When in doubt, ask us before you set the arrangement up.

What happens if your payroll is wrong

It lands on your staff, and you

Payroll errors rarely stay hidden, and they usually surface at the worst time. The common ones:

What goes wrong	The consequence
The EMP501 does not reconcile, or an IRP5 has wrong codes	Your employee cannot file their return, or their auto-assessment is wrong.
Monthly UIF declarations are missing	Your employee cannot claim UIF when they need it.
The COIDA Return of Earnings lapses	Your Letter of Good Standing expires and you lose a tender.
ETI is claimed incorrectly	SARS disallows it, with penalties.
PAYE is under-deducted	You, the employer, carry the shortfall, plus penalties and interest.

Payroll software

Helpful, but not a substitute

Most modern payroll systems automate the EMP201, the EMP501, the UIF declarations and much of the compliance, which is a real help. But the software does not remove your responsibility as the employer. Incorrect setup, wrong codes or missed registrations still produce incorrect submissions, and SARS holds you, not the software, responsible.

■ Why payroll gets checked

Everything is connected

Payroll does not sit on its own. The numbers feed several other things, which is why SARS, the Compensation Fund and auditors all look at it, and why an error in one place surfaces in another:

- Your EMP501 must tie to the IRP5s you issue, which pre-populate each employee's ITR12 and auto-assessment.
- Your monthly UIF declarations build the earnings history the Fund pays claims against.
- Your COIDA Return of Earnings is checked against your declared payroll.
- Your payroll journals must agree to your annual financial statements, which your auditor reviews.
- Because these all draw on the same payroll, a single error can show up in an employee's tax return, a UIF claim, a COIDA assessment and your financial statements at once.

■ Record-keeping

- Payroll records, payslips, and the EMP201s and EMP501s.
- Employee tax numbers, employment contracts and UIF records.
- Logbooks and supporting documents for allowances and fringe benefits.
- ETI qualifying records, where you claim it.
- Keep everything for at least five years, as the Tax Administration Act requires.

■ Frequently asked questions

When is PAYE due?

On the EMP201, by the 7th of the following month, or the last business day before the 7th if it falls on a weekend or public holiday.

Why can't my employee claim UIF?

Usually because the monthly UIF declarations were not submitted, so the Fund has no record of their earnings history. The declarations are what make a claim possible.

Why is my contractor asking for my Letter of Good Standing?

Because they need to show their own clients that anyone on site is covered. It comes from COIDA, and a lapsed one can cost you work.

Do I have to pay SDL?

Only if your total annual payroll exceeds R500 000. Below that you are exempt, though you still register.

Is my worker an employee or a contractor?

It depends on the substance, not the label. If you control the work and they are part of your business, SARS will likely treat them as an employee. Ask us before you decide.

■ How we can help

Jansen Accountants & Auditors

We are a Cape Town firm of chartered accountants and registered auditors, and registered tax practitioners. We help clients get this right the first time, and fix it when it has gone wrong.

- Full payroll processing, payslips and monthly EMP201 submissions.
- UIF declarations, EMP501 reconciliations and IRP5s.
- COIDA registration, Returns of Earnings and Letters of Good Standing.
- Employment Tax Incentive reviews, and contractor-versus-employee assessments.



Talk to us.

Book a consultation at www.jacc.co.za, call +27 21 554 3482, or email info@jacc.co.za.

■ Important notice

This guide does not constitute personal advice. It is general information based on South African law and practice as at June 2026, and must not be relied on as advice. Outcomes depend on the specific facts, and the law and regulatory practice change. Jansen Accountants & Auditors Inc accepts no liability for any loss arising from reliance on this guide. Obtain advice specific to your circumstances before acting.

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