UHY Hellmann (SA)
Registered Auditors
Audit · Accounting · Tax · Secretarial
MONTHLY NEWS

UHY Hellmann (SA)
2nd Floor
4 Fricker Road
Illovo
2196

Tel: 011 447 8447
Fax: 011 447 8400
e-mail : info@uhy.co.za
Web site : www.uhy.co.za

CA(SA) CHARTERED ACCOUNTANT SOUTH AFRICA

Forward email

Online Printable Version

KEEPING YOU IN TOUCH

CA(SA)DotNews

In this Issue

February 2020

Take Advantage of the Venture Capital Company Allowance While You Can

"There are two systems of taxation in our country: one for the informed and one for the uninformed" (U.S. Judge Learned Hand)

Small and medium-sized enterprises (SMEs) have limited access to capital markets. As SMEs are considered to be the cheapest and most cost-effective sector in creating jobs, the Revenue authorities sought to address this by creating an attractive allowance for Venture Capital Companies (VCC) in 2009.

The VCC allowance gave a massive boost to venture capital in South Africa, and also to SMEs who have received R6 billion in investment since 2009. Venture capital now accounts for 2% of GDP (in the USA this is 4%).

For you the taxpayer it offers an attractive way to reduce your tax as you are allowed to deduct R2.5 million from your taxable income if you invest in a VCC. This is in your own capacity or via a trust; if you use a company to make the investment, it can deduct R5 million.

How it works initially

Note: The examples below relate to an investment in your own personal name, and different tax rates and net returns will apply if you invest through a trust or company.

Assume you have R2.5 million in taxable income. It is 20 February, you have little more than a week before you will have to pay provisional tax and you want to reduce your tax liability and make a good investment.

You have researched the VCCs and decide to invest R2.5 million in a VCC which invests in solar power.

	Invest R2.5M	No Investment
Taxable Income	R0	R2 500 000
Tax at 45%	R0	R1 125 000

You have saved yourself R1.125 million in tax.

To avoid having this tax deduction of R1.125 million reversed, you will need to be invested with the VCC for five years.

How it works in subsequent years

The VCC onward invests the R2.5 million in a qualifying SME (the SMEs need to be registered with SARS) which then installs solar power in, say, a block of flats. **Of interest here is that the SME also gets a 100% deduction on the R2.5 million.**

If you cash in on the investment after 5 years, this will be the position:

After 5 Years	
Received from VCC	R2 500 000
Capital Gain	R2 500 000 (The Tax Act deems a zero-base cost on your original investment 5 years ago)
Taxable Amount	R1 000 000 (40% of your capital gain is added to income)
Tax at 45%	R450 000

In summary, you received a tax deduction of R1.125 million and 5 years later paid R450 000 in capital gains tax. Your investment of R2.5 million has been refunded to you. If you discount these cash flows, this equates to **an after-tax return of just over 10%** over five years which is pretty good as inflation is currently just below 4%, i.e. a real return of 6%. As a comparative the stock market delivered a return of just below 6% in the last decade.

This excludes any costs you may be charged.

Beware of costs

There are many VCCs out there and they charge varying fees, so be very careful of these costs as they come in many guises such as performance fees, administration costs, annual charge etc.

It is worth getting your accountant to check these costs.

Look for the gems

As we saw above, the qualifying SME (the entity that installs the solar power), gets a 100% upfront write-off of the investment (R2.5 million in this example for a tax saving of R700 000). Some creative VCCs have used this tax saving to return income to you the investor. Take the example of a residential complex where the qualifying company installs solar power in the complex and then charges the owners of the complex for the electricity they consume using solar power (this charge is at a substantial discount to Eskom's rate). The qualifying company returns this charge to the VCC which then pays these amounts as dividends to you, the investor.

Thus, everybody scores:

- Residents of the complex don't pay for the installation of the solar power and get cheap electricity,
- The qualifying company takes its profit out of the R2 500 000 investment and tax saving of R700 000,

- The VCC makes money from charging you fees, and
- You, the investor, get a return (after-tax and net of all costs) of **over 20% over the 5 year period**, which is excellent.

Don't delay, the clock is ticking!

The only downside to this is that the allowances will fall away in June 2021. VCC companies are lobbying government to extend this program past June 2021, but even if they are unsuccessful, you have just under 18 months to take advantage of this scheme.

Of course this sort of investment isn't for everyone; ask your accountant whether it might suit you.

Small Businesses: How to Survive and Thrive

> ***"Why do approximately 70% - 80% of small businesses fail within five years? Why are certain entrepreneurs more successful than others?" (Extract from UWC article below)***

Recent research by the University of the Western Cape on the rate of failure of small businesses makes for interesting reading and provides insights that we all really need to take on board, particularly in these hard economic times.

SMMEs, their importance and their failure rates

Globally 60 to 70% of jobs are found in SMMEs (Small, Medium and Micro-Enterprises) but in South Africa this figure is only just over 28% despite more than 95% of businesses in South Africa being SMMEs.

South Africa has a higher failure rate of SMMEs than elsewhere in the world (70% - 80% of our small businesses fail within 5 years). In previously disadvantaged communities only 1% of businesses progress from employing less than 5 people to having staff of 10 or more.

6 factors that can make or break an SMME business

The research indicates that in terms of success factors, 40% can be attributed to the entrepreneur. The characteristics of this person are crucial and they need to show:

1. Persistence, being proactive and being a self-starter,
2. That they do not react to events but are continually planning (good planning is an important success indicator), innovating, having an ability to learn and apply this learning and having a culture of achievement.

The factors contributing to failure are ones we are aware of:

3. Lack of skills – government and large corporates snap up almost all of South Africa's limited skills,
4. Difficulty in accessing finance – lending institutions require a track record before providing funding to businesses,
5. Poor accounting records and limited information systems,
6. Late payment by state institutions and large corporates (Kenya is considering passing legislation that compels paying SMMEs on time).

There are others too like corruption crowding out legitimate SMMEs and low bargaining power.

Entrepreneurs - what can you do?

Have a look at the 6 factors listed above. Maximise the positives, and do something about the problem areas.

Remember, your accountant is there to help you succeed so don't be shy to ask for advice.

What can government do?

Clearly the country is missing a sizeable opportunity to grow the economy and to reduce our 27% unemployment rate.

One way to get this going is through mentoring and training. Government programs are having a limited impact and there is space for business to also play its part. Why not interview some SMME owners and determine if they have the characteristics as shown above? Those that have the attributes can be successfully mentored to get good accounting records and systems, skills can be addressed as well as access to finance.

Directors: Be Careful, You Will Be Held More Accountable In 2020

The past few years have seen scandals emerging in both the private and public sectors. Steinhoff, State Capture, Eskom, the Guptas and Bosasa, to name a few, have revealed how endemic corruption has become in South Africa.

The National Prosecuting Authority (NPA) is now beginning to charge those who have been involved in these scandals. This has been greeted with relief by the public, who have become increasingly frustrated that perpetrators have appeared to have escaped from accountability for their actions.

Clearly, the directors and senior managers of these affected entities are being scrutinised and face potential prosecution.

Your obligations and your risks

The Companies Act places onerous obligations on directors and senior managers who are to perform their duties:

- Having the necessary skills and experience to make informed, independent decisions,
- Keeping themselves up to date on the plans and activities of the company,
- Having sufficient data to make carefully considered and impartial recommendations to all issues raised at directors' meetings, and
- With no conflicts of interest. If a director has a conflict or potential conflict, then that director(s) shall make full disclosure of the conflict to fellow board members.

Failure to adhere to these standards opens directors to the possibility of being liable for any damages or losses incurred. In certain instances they face the potential to be held criminally liable and directors who transgress by failing to meet their obligations can also be disbarred as directors either permanently or on a short-term basis.

Additionally stakeholders, such as unions, may undertake class action against directors personally.

Other danger areas

Now that all directors are under increasing scrutiny, you also need to bear in mind issues such as your company causing environmental damage, trading in insolvent circumstances (for example SAA directors face potential litigation here), failing to ensure your business is protected against hackers, poor accounting policies and being party to the company suffering reputational damage which leads to a collapse in the share price (Tongaat directors risk exposure to this).

As a director, remember you are in the public's and the NPA's sights. Be extra careful that you execute your duties in line with the dictates of the Companies Act.

If in doubt, use your accountant as a sounding board and advisor.

Lying About Qualifications – Prison Time for Employees on the Horizon

An issue that has been around for a while has been employees misrepresenting their qualifications to their employer. This has adverse consequences for the employer as the employee often proves incapable of doing the required job – this leads to wasted time in disciplinary hearings, dismissal and then a new recruiting cycle begins. That's in addition to all the damage that an under-qualified employee can do the employer's business before his or her duplicity is exposed.

This has been worsened by fake institutions which offer people fraudulent qualifications.

The statutory amendment and its wide reach

In a move to address the situation, a statutory amendment makes employees who mislead employers and fraudulent academic institutions liable for up to five years' imprisonment and/or a fine. The amending Act has been signed into law but will only come into effect on a date or dates still to be determined.

The changes when in effect will provide employees and fake learning institutions with a strong incentive to be honest in the future.

So broad is the legislation that anyone can report to SAQA (The South African Qualifications Authority) any employee or any institution peddling false qualifications.

For example, if X learns from Twitter that Y has faked his or her credentials, then SAQA is bound to investigate if X reports Y to them. This can result in Y being prosecuted and facing prison time.

This all heralds good news for employers with its potential to both reduce their risk of under-qualified employees damaging their businesses, and to save them considerable administration time.

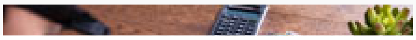
Budget 2020: Tips for Tito – Make Your Voice Count!

On 26 February 2020 the Minister of Finance, Tito Mboweni, will be making his annual budget speech.

Traditionally, the Minister asks the public what they would like to see in the budget and a "**Budget Tips**" portal on the National Treasury website is open. Citizens are encouraged to submit their tips to the Minister either on that Portal or by Twitter **@TreasuryRSA** with the hashtag **#TipsForMinFin** and "#RSABudget2019" (presumably Treasury will update that hashtag to 2020). This year he asks in particular for your views on **"What can government do to achieve faster and more equitable economic growth?"**

If you have ideas, make your voice count! Last year there were many differing tips, from the amusing (give free Lotto tickets to regular electricity payers) and the serious (reduce corporate tax to 15% for companies with a turnover of less than R10 million to encourage job creation) to the overly optimistic (give a tax rebate to those who have upgraded security in their homes).

Your Tax Deadlines for February 2020



- 7 February - Monthly PAYE submissions and payments

- 25 February - VAT manual submissions and payments
- 27 February - Excise Duty payments
- 28 February - VAT electronic submissions and payments
- 28 February - CIT Provisional Tax Payments where applicable
- 28 February - PIT Provisional Tax Payments

Note: Copyright in this publication and its contents vests in DotNews - see copyright notice below.