ACCOUNTANTS
& AUDITORS

With Compliments

Have you seen our informative and cutting edge articles on our website at www.mdacc.co.za? We regularly include updates and current trends on taxation, company law, employment, financial processes and B-BBEE to help you manage your business and minimise your risks. We also have a dedicated B-BBEE blog at www.mdbee.co.za to help you maximise your B-BBEE scorecard levels.

You can also follow us on social media platforms where we regularly post interesting news to keep you up to date. We always proactively consider the latest legislation and how it may affect you!

MD House
Greenford Office Estate
Off Punters Way
KENILWORTH
7708

Tel: 021 683 4834
Fax: 086 541 2872
e-mail : newsletters@mdacc.co.za
Web site : www.mdacc.co.za

CA(SA)
CHARTERED ACCOUNTANT
SOUTH AFRICA

Forward email

KEEPING YOU IN TOUCH

ca[sa].news

In this Issue

June 2014

ARE YOU A TARGET FOR SARS' VERIFICATION AND AUDIT PROCESS?

Over the past few years, SARS has accumulated a lot of data on taxpayers and has improved its systems in terms of using this data to pick up errors or omissions by taxpayers. Legislation has enabled Revenue to increase its interrogation powers.

SARS has substantially escalated the verification and audit process

The number of audits conducted in 2012/2013 rose by 42% over the previous year. 15% of taxpayers were audited in 2012/2013.

Many taxpayers will have received a verification query after completing their 2013 returns. Taxpayers need to understand that this is the beginning of a process that could lead to paying more tax and/or becoming embroiled in an alternative dispute resolution procedure, objection and appeal, a tax audit and finally appearing in court.

Be warned: The rules have changed

Clearly, there is a greater onus on corporates and individuals to further apply themselves when completing returns. Taxpayers must also organise and have their documentation available for verification purposes.

If in doubt, this is an appropriate time to seek advice from your accountant or tax practitioner.

What "triggers" the verification process?

SARS keeps this confidential but analysts have picked up on some trends. When doing your annual tax return, watch for the following:

- If you claim medical expenses, ensure you have proof of payment. If you read SARS' notes on how to complete your return, they are looking for evidence of payment. Just showing invoices may result in your claim being denied.

- If you claim a study allowance expect to be asked to justify the expenses claimed.

- Car and travel allowances are also targets for verification. SARS often ask to see your logbook – if it is not completed as per SARS' requirements your deduction will not be allowed. Be careful when claiming a car allowance - for example unless the employee bears all the cost of fuel and repairs, then he/she is not allowed to claim any expenses at all. Thus, if the car holds a service warranty, then no repairs may be claimed for tax by the employee.

- If you own a second property and use it for trade purposes, be careful with repairs and maintenance. SARS will scrutinise these to ensure that you can prove that they are not expenses incurred on your primary property.

- Large refunds may also trigger a verification process, so have your documentation ready.

On e-Filing, there is a place to upload documents. If you fall into any of the above categories, it makes sense to be pro-active and include documentation to justify the above expenses. **Take advice on how to present this documentation** – remember you want to end the verification process quickly to prevent it escalating.

Factors that may trigger an audit

- SARS have been investigating high net worth persons and has already identified 467 of them for further investigation.
- Areas where SARS deems there is high risk of losing tax revenues may set off an audit process across the relevant industry.
- Tip offs – SARS will act on tips from the public.
- Random selection of taxpayers.
- Instances where SARS' databases across all types of tax indicate discrepancies.

Be warned and be prepared - the rules have changed for taxpayers.

SOME RELIEF FOR INDEBTED CONSUMERS

The National Credit Act (NCA) came into effect in 2007 amidst much fanfare that this would level the playing fields and make it easier and cheaper for all consumers to borrow funds. However, this has not been the case – credit providers have been happy to advance money knowing that debt collectors have excellent collection systems. In addition, there are no laid down guidelines as to how to test people's ability to repay debt advanced to them.

Thus, widespread abuse has crept in. Unsecured lending rose 53% in 2012 and over 9 million consumers had fallen behind on their debt repayments. Finally, the cost of borrowing has continued to rise - as people struggle to pay debt this attracts adverse ratings by credit providers which in turn pushes up the cost of debt.

Government has decided to act

The authorities have been considering ways to curb the excesses. In terms of Regulations recently gazetted, two immediate measures were announced.

Firstly

They have announced a credit "amnesty" from 1 April 2014. Note that the term "amnesty", which has been bandied about freely by the media, is misleading in that it is only an "information" amnesty. **Debts themselves are not written off or reduced, and remain payable in full.**

This means that all "adverse information" (as defined) on record is to be removed from credit providers' data bases by 1 June. "Adverse information" includes comments on consumers' behaviour ("delinquent", "slow payer" etc), actions taken by credit bureaus ("handed over", "written off"), information on disputes with credit providers and symbols or letters or numbers (such as bank codes) which have negative meanings.

Credit bureaus must notify all other credit bureaus that the information has been deleted and all notified are to remove this information from their data bases. In other words as at 1 April, all "adverse information" is wiped off consumer records.
However, credit providers may keep on record any adverse information gathered after 1 April.

Secondly

In cases where a judgment has been granted on a debt and the consumer pays up all of the capital on a debt, all information relating to the judgment is to be deleted from the credit bureau's records. The relevant bureau is to notify all other credit providers to similarly delete this information from their records.

Unlike "adverse information", in all future cases where the capital is paid off, judgment information is to be expunged from the consumer's records. Consumers are thus encouraged to pay off their debts.

In essence, these measures give indebted consumers breathing space as credit should become more accessible to them and future loans should attract lower interest rates and hence repayments.

What advice should I give my staff?

Many of you will have staff that have become indebted over the past few years. Tell them there is an opportunity for them to start afresh with their debt records.

ECONOMICS 101: INEQUALITY VERSUS POVERTY – A DEBATE VITAL TO SOUTH AFRICA'S FUTURE

Inequality and poverty are two different things

There is confusion as to what these concepts mean. Recently, when protests broke out over inequality a government spokesman said poverty had dropped substantially since 1994. The comment is true in that poverty has dropped since 1994 – from roughly 60% of the population living in poverty to about 40% today. Grants (over 16 million people now receive them), housing, electricity and the provision in running water have contributed to poverty reduction. In addition, 4 million black people have reportedly joined the middle class.

Yet the Gini Coefficient (which measures inequality within a country) has not declined but in fact has risen over the past twenty years. In other words, the gap between the rich and the poor has widened. **At 63.1%, South Africa's Gini Coefficient is amongst the highest in the world.**

There are many solutions put forward as to how to address the inequality: from Julius Malema's call to nationalise the mines and banks to the theory that economic growth will grow the overall economic "pie" and this will spread or "trickle down" to the poor communities.

One thing all commentators agree on is that inequality is a long term threat to stability in South Africa and thus priority needs to be given to this intractable problem.

What does research show?

There has been substantial global research done in recent years. One of the disturbing aspects of the research is that it discredits what has long been held - that the growth of a middle class brings with it a redistribution of income within an economy. The research shows that after the First World War there was a redistribution of income towards the middle class. However the last forty years has seen inequality rising again with the middle class being squeezed and the top 1% showing increasing incomes.

The research indicates that countries where the Gini Coefficient is low tend to have more sustainable growth. Countries with a high coefficient have more uneven growth as they go through more boom and bust cycles.

In South Africa, since 1994, incomes have become more equal in the white and coloured communities but inequality has risen amongst the black community.

Are there any solutions in South Africa?

Some researchers have called for a global tax on the super wealthy. They recognise that this will only work if all nations impose the tax - if they don't, the wealthy will move their assets to countries that do not impose the tax.

Brazil has reduced its Gini Coefficient by social grants and by increasing the minimum wage. In South Africa, as noted, social grants have increased but more modest adjustments have been made to the minimum wage. Of course we are two different countries and Brazil enjoyed higher growth in the 2003 - 2008 global boom which made increasing the minimum wage more affordable. Brazil has also experienced social unrest similar to our 'service delivery protests' and has gone into economic decline in the past few years.

Clearly the problem is extremely difficult – experts believe the starting point is to remedy education and tackle the infrastructural backlogs. This will take several years before benefits start flowing through. In the short term there needs to be a consensus between the government, business and labour. Some analysts believe that this will involve business raising wages and increasing employment in exchange for greater productivity and relaxations in labour law.

YOUR TAX DEADLINES FOR JUNE

There are only the ongoing deadlines for PAYE, SDL, UIF and VAT this month.

Have a Great June!

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