

The Road Ahead

Taking South Africa

in our stride - from shore to shore

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2014 Budget

Tax Proposals

On 26 February 2014 the Minister of Finance, Pravin Gordhan delivered his annual Budget Speech, and as expected for an election year the budget speech did not include any major surprises or radical proposals. From a tax point of view, except for the usual inflation adjustments to the tax tables and other monetary thresholds, the budget speech included the following proposals:

Major tax rates unchanged

The tax rates of South Africa's major taxes, namely the corporate tax rate of companies (28%) and Value-Added Tax (VAT) (14%) has remained unchanged. The tax table for individual taxpayers has been adjusted for inflation. The rates of other important taxes such as Dividend Tax (15%) and the inclusion rates of capital gains into taxable income has also remained unchanged.

Carbon tax postponed to 2016

The introduction of the controversial carbon tax has been postponed to 2016. It will implement the carbon tax and reduce the electricity levy at the same time, with the net tax burden being low in the first five years of implementation, rising slowly thereafter and more steeply after 10 years.

Taxation of lump sum from funds on retirement reduced

National Treasury has proposed an increase in the tax-free lump-sum amount paid from retirement funds from R315 000 to R500 000. This will be especially beneficial to lower income earners, who may in the past have been required to pay tax on their lump sum in retirement, even though they weren't entitled to a deduction while working since their taxable income was below the tax-free threshold.

Tax-preferred savings accounts

Tax-preferred savings accounts (including bank deposits, collective investment schemes, exchange-traded funds and retail savings bonds) are to be introduced over the next 12 months and in terms of this, tax exemptions for interest, dividends and capital gains will be granted for investments with an initial annual contribution limit of R30 000 and a lifetime contribution limit of R500 000. In line with the policy decision announced last year the annual interest exemption for natural persons has remained unchanged at R23 800 (R34 500 for taxpayers older than 65).

Small business corporations (SBC)

The reduced tax rates applicable to SBCs are considered ineffective in encouraging investment, as the compliance cost for these types of entities is still very high. It is proposed that the reduced tax rate regime be replaced with an annual refundable tax compliance rebate.

2014 Budget Tax Proposals

Employment tax incentive

Excess amounts of the employment tax incentive can be set off against future PAYE liabilities. To enhance this incentive, SARS is developing a mechanism to reimburse firms in instances where the incentive exceeds PAYE payable. The refund system will become effective during the fourth quarter of 2014. Practically, this means that the first six-monthly return would be submitted before the refund system is in place.

Four-monthly VAT category

Government proposes to eliminate this category of vendors (< 1 000 vendors) and to bring registered vendors into the bi-monthly VAT system.

VAT zero rate for farming vendor purchasers

From a VAT point of view it was mentioned that the zero rate for farming vendor purchaser (registered as category 7 – farming activities) would be reconsidered.

Reform of the taxation on trusts

In the budget speech of last year it was mentioned that the tax rules for distributions from SA and foreign trusts would be reviewed and especially the so-called conduit pipe principle would be reconsidered. This proposal was not included in the 2013 tax amendments. The 2014 Budget speech was also silent on this matter.

Conclusion

Remember, the process from now on, is that once the Minister has made the announcement and put into the public domain what they want to change, National Treasury will start drafting the legislation. The process is actually quite transparent. Normally in June of each year they will make the draft legislations available for public comment, and normally give a month to comment. Workshops are then held to discuss the legislation. Thereafter, National Treasury will finalise the changes and draft the bill, which is then presented in parliament as Money Bills. Once it is approved, it must then be signed by the President.

The process normally takes until the end of November or early December before it is converted into legislation. The procedure can therefore take up to nine months from the Budget date.

Wessel Smit
B.Compt (Hons) HDip Tax MCom (Taxation) CA(SA)
Direkteur/Director: Core Tax (Pty) Ltd



The Rent vs. Buy Debate

Is it Better to Buy or Rent?

With the recent announcement by the SA Reserve Bank to hike interest rates by 50 basis points and rumours that future hikes are more likely than not, many people are carefully considering their options before committing to a 20-year mortgage bond on their property. In response to this, we conducted research and compiled the following model.

The first fact would be that when you consider buying a property, you're in for a long period. If you're unsure about the next 2 years it would probably be better to rent as the costs involved in buying and selling a property usually end up to be 10 - 15% on the value of the property to conclude both buying and selling contracts. In the current market it is unlikely for the capital appreciation to be more than that. If your life is more stable and the above does not apply, you need to consider the following facts as each of them have an impact on your decision.

When buying a property the following costs are involved:

- Mortgage payment (Capital and interest),
- Property rates,
- taxes and levies,
- Repairs and maintenance,
- Insurance.

There are also costs to buying and selling your property. As you will see in the graph, it is also of the utmost importance to carefully select the location of your property as the capital appreciation and the availability of tenants are large factors in the model. You also need to carefully consider the expected interest rate changes. When renting, the only cost is rent and in some cases repairs and maintenance if damage is caused by the tenant.

In the model, we excluded lost opportunity income. The assumption is that you are buying a house for personal use and you need to borrow funds from a bank to finance the property. We therefore also excluded tax on the rent or on the property expenses as none of the above is tax deductible on a personal property. We however calculated capital gains tax on the sale of the property taking the R 2 million exclusion into account. As the mortgage bond payment will only be for 20 years, it would be a misconception to merely compare rent to the bond payment as many current models do. Instead we used a cumulative cash flow approach where we take into account all costs incurred to rent and to buy and to graph it on a total cumulative cost-per-year model.

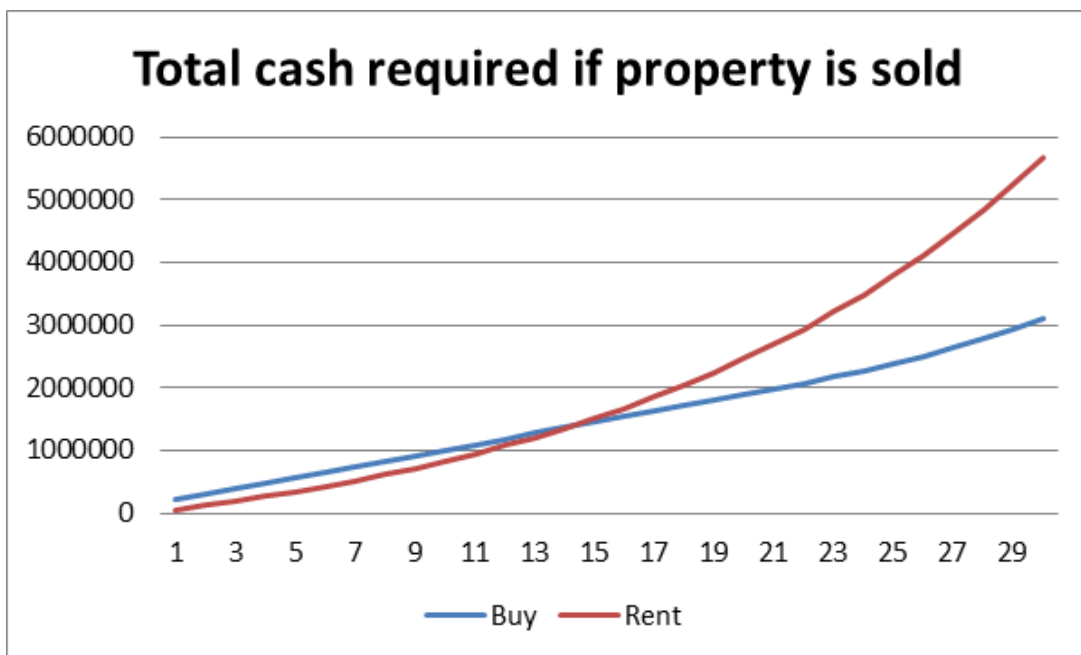
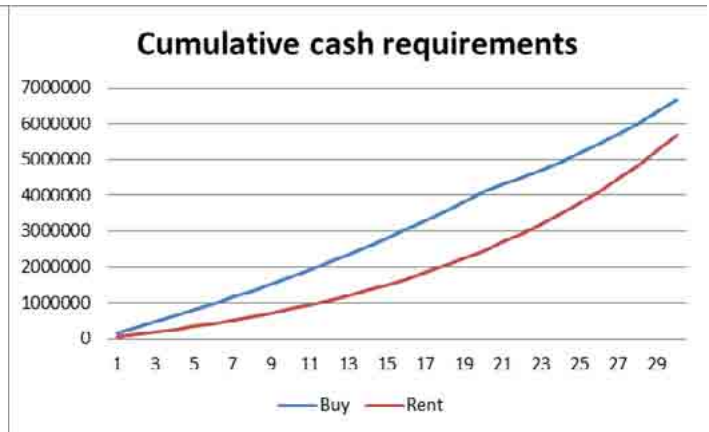
In the graph we used as a conservative example the following assumptions:

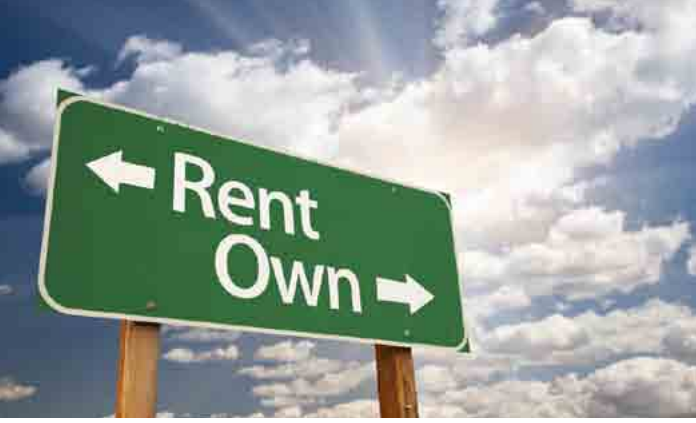
- Price of property: R1mil,
- Deposit: 10%,
- Annual capital appreciation: 5%,
- Annual increase in rent: 7%,
- Interest on bond: 9%,



The Rent vs. Buy Debate

- Inflation: 7%,
- Rent income: 0.5% monthly rent on property value,
- Property rates, taxes & levies: 2% of property value,
- Insurance: 0.5% of property value,
- Repairs & Maintenance: 3% of property value,
- Buying costs: 7% and
- Selling costs: 5%





The Rent vs. Buy Debate

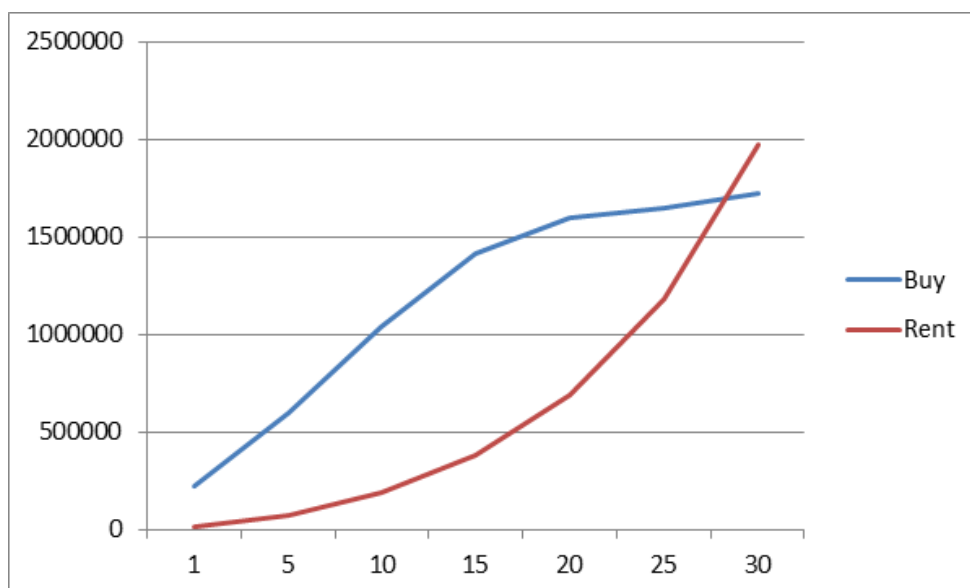
It is clear from the above graphs that buying the property is a far better option. The only graph that put the “buy option” as more expensive than the “rent option” is the “Cumulative Cash requirements”. However, bear in mind that although the buyer paid R6.6mil over the 30 years, he now owns a paid property of R5mil where the rent paid is an expense only.

Now, where is the point then where it is better to rent? The truth is that it is at a ridiculously low point of rent payments to the value of property. I include the last graph as an example.

In the graph, we used as a worst case example, the following assumptions (Changes in bold):

Price of property: R1mil, Deposit: 10%, Annual capital appreciation: 7%, Annual increase in rent: 10%, Interest on bond: 12%, Inflation: 7%, Rent income: 0.1% monthly rent on property value or R1,000!, Property rates, taxes & levies: 2% of property value, Insurance: 0.5% of property value, Repairs & Maintenance: 3% of property value, Buying costs: 7%, Selling costs: 5%

Even in this example it is better to buy than to rent although it will take you 28 years to reach break-even point.



From the graph it is quite clear that as a given, buying a property is still better than renting unless a series of factors change drastically. This however is not expected and history proves the opposite.

Diederik Erasmus
B.Acc (Hons) CA(SA)
Direkteur/Director: Core Business Solutions (Pty) Ltd

Why Cloud Accounting?

Cloud accounting is a relatively new term in the South African business environment. In countries all over the world, this new way of doing and managing the accounting function in a business, has had a huge impact on the time and money spent in order to maintain a business' accounting function.

Cloud accounting refers to the use of online platforms to process and capture accounting information. The implementation of cloud accounting systems had a huge impact on the reduction or elimination of redundant time-consuming work that most businesses are faced with.

Cloud accounting systems allow greater access to real-time data, which increases engagement with business' financials and assists in financial decision-making. The main benefits of implementing a cloud accounting system are:

- Save valuable time – the functionality available, reduces time spent processing transactions, allowing the focus to be on strategic and forward thinking in your business,
- No more “donkey” work – with functionality like auto integration with over 5 000 banks worldwide, the need to process manual bank transactions disappears,
- Any time access – as all the platforms are web based, you have access to all your financial information from anywhere in the world,
- Peace of mind – no more backups or risk of data corruption in your accounting data,
- Saves money – as the systems are fairly easy to use, and most of the processes are automated, the need for in-house expertise and expensive, highly skilled personnel is eliminated,
- One version of the truth – gone are the days of exchanging accounting program backups between your accountant and yourself. Everybody can access the same data and work on the data simultaneously,
- Better decision making – have financial information in an easy to understand format, to assist you in crucial business decision making processes,
- Change your lifestyle – access your financial progress from your internet connected ipad, laptop, desktop, mac or smartphone. Access to your information is no longer location dependant.

At Cloud Accounting we focus on streamlining our clients accounting function. By implementing revolutionary platforms, focussing less on compliance and more on strategic thinking in our clients' business, we help to take their business to the next level.

Dirk van Velden
B.Compt (Hons) CFA(SA)
Direkteur/Director: Core Cloud Accounting (Pty) Ltd

Amending a trust deed

Amending An Inter Vivos Trust Deed

The circumstances surrounding trust deeds and the parties to trusts changes from time to time. It is thus necessary to change the provisions of a trust deed from time to time. However, in order to legally change a trust deed, certain requirements must be adhered to.

To start with, it is important to understand the legal nature of an inter vivos trust. In short, an inter vivos trust is a contract between a Founder and Trustees for the benefit of the beneficiaries - in other words a stipilatio alteri. According to this structure, the beneficiary becomes a party to the contract as soon as he/she accepts the benefit that was contracted between the Founder and Trustees.

Therefore, in terms of court decisions, such as **Crookes NO v Watson** 1956 (1) SA 277(A) and **Hofer v Kevit** 1998 (1) SA 382 (A) a trust deed can be amended by an agreement between the Founder and Trustees, only if the beneficiary has not yet accepted the benefit that was contracted between the Donor and Trustees.

The above principle was confirmed in **Potgieter and Another v Potgieter NO and Others 2012 (1) SA 637 (SCA)**, where it was stated that a trust deed can be amended by an agreement between the Founder and Trustees, only if the beneficiaries had not yet accepted their benefits. If the beneficiaries had already accepted their benefits, the deed can only be amended by agreement between the Founder, Trustees and beneficiaries. Whether the beneficiaries accepted any benefit, is a question of fact.

Where there is an amendment clause in the trust deed, the trust deed can also be amended according to that amendment clause. However, my submission would be that even in these circumstances, the fact whether the beneficiaries had accepted benefits, should be taken into account.

Therefore, if you consider amending any trust deed, it would be beneficial to your piece of mind to first consult someone who specializes in trusts and who is up to date with the latest case law.

Piet Swanepoel
B.luris LLB Adv Tax Cert Adv PDFP
Direkteur/Director: Core Financial Solutions (Pty) Ltd



Annual Returns Payable to CIPC

Due to the change in the New Companies Act there were a few changes made to the payment of annual returns.

As from 1 May 2011, Non Profit Companies (NPC) are now also obliged to pay annual returns.

The fees payable to CIPC operates on a sliding scale according to the turnover of the Company, Close Corporation or NPC for the latest financial year-end. Penalties are payable on annual returns not paid within 30 days of the due date.

The payment date is the day on which the Company, Close Corporation or NPC was established. Payments to CIPC are due within 30 days after which the penalty will be charged.

The sliding scale for Companies and NPC is as follows:

- Turnovers of less than R1 million - R100 - penalty for late payment is R50.
- Turnovers of more than R1 million but less than R10 million - R450, penalty for late payment is R150.
- Turnovers of more than R10 million but less than R25 million - R2000, penalty for late payment is R500.
- Turnovers of more than R25 million - R3000, penalty for late payment is R1000.

The sliding scale for Close Corporation is as follows:

- Turnovers of less than R50 million - R100, penalty for late payment is R150.
- Turnovers of more than R50 million - R4000, penalty for late payment is R1000.

Non-compliance for the payment of annual returns will result in the Company, Close Corporation or NPC being deregistered by the CIPC.

Our Core Clients will be billed three months in advance, in order to do proper budget planning. Advance payments will enable us to administer this on behalf of our clients and to avoid penalties.

Daleen Bezuidenhout
Direkteur/Director: Core Co-Services (Pty) Ltd

Budget 2014

It is again that time of the year when the Minister of Finance tries to balance all the incomes and expenditures of the country, which is nothing than a large business, in the budget. Each year there are large expectations in the economic world about how the government plans to balance its books the next year. Every now and then, certain taxes are amended. Here a little upwards, there a little downwards. Many of these adjustments are important, but not something that influences you substantially. Excise duties (taxes on liquor and cigarettes) are usually in the cross-fire and one of the areas to be targeted. A few cents are usually also added to the fuel levies. For a week or so we are upset, but within a month or two you realise that you have to travel en then it is business as usual again.

However, there was one announcement this year that is worth its while to convey to our clients. Although the effect of that might not immediately affect you, it is one which, might be of great importance to you in the long run. As we all know, the government is very worried about the rising costs of the social grants. They realise that more and more people are dependent on the state and that that burden increases every year. If the current pace is maintained, it will soon (if not already the case) be out of control and irreversible. For this reason, they offered certain incentives to individuals this year to encourage them to save more, clearly with the hope that individuals will be self-supporting upon retirement and would not need to stand begging at the door of the state.

I believe most of you already know that you can deduct your contributions towards an approved pension/annuity fund are tax deductible. These deduction are limited to a maximum of 15% of your taxable income. It is here where the new legislation becomes important to us.

- Firstly, they announced that from March 2015, i.e. next year, contributions up to 22,5% of your taxable income will be allowed for persons below the age of 45 (limited to R250 000 p/a) and 27,5% for persons over 45 (limited to R300 000 p/a). This is a major increase from the current 15%. Clearly they feel that they want to give an extra incentive to savers rather to save for themselves.
- Secondly: When you eventually retire from your pension fund/annuity, you may withdraw one third in cash. The remaining two thirds you have to invest to provide you with a compulsory income.

The one third that you do take in cash, also has favourable taxation scales, which allow you to take the first R315 000 tax free. VaFrom R315 001 up to R630 000, you are taxes at 18%. The next notch - R630 001 up to R945 000 – is taxed at 27% and everything over R945 000 at 36%.

These notches have now been raised to R0 – R500 000 tax free and R500 001 – R750 000 at 18%. R700 001 up to R1 050 000 is taxed at 27% and the anything over R1 050 000 at 36%.

Thus is it clear that they want to motivate you to save by handling you now, and upon retirement, in a tax-friendly manner. Also remember that all growth in these funds is exempted from any tax. Therefore use this opportunity to take a look at you current contributions and start to make enough provision for that retirement day in good time.

Gerhardus Liebenberg
 B.Econ CFP
 Direkteur/Director: Core Financial Solutions (Pty) Ltd



Amidst
Tough Tides
your insurance stays strong

We are almost through the first quarter of 2014 and everyone is challenged with financial uncertainty in a rapidly changing economic environment. The new fiscal year will undoubtedly be a challenge for the individual salary earner as well as the entrepreneurs among us.

The Short Term insurance industry has also had some interesting changes in the last quarter of 2013:

- The major one being Hollard's merge with Etana Insurance. This resulted in Hollard, now being ranked South Africa's 2nd largest insurer, under the new leadership of Adrian Enthoven.
- Santam declared an underwriting profit of 2.8% and a gross written premium exceeding R20 billion.

So what does this mean to us as intermediaries and you as our valued clients?

Most important to us, is the financial soundness of an insurer which allows them to settle all valid claims in a timely and efficient manner. This financial soundness also allows us, the intermediary, to negotiate better premiums for our clients, which is always good news for the consumer in tough economic times.

It is therefore in your best interest and also advised by the regulatory environment on Short-Term Insurance services to review your portfolio at least once a year with emphasis on the following:

- Adjustment of the current retail value of your vehicles insured
- Evaluating the current rebuilding costs of your buildings insured
- Evaluating the current replacement value of all contents insured
- Negotiating for competitive premiums and add-cover or rewards

In 2013 we had new entrants into the insurance market which offers a wide range of products and services. One of these was Discovery Insure who launched their innovative fuel rewards - offering clients cash back on their fuel spend of up to R750 per vehicle per month.

Core Short-Term is contracted with all the major insurers. This enables us to offer a unique Short-Term Insurance experience to our clients. You are guaranteed proper advice and our wide range of products is competitively priced to meet your individual insurance needs. Our clients are our CORE focus.

Jaco Wiehman
B.Econ CFP
Direkteur/Director: Core Financial Solutions (Pty) Ltd



Validity of EME Certificates Issued by Registered Auditors on the Codes of 2013

Are you currently an Exempted Micro Enterprise (EME) for B-BBEE purposes? Is your turnover less than R10 million? Do you still need a B-BBEE Certificate for tender or other purposes? If you answered yes to all of these questions then the new Amended B-BBEE Codes will have an effect on you.

The Amended Codes of Good Practice on B-BEE were gazetted on 11 October 2013. According to the new Amended Codes, entities other than those on whom sector chartered codes apply, with a turnover of less than R10 million are now classified as EMEs. This is a significant change from the R5 million in the prior codes. Statement 000 of 2007 allows RA's to issue EME certificates, but amendments in Statement 000 of 2013 stipulate that only a sworn affidavit by an EME is required. It makes no provision for the issuing of EME certificates.

Registered Auditors were advised not to issue EME certificates based on the Codes of 2013, until further clarity is obtained. If an EME entity still wants a certificate it may be issued on the Codes of 2007, which means that the turnover of R5 million will then still be applicable. From 11 October 2014 the Codes of 2013 will be in full affect and the client will not have the opportunity to obtain EME certificates under the Codes of 2007. The only option will then be a sworn affidavit.

Clients will be informed as soon as further clarity is obtained regarding the issue of a certificate instead of only obtaining a sworn affidavit.

Colette Cilliers
B.Com (Hons)
Direkteur/Director: Core BEE (Pty) Ltd

Important Branding Principles

In the previous article we looked at some myths regarding branding and how, when you start thinking more intelligent about branding it can increase the equity of your brand.

There are some fundamental principles of branding and if overlooked, can cause your brand not to be sustainable.

The first is **Brand Differentiation**. The traditional view of design is that it has four possible goals: to identify or, to inform or, to entertain or to persuade. With branding – differentiation – is the fifth. The first four are tactical but the fifth is strategic.

The ultimate goal of any brand effort is differentiation. Setting your product or service apart from its competitors is an essential first step toward creating preference and loyalty. According to research firm, Millward Brown, *“Brands that are perceived as being different have a much higher potential for growth than do other brands.”*

Businesses are marketing at a time when competing products perform largely at parity levels (being the same), and when almost any product improvement can be matched by a competitor. How can differentiation -- which is the most essential element of branding -- be achieved?

The most important differentiating factor is creating a clear visible difference between you and your competitors. More than 90% of consumers act on visual factors when purchasing decisions are made. That is why the following statement by Scott Davis is so important: *“Image and perception help drive value; without image there is no perception.”*

Many businesses, whether it is a start-up or an established business, do not realise that their visual appearance helps create perceptions in the market whether their products or services are reputable or not. Start with a properly designed brand that ties in with your business strategy and personality and 90% of your work is done. Good design and execution sets you apart from your competitors. Think of the cheap photocopied ads in your post box versus the neatly design and printed ones.

If you want your business to be remembered (brand loyalty = profits) you have to be different. If you are not remembered your will die. Be different or die! Remember - being different works because of the way the human cognitive system works. Our brains are programmed to see that what is different.

The second principle is **Brand Consistency**. The ultimate goal of any business is to win the hearts and minds of your consumers. Once you’ve done that, you have achieved brand recognition. Meaning your audience knows the company well enough to know what you may or may not say, and what you may or may not look like

Important Branding Principles

Keeping your brand consistent is just as important as developing the brand itself. Once you have established how you want your company to be perceived, you need to stay with that throughout all your marketing and communication efforts. The more consistent the brand is across all customer touch points, the more the brand will have a firm impression on people and will be more easily recognisable.

A brand is a commitment to the customer to provide consistent product performance or a repeatable and reliable level of service. People value brands and pay more for a brand because they can place their trust in the brand. All visual and verbal brand identity must be “on brand”. Customers can quickly spot an impostor. If you intentionally or unintentionally send mixed messages or try to be something you are not; customers will spot it in an instant. Each time your brand delivers a compelling message that is “on brand”, it earns trust. Each time your message is unclear or is “off brand”, it erodes trust and devalues the brand.

In short, inconsistent branding and messaging destroys the most important aspect of a brand — delivering a promise of value that customers

The third principle is **Brand Clarity**. One of the most grossly overlooked elements in most brand building initiatives is the part that deals with clarity: The questions you want to ask here are “do *people* (inside the company and outside of it) *understand* the brand? Do they *understand* it’s identity? Do they identify with it? More importantly, can they *define* it?”

Three little questions will assist to clarify your brand internally and externally.

1. Who am I?
2. What do I do?
3. Why does it matter?

Unless you have compelling answers to all three questions, meaning your customers find them irresistible, you haven’t got brand clarity.

Your brand is not defined by *A*. It’s defined by *THE*. *We are THE* (fill in the blanks).

Clarity is better than persuasion. Trying to convince people takes time, effort and money. If your brand message, visually and verbally, is clear to your customers you do not have to convince them to spend their money with you.

If your brand is different, consistent and is clear to your customer, your brand has the necessary principles in place to be a sustainable and profitable brand.

Contact CORE Brand Management for a free brand consultation.

Hein du Plessis
Direkteur/Director: Core Brand Management