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

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How Chaos Sparks Business Innovation

"All great changes are preceded by chaos. The disruption we see in the world is the prelude to emergence." (Deepak Chopra)

The greatest innovation is created in times of chaos. Many successful business stories began during times of recession, depression, chaos and crisis. Not paralysed by uncertainty or frightened into inaction, these business leaders and companies used chaos as a catapult for creation and innovation.

This was the message from actuary and innovator Dean Furman at SAICA's recent complimentary virtual leadership series *Leadership in a time of crisis*.

Chaos creates opportunity

In a crisis situation such as COVID-19, people and companies' needs have changed significantly. "Priorities have shifted and the way people and businesses operate on a daily basis has changed, creating endless opportunities for individuals and companies to cater to new needs with new services and solutions, or existing solutions offered in different ways," says Furman. "And that is precisely why there is always so much opportunity where there is chaos and crisis."

"In the midst of chaos, there is also opportunity" (Sun Tzu)

Business innovation in a time of chaos

Just some examples of innovations born in times of chaos or depression include Uber and Airbnb, WhatsApp, Slack, Pinterest and Square.

"While Uber and Airbnb, for example, did not necessarily plan on being founded during the Great Recession of 2007/2008, the timing worked in their favour. With so many people looking for extra revenue, it suddenly made sense to turn your car into a taxi, or to rent out your spare room - ideas that may have seemed crazy just a few months or years before." Other examples of companies or products born in times of chaos include Disney, Sony and iPod.

In the last few months, in the midst of the unprecedented chaos created by COVID-19 on a global scale, we have also witnessed great innovation.

COVID-19-driven innovation

Harvard Business School Working Knowledge provides some recent examples of innovation driven by the pandemic: grocery stores installing plexiglass shields at checkouts, restaurants and groceries expanding to takeout and deliveries; video conferences replacing face-to-face meetings and professional consultations; and employee monitoring software ensuring productivity among teams working from home.

The need to mitigate contagion risk has also driven new products and processes, such as robots that deliver medicines and meals and collect bed sheets and rubbish in hospitals; electronic pre-booking to control customer flow for on-premises businesses; a drone program to drop parcels and spray disinfectant developed by e-commerce giant JD; and "Smart" helmets can identify anyone with fever within a five-meter radius.

Even in industries where digital and automation technologies were uncommon, the crisis led to drastic innovations. Teachers from pre-schools to universities digitised content and delivered it online or via phones. Retailers adopted Amazon's Just Walk Out technology to eliminate the need for checkout. Galleries, cinemas, concert halls, independent musicians and artists found ways to create, perform and connect with their audiences through online platforms.

And out of Africa…

"There is always something new out of Africa" (Pliny the Elder)

Innovations by African businesses and individuals also abound. Earlier this year, the World Health Organisation (WHO) in the African Region hosted the first in a series of virtual sessions for innovators across the region to showcase home-grown creative solutions aimed at addressing critical gaps in the response to COVID-19. Eight innovators from Ghana, South Africa, Nigeria, Guinea and Kenya presented their pioneering solutions, all of which have already been implemented in their respective countries, with significant potential to be scaled up further across the region. The innovations ranged from interactive public transport contact tracing apps and dynamic data analytics systems to rapid diagnostic testing kits, mobile testing booths and low-cost critical care beds.

Locally, a Vodacom and Discovery partnership has made free COVID-19 Online Doctor Consultations available to all South Africans. To meet the demand for alcohol-based sanitiser, South African Breweries (SAB) adapted its operations; Sasol developed a new unique blend of alcohol-based chemicals to be used in manufacturing of hand sanitisers; and L'Oréal South Africa began producing hand sanitisers under its natural beauty brand Garnier.

Further local innovations range from virtual wine tastings and game drives, and restaurants that deliver all the ingredients so customers can make their favourite cuisine at home, to local craft markets gone virtual and digital yoga, dance and art lessons.

How to innovate – a three-step system

It is inspiring to read how businesses are innovating ways to stay relevant in industries completely disrupted, if not shut down, by the pandemic and lockdown.

But how do you innovate in your business and industry? Furman provides a three-step system to innovation-

1. Focus on your clients – meet their changed needs, make their lives better and listen to them.

2. Challenge the way you do things – develop new products or services, and offer existing services in new ways

3. Explore the world around you for new possibilities – including the many new enabling technologies that can digitally update old ways of doing things and even extend your client-base globally.

As countless companies have proven before, the chaos of a crisis such as COVID-19 can be a catapult for creation and innovation.

"Just like a catapult, the more you get pulled back, the further and faster you can go forward," says Furman. "When chaos happens, spend time thinking how it can be used as an opportunity for growth and innovation. This is your time to move forward."

Tax Incentives to Invest in Small Business: The Clock is Ticking

"Creating an environment in which SMMEs can thrive is inextricably linked to creating conditions in which all businesses can thrive." (National Treasury, 2019 Economic Strategy document)

The VCC (Venture Capital Companies) incentive allows a holder of shares to claim a 100% tax deduction of the cost of the shares issued by an approved VCC, provided certain requirements are met. The deduction is subject to recoupment if the VCC shares are held for less than five years.

VCCs have been investing in small and medium-sized businesses (SMEs) that include education, agriculture, renewable energy, hospitality and tourism, and student accommodation. Many of them are especially hard-hit by the strict lockdown regulations imposed on businesses.

Funding has always been a major stumbling block for start-ups, and small businesses wanting to expand. **They will find it far more difficult post-COVID-19 to get access to funding. Without the tax incentive it is possible that investments may flow offshore – investors will take their money where the rewards match the risks.**

According to SARS, there were 180 registered and approved VCCs which had raised R8.3 billion at 28 February 2019.

The VCC industry body, 12J Association of South Africa, conducted its own survey on the impact investments have made to date. It released the results in June this year.

Responses were received from 12J managers that collectively manage 106 VCCs and R9.3bn in assets under management to date.

The R9.3bn industry assets under management has been raised from over 5,500 investors, equating to an average investment amount of R1.7m per investor.

The survey report shows that the Section 12J capital raised has been invested into more than 360 small, medium and micro-sized entities which in turn support 10,500 jobs (50% of them permanent) across dozens of industries.

According to the survey the incentive has been cost-effective at an average cost per job of approximately R126,000 for each current job created. This is in contrast to current job creation focused incentives in South Africa, which allow for a required cost per job of up to R450,000.

Getting the investors

When the VCC tax incentive was introduced these companies were to be the “marketing vehicles” to attract retail investors with the tax incentive as a major advantage.

There was an initial investment limit of R750,000 per tax year and a lifetime limit of R2.25m. This limit was removed around 2011 in order to make the incentive more attractive.

However, due to several amendments to the Act, aimed at combatting perceived abuse, the incentive only really gained traction after 2015.

In July last year new caps were introduced. Investments by a natural person and trusts were capped at R2.5m and for companies investments were capped at R5m in a tax year.

Small businesses – the clock is ticking!

The regime is subject to a 12 year sunset clause that ends on 30 June 2021.

Many of the industries qualifying for VCC investments were hard hit by the impact of the COVID-19 pandemic. Survey participants expect COVID-19 to have a negative impact on the ability of SMEs to obtain equity capital over the next year and even the next two years. This is likely to manifest itself in a far higher unemployment rate and corresponding lower growth in the South African economy.

More than 75% of the participants in the industry survey said investors would not have invested their capital in SMEs, had it not been for the attractiveness of the Section 12J tax incentive.

The 12J Association of South Africa suggests that the tax incentive should be extended until at least 2027.

SMMEs will now need more support than ever before, and if your small business is struggling to find funding, ask your accountant now for advice on applying to a VCC. Unless the June 2021 sunset clause on tax incentives for section 12J funding is extended, support from investors will soon dwindle - the clock is ticking!

Tips and Ideas to Retain Your Best Staff and Skills During COVID-19

Small businesses across South Africa face the challenge of keeping their best staff and skills during the COVID-19 pandemic to ensure that they can survive these hard times and can thrive when the economy picks up again.

For small and medium enterprises (SMEs), keeping top talent is vital to ensuring that these companies deliver effective products as well as services to their clients.

This comment comes from a "thought paper" published in June this year about talent management and penned by six University of Pretoria master's students.

The right talent is a differentiator

The right talent was a key differentiator for companies to gain a competitive advantage and attain future success, they wrote.

They defined the right talent as "giftedness, individual strength, meta-competency, high potential and high-performance workers".

"Employees are a crucial and valuable element of any organisation. They are the life force that drives innovation, profitability and sustainability," they added.

Nishan Pillay, Gordon Institute of Business Science's (Gibs) executive director for open programmes, said during an interview that it was vital for small businesses to keep their high-performing staff.

A quote to bear in mind

The master's students' paper included a quote that is worth bearing in mind when considering strategies to keep top people.

It comes from the former chairman of the Citicorp, Walter Wriston, who said: "Human capital will go where it is wanted, and it will stay where it is well treated."

"In a time of…disruption, evolving technology, stiff competition, and increased demand for limited talent, no organisation wants to lose their top talent that they have invested so much in to acquire and develop," the master's students wrote.

Costly to replace staff that exit

Adding to the picture is that it is expensive and time-consuming to replace staff.

Alex Nieuwoudt, manager of recruitment firm Michael Page's finance and legal team in Johannesburg, said during an interview that it could cost between R150 000 and R350 000 to fill a middle to senior role.

"Hiring people, getting them to know your culture and systems, is hugely expensive. Recruitment costs aren't just about the agency costs of bringing someone in, it's about the training, development and the cultural assimilation," Gibs' Pillay said.

Changing candidate questions

It is also worth noting that candidates that Michael Page interviewed before COVID-19 focused their questions on the job in question.

But now the critical issue for these candidates was how the company doing the hiring was coping with COVID-19, Nieuwoudt added.

It was essential to answer these questions accurately, as a new hire would find the truth once he or she joined the company and could leave if what they discover wasn't to their liking. Thus the company would have to incur all the hiring costs again, he said.

Given this, it is essential that when small businesses advertise for a post that they have their answers ready for this burning topic.

Four strategies to keep staff

There are many strategies that companies can use to keep staff.

Nieuwoudt suggested four strategies that SMEs can consider for keeping staff. These four strategies are:

1. Allowing staff flexible working conditions,
2. Empowering employees,
3. Providing virtual wellness, which is where the company gives their employees the means to operate successfully remotely while maintaining staff motivation,
4. Promoting staff and acknowledging their achievements.

Virtual wellness is also determined by a company's reputation, including its corporate social responsibility schemes. This measure impacts on employee mood and decisions about whether to join and then stay with the company, Nieuwoudt said.

The desire for flexible employment

Michael Page ran a poll recently, and 84% of the respondents wanted their companies to give them a permanent option to have flexible conditions of employment, Nieuwoudt said.

"This gives you an understanding of how the mind-set of employees has changed in South Africa," he added.

"Flexible working conditions are now at the forefront of hiring conversations. It is very critical to keep that in mind," Nieuwoudt said.

Digital working is vital

Geoff Jacobs, president of the Cape Chamber of Commerce & Industry, advised that for companies to keep their staff, it was vital for them to move to the digital way of working, especially given the COVID-19 social distancing requirements.

Jacobs also suggested in response to questions that to allow for easier retention of staff, SMEs should review all expenses, especially rent.

A third retention tactic that he suggested was that small companies remodel the roles of their staff, so they take on extra duties or get the employees to help the company offer new services and products given the opportunities because of COVID-19.

If a company had to retrench staff, it was critical that the business part with its staff on the best possible terms so that when the economy grows again, these former employees would be keen to re-join the business.

Recruit from your pool of alumni

Karel Stanz, a University of Pretoria professor, said during an interview that hiring a company's former employees or alumni was one of the most cost-effective ways of recruiting staff.

He is a professor in industrial psychology at the Department of Human Resource Management at the university.

Jacobs also advised that as part of the staff retention strategy, small companies should ensure frequent interaction across digital platforms.

“Build online communities that aid in social interactions for employees preferring flexible work arrangements. These online communities allow employees to interact with colleagues, superiors, and clients. It also allows the organisation to monitor the employees’ engagement levels and needs,” the University of Pretoria master’s students wrote.

These students in their paper also listed the following measures to ensure a company keeps its top staff:

- Have a conducive company culture,
- Provide staff with meaningful work,
- Offer employees career advancement
- Provide staff with a sense of belonging.

They also referred to respect, recognition and rewards as necessary means to keep staff.

Opportunity to gain scarce skills

In a surprising turn of events, Stanz said that the COVID-19 pandemic had provided specific companies with a chance to gain scarce skills.

He said that a former student of his was working in a human resources role for a timber company in Nelspruit.

Before the lockdown, it was difficult for this company to find people with technical skills such as artisans.

But ArcelorMittal South Africa retrenched many people, including artisans, and this has provided the timber company with access to these skills.

Digital skills important

Dr Jabulile Msimango-Galawe, Wits Business School programme director for business and executive coaching, said in response to questions that during and after lockdown, some businesses would continue to work online.

“People in the digital space with the required skills will need to get businesses trading again, and marketing online will be in demand,” Msimango-Galawe said. These skills would include analytical and digital capabilities, she added.

Attitude is key

“From what we’ve seen in the past few months, it’s not so much skills that you need to keep, but the attitude of your staff that supports the values of the business,” Jacobs added.

Individuals with multiple skills would be in demand and the era of having one critical skill was over, Msimango-Galawe said.

Michael Page’s Nieuwoudt said that essential skills right now included candidates that helped companies achieve their employment equity targets.

Gibs' Pillay identified types of people and critical areas of skill where small businesses needed to keep staff, and these included staff with high levels of creativity as well as those with strong people skills.

Six Important Business Lessons From The Coronavirus Pandemic

"Given the nature of the crisis, all hands should be on deck, all available tools should be used" (Christine Lagarde, President of the European Central Bank)

1. ***Working from home is possible***

   Ever since the creation of the internet employees have been pushing for more opportunities to work from home and the vast majority of companies have been resisting it, worried that productivity would plummet or that team culture would suffer. With their hands forced many will now admit that working from home is not only possible but also saves the company money.

   Some of the largest businesses in the world are leaning into the trend. Twitter and Square have both notified employees that they may work from home permanently if they choose, while Google and Facebook have extended work-from-home options through to the end of the year.

   South African Business and Automation Analyst Grant Buchanan explains, "We are going to see a shift towards shorter and more flexible leases as firms realise they actually require significantly less floor space than before. There will be an emphasis on collaboration spaces and desk sharing and this is going to have an impact on the demand for commercial office space."

2. ***Understand your whole supply chain***

   What the pandemic has made abundantly clear is that businesses do not operate in a vacuum. Your suppliers, in turn, have other suppliers and a disruption to one link in the chain can result in your whole business suffering. It has therefore never been more important to understand just who your suppliers are, how their businesses operate and just what sorts of emergencies may impact them down the line.

   Knowing what to expect is half the battle won, as you cannot plan for emergencies you were not expecting. It's easy to control the issues and items within your own company only to be let down by the actions of others.

   Buchanan says it's important to understand which suppliers you are dependent on for your most critical goods and services. Do you understand how many supply options you have, and do you have plans in place for if they fail to deliver? How capable are your service providers of delivering when they are ill, trade wars kick in, or their key suppliers hit snags? What sort of emergency procedures do they have in place to ensure you will not be negatively affected?

3. ***Communication and crisis planning is essential***

   During the scramble of early lockdown a number of companies realised there were flaws in their communication and crisis management systems.

   While email works perfectly well in an environment where in-house emergencies can be dealt with on a quick walk across the office, employees at home required other solutions.

Does your company have a way to communicate with all employees quickly and efficiently without relying on email? There are many stories of IT managers breaking curfew to try to fire up servers that had frozen, resulting in significant delays.

The same goes for crisis management. How do you secure your premises and assets? How do you notify your staff? What systems are in place to protect them in the event of a catastrophic incident? And how do you minimise the damage from a future pandemic or related drama?

Leaders need to put plans in place, introduce new technology and train their staff in these new processes before they become necessary.

4. ***Use the available technology***

   It's easy to get caught up using systems that have always been in place. In smaller businesses particularly it's common to use manual systems for accounting, payroll and other functions, and companies that did this were badly exposed by the virus.

   Many smaller, local retailers and restaurants were caught off-guard by the pandemic. Where they should have been at the ready to serve online customers, and provide delivery or curbside pickup to keep afloat, they instead took many months of lost income to get there.

   Technological uptake has been phenomenal over the past few months. The need to meet up has seen collaboration apps booming with Zoom experiencing a 1,125% spike, Webex 560%, and Microsoft Teams 108%.

   The trick is to take that collaboration app approach across the board, look closely at what solutions are already out there and find innovative ways to use that technology to make your business work away from your desk before the next event strikes.

5. ***Build relationships with your accountants, bankers and lawyers***

   Some people only see their accountant, lawyers or bankers during a crisis or tax season but these relationships have recently played an integral part in the survival of many companies.

   The COVID-19 business rescue loans were implemented via the banking system, and banks, which are overloaded with applications, are giving first preference to their current customers. Those companies that have a good working relationship with their bankers appear to have more luck with these applications and get them processed faster due the banker's familiarity with their accounts.

   Similarly company accountants and lawyers have been working overtime helping their clients interpret the regulations for obtaining disaster loans and TERS funding, as well as guiding them on seldom-used aspects of business such as suspending rent payments, delaying vendor invoices, and chasing non-paying customers.

   “Understanding our clients' businesses has been integral over the last few months,” says Robin Gerhold of Gerhold & van Wyk Attorneys in Sandton. “Knowing the details of how they operate has allowed us to tailor solutions and secure aid much more easily, efficiently and ultimately, cheaply, than if we were coming in cold without that information”.

6. ***Broad-based skills are important***

The tendency when hiring is to focus on getting in highly-trained niche experts for each position. The pandemic has, however, shown us that the organisations which were able to rethink their business model and pivot quickly had a much better chance of adapting to market conditions and surviving, and these organisations were also full of employees with broad skills, emotional agility and a wide range of competencies.

It is a well-known fact that companies should constantly be innovating, and the pandemic has shown us just why. Being able to shift quickly relies on an employee base of innovative and creative thinkers who are empowered by company culture to take risks and develop new ideas.

According to one of the world's leading management thinkers and award-winning Harvard Medical School psychologist Susan David, organisations today, "operate within unprecedented complexity resulting from many forces including technology, globalisation, and strong competition. At present, organisations are also feeling the added impact of the COVID-19 crisis. All these pressures require companies to offer swift responses."

However, she says, "organisations themselves can never be truly agile unless the people who work within them are agile."

David advises hiring and rewarding out-of-the-box thinkers and supporting those who are risk-takers.

It's impossible to ignore the difficulties of doing business in 2020. The lessons learnt this year have been hard won, but by putting them into practice, and reaching out for help when we lack the expertise, we can ensure the next set of challenges won't be our last.

Your Tax Deadlines for September 2020

- 1 September – Starting date for online filing
- 1 September - Branch filing - Taxpayers who cannot file electronically
- 1 September - Start date - Provisional taxpayers who file electronically
- 7 September - Monthly PAYE submissions and payments
- 25 September – VAT manual submissions and payments
- 29 September – Excise Duty payments
- 30 September – VAT electronic submissions and payments
- 30 September - Personal Income Tax top-up Provisional Tax Payments
- 30 September - Company Provisional Tax Payments where applicable

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