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LET'S BE REALISTIC AND POSITIVE IN 2019

"The pessimist complains about the wind; the optimist expects it to change; the realist adjusts the sails" (William Arthur Ward)

As we wind down from a challenging year, perhaps it's a good time to reflect on how we can make sure that 2019 is a year of positivity and recovery for South Africa.

Most of us are pessimistic about South Africa's future and see the problems our country faces as too difficult to fix. This is a global phenomenon and you could poll people from the USA to China and get a similar response. Curiously, most people are optimistic about their own future and see the next five years as better than the last five.

Are our large problems insoluble?

We view the problems South Africa is facing as too big to get to grips with. Worse they seem to mount – in the last few years we have had state capture, load shedding, economic recession to name a few. It's as though we are experiencing the waves of a tsunami – the waves just pile up until we feel overwhelmed.

One of the interesting things about global research on this topic is that it shows that the more understanding we have of the problems, the more optimistic we feel that there are solutions to these difficulties. In other words if we are aware of these problems and have given them some rational thought, then we know that if we seriously apply our minds to these issues we can find a solution.

Empirical evidence tells us this is not so far-fetched. For centuries we thought the Protestant v Catholic situation in Northern Ireland would drag on for ever and not be solved. Yet it was. The same with South Africa in the early 1990's – civil war seemed inevitable but we negotiated our way out of this seeming dead end.

Relative versus Absolute – there's lots of positives!

The South African economy is three and a half times bigger than it was in 1994. At least eleven million people have come out of dire poverty due to social grants. Millions of houses have been built, most people now have access to running water and electricity. These are concrete advances, yet, as noted above, we see issues such as load shedding as absolutely insoluble. The reality is that if enough people focus on each of these issues, they will come up with a solution.

Away with the clutter

Let's concentrate on the big issues as we did in the early 1990's. We need to change our pessimistic mindset into a positive outlook. With a change of attitude, we can make inroads into our problems.

At the moment, we have one urgently pressing problem – the economy. The good news is that looking at how keen private enterprise is to help solve this issue, we are on the right road.

TAXPAYERS NOTE: HOW TO UPLOAD SUPPORTING DOCUMENTS USING EFILING

SARS have instructed that taxpayers on eFiling need to submit supporting documentation as follows:

- Files should be no more than 5mb each. You can upload up to twenty files.
- Document types need to be: Excel (xls or xlsx) or Word (doc or docx). You may also use PDF, jpg or gif files.
- Set your scanner to black and white and your resolution to 300 d.p.i. or less.
- You can upload your documents over a period of time but you only have one go at submitting. Once you have submitted your supporting documents, the supporting document upload facility will no longer be available. Remember when you submit supporting documentation, you declare that you have submitted **all** of your supporting documentation.
- Don't include spreadsheets with multiple sheets.
- Be careful of file names and don't use special characters like # etc.

Don't submit:

- Documents with the same file name.
- Password-protected or encrypted files.
- Empty or blank documents.

Finally, if you receive a message like "The document cannot be converted" then print and rescan the document.

THE MEDIUM TERM BUDGET SPEECH AND THE RATING AGENCIES – DANGER IN DECEMBER

The new Minister of Finance didn't have much time to prepare for the Medium Term Budget Speech (MTBS) but he carried it off well.

The MTBS is a three year outlook for the government budget and was introduced by Trevor Manuel to increase transparency into our budgeting process.

Our Big Challenges

For the last nine years, Treasury has fought hard to keep the budgeting system credible. It is the major reason why South Africa has averted the country sinking into outright junk status and joining the downward path of countries like Venezuela.

Yet there has been slippage – several years ago we never planned that our budget deficit to GDP (Gross Domestic Product or the sum of all the outputs of the economy less the inputs or costs) ratio would rise to over 4% or that the Debt to GDP ratio would exceed 50% (i.e. the net indebtedness of government borrowing to GDP).

In Minister Mboweni's budget these figures are breached – the budget deficit will rise to 4.2% of GDP in the MTBS and the Debt to GDP ratio will reach over 56%.

The Rating Agencies

Two of the major rating agencies have put the country on junk status. Only Moody's have kept South Africa on an investment rating. Should Moody's cut us to junk status (and they will decide in December) we can expect a large capital outflow of at least R150 billion as major financial institutions will be forced to offload South African bonds. This will cause the Rand to depreciate with consequent adverse impacts on inflation, investment and economic growth.

What will Moody's do in December?

Moody's have already indicated that they view South Africa's rising debt as alarming. Like other rating agencies, they also carefully watch how we are managing our State Owned Entities (SOEs) and whether we have a believable plan to put the economy on a growth path.

These are important as the SOEs carry substantial debt, the bulk of which is guaranteed by Government. Eskom for example has R350 billion in debt of which over R200 billion is subject to Government guarantee.

Economic growth is significant as you can only cut costs for so long and the best way to solve economic problems is to show strong economic momentum. At the moment we are growing at 0.7% versus global growth of 3.5%.

In both these areas, the Government has a credible story to tell. The new Minister of State Enterprises, Pravin Gordhan, has replaced non-performing SOE Boards with new experienced leaders and has been putting in governance structures to stifle corruption.

The President's Plan

President Ramaphosa recognises the need for economic growth and has devised a plan which focuses on reigniting the economy.

The main elements of the President's growth plan are:

- An infrastructure fund (Ramaphosa plans to raise $100 billion over the next five years. Already he has made substantial progress with this and economists estimate that as new investments kick in from 2020 88,000 jobs will be created annually and economic growth will accelerate).

- Creating jobs in the economy. The unemployment rate is 27.5% and he has launched the YES (Youth Employment Service) Program. In addition R50 billion of Government expenditure has been reprioritised to focus on this issue.

- Finding solutions to problems with health and education – two key areas where without progress, we will not get out of the current economic stalemate in the long term.

Generally, the markets have reacted favourably to these initiatives. The key will be Moody's response in December when they decide if we will descend to outright junk status. It seems likely that Moody's will give the country time to see how the Budget progresses and how the President's economic recovery will do – let's hope so.

CHANGES ARE COMING TO THE COMPANIES ACT – BE READY FOR THEM

Cabinet has approved the most wide ranging amendments to the Companies Act (the Act) since its launch in 2011.

Some of the important issues are briefly highlighted below. They are of course only proposed changes at this stage, published for comment and therefore subject to alteration (the comment period closes on 14 December). But take note of them now and **if any of them are likely to impact your business significantly, ask your accountant for advice on how to prepare for them.**

- **Securities Registers to be filed with the CIPC and publically available:** Companies will per the proposed amendment now be required to annually send their securities registers (previously known as "share registers") to the CIPC (Companies and Intellectual Property Commission). Some companies have been reluctant to disclose who their shareholders are but now the public will have anonymous access to this information by looking it up at the CIPC.

- **Greater public access to company information:** In addition, the public will have greater access to information such as the Memorandum of Incorporation (MOI), the register of directors, and minutes and resolutions of shareholder meetings.

- **Changes to the MOI:** One issue that has bedevilled companies is when changes to the MOI become effective. The proposed amendment states that the revised MOI becomes effective ten days after the company files with the CIPC.

- **Filing of annual financial statements (AFS):** To date only companies subject to audit had to submit their AFS to the CIPC. The proposal is that all companies will have to do so.

- **Disclosure of Directors' Remuneration:** This section has been updated by proposing that each director and "prescribed officer" be named and their remuneration disclosed. This could involve administrative time as many companies have not ascertained if their senior managers, who are not directors, fall into the category of "prescribed officers".

IS SARS ATTACKING YOUR MEDICAL TAX CREDIT?

Taxpayers and tax practitioners have in recent months been surprised to find their medical claim tax credits queried by SARS. Up to this year the processing of the tax credit has gone smoothly.

To many taxpayers such as those with disabilities, pensioners and lower income taxpayers their tax credit is significant.

What is SARS querying?

The Medical Tax Credit is a rebate to taxpayers who incur defined medical tax expenses. Part of these allowed expenses is the out-of-pocket medical expenses incurred by the taxpayer. In many cases this is claimed as shown on the Medical Aid tax certificate which is sent to SARS direct by the Medical Aid. The certificate shows your medical aid contributions plus expenses not allowed by your Medical Aid scheme – typically, these consist of expenses either not covered or partially covered by the Medical Aid and/or expenses submitted after you have reached your threshold of allowable medical expenses.

According to tax practitioners SARS has begun to ask for documentation (invoices and proof of payment) for out-of-pocket medical expenses shown on the Medical Aid tax certificate.

How to avoid problems

SARS denies it has changed the way it assesses the tax credit and the reason why there are problems is that taxpayers are claiming expenses over and above those shown on Medical Aid tax certificates. In these cases SARS is asking for documentation to substantiate these additional claims. The reason why it has cropped up this year is that, for the first time, SARS is populating taxpayers' returns with the information received from Medical Aids. If the claim by the taxpayer does not agree with the Medical Aid certificate, then SARS will seek to verify the taxpayers' claim.

Keep abreast of what SARS is doing and plan accordingly. **Make sure that you keep all documentation and be sure you can justify medical expenses claimed over and above what your tax certificates show.**

Thank you for your support in 2018.

Have a Wonderful Festive Season, and a Happy and Prosperous 2019.

Enjoy the Break!

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