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ACCOUNTANTS  
& AUDITORS

## ***With Compliments***

1. Please read the article below on Business Rescue, it gives a very insightful summary of the main provisions of the Act. Business Rescue is now a reality of the Corporate Landscape and you need to be strategically ready for the possibility of a debtor of yours entering Business Rescue, whilst also being aware of the impact of doing business with a company in Business Rescue. You may be aware that Dave Rich was one of the first people to be approved by CIPC as a Senior Business Rescue Practitioner and has taken various appointments as a Business Rescue Practitioner with a high degree of success which ultimately proved extremely beneficial to all the stakeholders in the businesses placed under his supervision.
2. It is critical to review the solvency and liquidity of your entity before making critical business decisions to avoid personal liability of the directors.
3. Directors and Officer's insurance is a mechanism to indemnify directors in the event of a liability claim. Contact us to assist you with these critical business requirements to reduce your risk!

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## In this Issue

### You and Budget 2014

### Tax Clearance Certificates – Easier If You Follow SARS' Rules

- *When do you need a TCC?*
- *The Rules*

### Business Rescue Part 2: Unintended Consequences

- *Notice to affected persons*
- *The unintended consequence*
- *What can management do?*

### Philanthropy Is Taking Off: And The Taxman Has Come To The Party

- *What does the taxman offer? A checklist for PBOs and donors*

### Your Tax Deadlines For March

**Subscribe**

## March 2014

### YOU AND BUDGET 2014



There were no real surprises or changes announced by Minister Gordhan in his budget speech. As an election is just over two months away, this is a positive outcome.

The budget deficit to Gross Domestic Product (GDP) for 2013/2014 came in at 4% versus over 5% predicted by many economists last year. The 2014/2015 budget deficit is also forecast at 4%. This fiscal prudence is good for the economy and interest rates as it means lower borrowings by government and a favourable response from credit rating agencies (downgrades from them result in the cost of the country's debt increasing).

This was achieved by limiting government spending increases. Steps have been taken to reduce wasteful expenditure – for example, two million “ineligible” people have been taken off the social grant roll. It also means giving only minor relief to taxpayers.

The budget is framed in terms of the National Development Plan which seeks to put South Africa on a high economic growth path. Gordhan stressed that government is moving towards stimulating investment from a previous focus on consumption expenditure.

#### Highlights

- R9.3 billion given to individual taxpayers to offset fiscal drag
- No changes to income tax, VAT or capital gain tax rates, although “sin” taxes (see attached table) go up.
- Tax free lump sum payments on retirement increased from R315 000 to R500 000. In addition, government is addressing taking costs out of the retirement funding chain to ensure greater benefits for retirees
- The carbon tax has been delayed to 2016
- No concrete action taken on National Health Insurance but it is on the government's radar
- Licensing and regulatory systems will be streamlined.
- Manufacturing incentives of R10.3 billion over the next three years will be introduced. Additional machinery and productivity allowances of R15.2 billion will come into effect.
- Currently, philanthropic entities (Public Benefit Organisations) are required to distribute 75% of their donations within one year. This will be relaxed and will enhance the sustainability of such organisations.
- Small business (Micro Enterprises and Small Business Corporations) were given minor increases. The Minister emphasised that additional relief would come to small business this year, including reducing the compliance burden and a reduction in the rate of turnover tax for micro businesses from 6% to 5%.
- Special Economic Zones will be allocated R3.6 billion to increase exports and job creation.

Overall, this was a conservative budget, which keeps fiscal policy on a sound footing.

### SMALL BUSINESS CORPORATIONS - NEW TAX TABLE

Taxable Income	New SBC Tax Rates	Change vs Prior Year
R0 - R70,700	Nil	Band raised by R3,589
R70,701 - R365,000	7% over R70,700	Band unchanged
R365,001 - R550,000	R20,601 + 21% over R365,000	Band unchanged
Over R550,001	R59,451 + 28% over R550,000	Band unchanged

*Note 1: Benefits to taxpayers are marginal*

*Note 2: Consideration is being given to replacing the above table with a tax compliance credit*

*Note 3: Micro Enterprises turnover tax will be reduced from 6% to 5%*

### NEW TAX TABLES 2014/15

Taxable Income	Tax
R0 - R174,550	18% of each R1
R174,551 - R272,700	R31,419 + 25% of the amount above R174,550
R272,701 - R377,450	R55,957 + 30% of the amount above R272,700
R377,451 - R528,000	R87,382 + 35% of the amount above R377,450
R528,001 - R673,100	R140,004 + 38% of the amount above R528,000
R673,101 and above	R195,212 + 40% of the amount above R673,100

NOTES	2014/15	CHANGES FROM LAST YEAR
<b>Rebates</b>		
Persons under 65	R12,726	Increased by R646
Persons 65 - 74	R19,836	Increased by R1,006
Persons 75 and over	R22,203	Increased by R1,123
<b>Tax Thresholds</b>		
Persons under 65	R70,700	Increased by R3,589
Persons 65 - 74	R110,200	Increased by R5,589
Persons 75 and over	R123,350	Increased by R6,239
<b>Interest Exemption</b>		
Persons under 65	R23,800	No change
Persons 65 and older	R34,500	No change
<b>Dividends</b>		
Taxed at 15%	No change	No change
<b>Medical Aid Tax Credits per beneficiary</b>		
First two beneficiaries	R257 p.m. each	Increased R15
Third and more	R172 p.m. each	Increased R10
<b>Business Travel - Tax free</b>		
Up to 8,000 kilometres per annum	R3.30 per km	Increased by 6 cents per km
<b>Travel Allowance</b>		
Travel allowance still taxable at 80%	No change	No change
<i>Logbook compulsory</i>		
<b>Other Taxes</b>		
Capital Gains Tax - Individuals/Special Trusts	No change	No change - 13.3%
Capital Gains Tax - Companies	No change	No change - 18.6%
Capital Gains Tax - Trusts	No change	No change - 26.6%
Fuel Levy*		Increases by 12 cents a litre
Cigarettes		Increases by 68 cents a packet
Wine		Increases by 13 cents a bottle
Spirits		Increases by R4.80 a bottle
Beer		Increases by 9 cents a 340 ml bottle
Road Accident Fund (RAF)*		Increases by 8 cents a litre
* = Total increase in fuel price is 20 cents per litre from April		

*(If the tables above do not display correctly, please see the "online version" – link above the compliments slip)*

## TAX CLEARANCE CERTIFICATES – EASIER IF YOU FOLLOW SARS' RULES



We will all probably be required to get a Tax Clearance Certificate ("TCC") at least once in our lifetime, quite possibly on a regular basis as TCCs are only valid for 12 months.

### *When do you need a TCC?*

TCCs are necessary:

- For obtaining a government or parastatal tender,
- Some suppliers require them,
- If we emigrate,
- If we want to invest funds abroad.

The Tax Administration Act of 2012 requires that SARS must respond to an application (it must be done on the prescribed form) for a TCC within 21 business days. SARS have responded to this by designing a new TCC process which they have begun implementing.

### *The Rules*

Clearly, you need to have all taxes paid up (all taxes currently administered by SARS) and all necessary submissions up to date. In addition, all your tax reference numbers must be “active and correct”.

On the prescribed form, your reason for requiring a TCC must be stated.

Please note SARS will only issue a TCC in the legal name of the entity. Trading names will not be used. This is to prevent fraud or abuse of the TCC.

It is also worth bearing in mind that in cases where a company has divisions and branches, SARS will issue a consolidated TCC. This means if any branches or divisions are not compliant, then no TCC will be issued – this will have consequences for compliant divisions/branches and the main company, as they will not get a TCC.

TCCs are vital to many businesses and individuals – SARS are now bringing some clarity and certainty to this process.

**To speed up the process, comply with SARS’ requirements when applying.**

## **BUSINESS RESCUE PART 2: UNINTENDED CONSEQUENCES**



Last month we noted that if the management of a business forecasts that it will in the next six months become “financially distressed” – i.e. it will have cash flow and/or insolvency issues - it has two choices. It can opt for business rescue or it can continue trading if it is confident it will overcome any potential liquidity and/or solvency issues.

We also noted how powerful a tool business rescue is to assist struggling businesses get back on their feet – this month we talk about an unintended consequence of the notice to affected persons.

### ***Notice to affected persons***

When a business chooses to carry on in business, it is obliged by the Companies Act (“the Act”) to send a notice to “affected persons” setting out the “financially distressed” facts and the reasons why it believes it can carry on with its business activities.

Affected persons are creditors, banks, SARS, employees, trade unions (if they represent staff) and shareholders.

### ***The unintended consequence***

It doesn’t take much imagination to see how this notice is likely to be received by affected persons. We all have to deal with the credit departments of banks and know how conservative they are. It is quite probable the bank could reduce or freeze the entity’s facilities. Another “affected person” is SARS who would probably try and recover any back taxes owed.

A business that is about to experience financial difficulties will, almost certainly, be starting to find it more difficult to obtain finance. Yet, trading your way out of liquidity problems and/or insolvency issues will require access to finance. Without liquidity a business can go into a downward spiral resulting in insolvency.

The impact of the notice, thus, could have the effect of denying the business access to money and stalling any attempts to successfully turn the business around. This is the unintended consequence – instead of reassuring stakeholders that the business is on a recovery path, the notice could have the opposite effect.

### ***What can management do?***

A seemingly obvious (but untenable) solution is to not send out the notice.

One of the key assumptions of the new Act is to move away from a capital adequacy model to a liquidity/solvency model. The Act imposes obligations on management to ensure it continually monitors liquidity and solvency. It also requires transparency and good governance principles – affected persons need to be made aware of any potential prejudice to them. Finally, it imposes criminal and civil liabilities on management in this critical area.

**This means that not sending out a notice to affected persons is not a viable option.**

The best strategy for management is to be always aware of any potential liquidity and insolvency issues. The sooner a problem is identified, the sooner positive action can be taken. Pro-active management will reduce the chances of facing liquidity and insolvency issues.

#### **PHILANTHROPY IS TAKING OFF: AND THE TAXMAN HAS COME TO THE PARTY**



In recent years we have seen a trend towards more active giving – Bill Gates and Warren Buffett have led the way globally and Mark Shuttleworth and Patrice Motsepe have started substantial philanthropic foundations in South Africa. Some local Private Banks have actively matched the causes their clients believe in to Public Benefit Organisations (PBOs). One such Private Bank reported that 91% of its clients made donations in 2012.

It is almost counterintuitive that this should be happening. After all many of us feel burdened by the frequent requests for aid which seem to come at us from every angle. One theory advanced to explain this trend is that the democracy we currently have is threatened by things such as the high disparities of wealth, low levels of education and ongoing service delivery protests. Government alone cannot solve this myriad of problems, bearing in mind that international donors have dried up following the global financial crisis. Thus, part of the burden has shifted to South African corporate entities and individuals.

#### ***What does the taxman offer? A checklist for PBOs and donors***

Donations to PBOs are tax deductible to the extent of 10% of taxable income. This applies to both individuals (in which case taxable income is before any deductions for medical expenses or donations) and corporates. The Minister of Finance announced in 2013 that from 2014 any amounts in excess of 10% may be carried forward to the next tax year.

PBOs must register with and be approved by SARS. In essence, they must be altruistic organisations. After a donation has been made, the PBO is to issue a certificate to the donor stating -

- Its PBO number,
- The name and address of the donor and the PBO,
- The date and amount of the donation,
- A declaration that the funds will be used only for the objective(s) of the PBO.

When you do your tax return, ensure you have the certificate available for inspection by SARS.

Individuals who are paid monthly can get PAYE relief for the donations made to PBOs (up to a maximum of 5% of balance of remuneration - the balance is claimed when the tax return is submitted).

These concessions are significant and support the growing trend towards philanthropy. If you are looking to reduce your tax liability, one way of doing this is to make a donation to an approved PBO.

#### **YOUR TAX DEADLINES FOR MARCH**

Apart from ongoing deadlines (PAYE, VAT etc) there are no other deadlines for March.

### ***Have a great March!***

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