the CORE group

360°

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Navigating at the forefront of a thawing economic climate

the future - now

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CORE tax

Taxation: Deductibility of contributions to retirement funds

Various provisions concerning the tax implications of contributions to retirement funds and the taxability of distributions from retirement funds will be amended with effect from 1 March 2015 (the 2016 year of assessment).

The purpose of the amendments is to encourage individuals to make provision for their retirement and to eliminate differences between the various funds.

There are currently three main types of retirement funds, namely pension funds, provident funds and retirement annuity funds. Pension funds and provident funds are employer funds and a retirement annuity fund (RAF) is normally funded by independent individuals.

Sections 11(k) and 11(n) of the Income Tax Act currently provides for limited contributions in respect of contributions to a pension fund and retirement annuity fund respectively. Contributions to a provident fund are currently not deductible.

Since pension funds and provident funds are employer funds and employers must make contributions to these funds on behalf of the employees in terms of the rules of the funds, employees are not taxed on such contributions as a fringe benefit.

The payment of an employee's contributions to a RAF is, however, a fringe benefit in terms of paragraph 2(h) of the 7th schedule, because the employer is paying a debt on behalf of an employee.

The definitions of a pension fund and a retirement annuity fund currently determine that a member may take a maximum of one-third of the total value of his or her retirement benefit in the form of a lump sum (and the rest in the form of annuities).

Currently, section 11(l) of the Income Tax Act limits the employer's deduction of contributions to 10% of the employee's approved remuneration (in practice SARS allows 20%).

With effect 1 March 2015, the section 11(n) deduction for retirement annuity fund contributions is deleted and the section 11(k) deduction is amended to include contributions to all retirement funds, subject to a percentage limit of 27,5% on the greater of 'remuneration' (excluding any lump sum or severance benefits) or 'taxable income' (excluding any lump sum or severance benefits)

There will also be a monetary limit of R350 000 per member. However, employers can claim deductions in respect of all actual contributions to retirement funds. Contributions in excess of the annual limits may be rolled over to future years where the amounts will again be deductible together with contributions made in that year, but subject to the limits applicable to that year. To avoid double taxation – if any contributions have not been deducted at retirement, the nominal value will be available to be set off against any lump sum income prior to the tax calculation, or will be available at assessment to reduce the tax payable in respect of compulsory annuities.

All contributions of employers to all retirement funds will be taxed as fringe benefits in the hands of the employees. The value of the fringe benefit will be determined by establishing whether the fund consists solely of 'defined benefit components' or of both 'defined benefit components' and 'defined contribution components'. In the case of 'defined contribution funds' (for example pension, provident and retirement annuity funds) the contributions can be linked directly to the benefits that the member will receive upon withdrawal, retirement or death.

'Defined benefit funds' have an inherent element of cross-subsidy and the value of the actual contributions can therefore not be directly linked to the benefits. Any contributions made by an employer for the benefit of an employee-member, will be deemed to have been made by the employee, thereby being potentially deductible. However, no fringe benefit will arise in the case of an employer contribution allocable by a retirement fund to a retired member of the fund.

The definition of provident funds will be amended to provide, similar to pension funds and retirement annuity funds, for the one-third limitation on the amount that can be taken as a lump sum.
A new proviso to the definitions of all funds provides that the following will not be taken into account when calculating the total value of the retirement interest, to which the one-third limitation on the amount that can be taken as a lump sum applies:

- any contributions to a provident fund before 1 March 2015
- in the case of members of a provident fund who are 55 years or older on 1 March 2015, any contributions made to a provident fund on or after 1 March 2015 of which the person was a member on 1 March 2015,

  and
- any fund return, as defined in the Pensions Fund Act, in respect of the above-mentioned contributions.

Provident funds must maintain separate accounts in respect of members under the age of 55 as at 1 March 2015, in order to separate pre-1 March 2015 contributions (and any growth thereon) from post-1 March 2015 contributions (and related growth). The vested right protection will apply, irrespective of whether the retirement interest remains in the provident fund or is transferred to another retirement or preservation fund.

Remember, these amendments will be effective in respect of contributions made on or after 1 March 2015 (2016 year of assessment). Taxpayers should carefully consider the impact of the above amendments on their retirement fund contributions, to ensure that they obtain the maximum tax benefit available.

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

RECOGNISE AND COMPLIMENT

As a manager, there are only three aspects that you need to concentrate on, and provided you act in the best interest of the company at all times, nobody will be able to criticise the value you deliver. Always keep these three value dimensions foremost in your mind: Deliver DIRECT RESULTS every day; Continuously reaffirm the VALUES of the company; Develop PEOPLE FOR TOMORROW.

Recognise and Compliment: If a job is truly well done, give it all the praise it deserves. Mentioning one or two specific things that especially impressed you makes your praise all the more convincing. It shows that you understand the difficulties the job posed. Don't delay! Leaving your compliment for a few days keeps the employee in suspense, and you may risk forgetting to deliver it.

If a job is done well enough, but parts of it would benefit from a little constructive criticism, save the criticism for later. Allow the recipient to bask in the praise until the next time the subject comes up; then say something like "As great as that proposal was, I think it could've used a few more examples of outside competition. Do you think you could find a few and add them?"

The power of a compliment is greater than you might realise. It makes people feel good and people who feel good are generally better, more productive employees. That means, of course, that giving compliments is good business, as well as the right thing to do. For the owner of a small business on a tight budget, praise is often the only reward that can be afforded. In that case, it becomes just that much more important to recognise and compliment a job well done … an effort that went above and beyond, or a great idea.

Make your compliments count. Just as important as giving them, is *not* giving one for every little thing any employee does, which will cheapen the value of your praise. For the giver and the receiver, compliments are best when they are not only sincere, but also well deserved.

Sometimes, the medium amplifies the message. Many managers like to deliver their highest praise face-to-face. Others prefer to put it in writing. It's a matter of personal style - and usually employees know which style their manager uses when he or she is most pleased. For managers of the terse kind, this could be a brief phone call or e-mail, or even just a handshake and a "Nice job" when passing in the corridor. Obviously you can go further, like composing a handwritten message, sealing it in an envelope, and then delivering it in person. Give the compliment verbally and then hand over the writ¬ten note. Employees will hold on to those notes as part of their official record.

Be Available: Remember that your first priority as a manager is to get results, and the way to get results is through managing people, not paper. Instead of hiding behind a closed door and your desk, surrounded by a defensive barricade of paperwork, keep your door open - and especially your eyes and ears. You'll learn much about employee attitudes and morale simply by being alert.

There is no better way of finding out who is feeling overlooked or overwhelmed than watching the passing parade and tuning in to the office chatter - you can ask unhappy employees in for a chat on the spot. That way, their discontents have less chance of spreading to the rest of the staff.

The telephone can be just as effective a barrier to people management as paperwork is. So can e-mail - try talking to someone's back as he or she sits hunched in front of a computer screen! The best managers learn to take control of their telephone and e-mail time, rather than having it control them. This leaves time for face-to-face meetings and sponta¬neous conversations –- the source of almost all the good ideas that arise in any company.

The Power of 'PLEASE' and 'THANK YOU': More often than not, the small courtesies get lost in the bustle of today's do-it-now; faster; better; cheaper; business world. Saying 'please' and 'thank you' is not just an empty gesture. Adding the word 'please' , for example, before "Come to a meeting in my office at ten o'clock" or "Fax this to Bob Johnston" turns a demand into a request. People respond much more positively when something is asked of them rather than demanded.

The same goes for 'thank you': when you say 'thank you' , you are showing appreciation. When you don't say 'thank you' , you are showing that you expected someone to do something. People much prefer to be appreciated.

Manners project a kind of easy confidence. They say, "No matter how crazy our jobs get, let's not forget the common decencies that hold our lives together. Let's not let a bad day destroy our mutual respect. If we keep our heads, things always work out".

By using 'please' and 'thank you' yourself, you are setting an example for your staff by making it clear that these common courtesies are part of your team or company culture. Model the behaviour, and your employees are likely to follow suit.

Treat Your Support Staff Correctly: Today's personal assistant is likely to be something of a generalist, involved in much more than just secretarial work. Increasingly, he or she is likely to have been placed on a career track by the company, with the understanding that the eventual goal is to graduate to a higher position or even a managerial one. Such changes make it all the more understandable why the term secretary has fallen from favour, symbolising as it does the era of the low-level, low-paid 'Girl Friday' with little prospects of advancement. Today the preferred titles include administrative assistant, executive assistant and personal assistant.

Part of most executives' daily routine is to spend time with an assistant going over projects, dictating letters, discussing appointments to be made, and the like. It's easy to forget the basic cour¬tesies that make your interaction more pleasant. Shouting "Mary, come in here!" or running through the litany of things to do without a smile, seems demanding if not overbearing. "Mary, when you're finished with that letter, would you please come in so that we can discuss the next project?" shows recognition that she is busy, and it has the added benefit of turning an order into a request.

Likewise, using 'you' rather than 'I' when making requests, implies that 'Mary' has a participatory place in the process … "I want you to work on the Widget project this afternoon" could be phrased phrased better as "Mary, the Widget project needs some attention - would you please fit it into your schedule this afternoon?"

Because you, as a manager, spend more time with your assistant than with other employees, you have the opportunity to give him/her a day-by-day performance evaluation of sorts - the ideal situation for any employee, but usually impossible in all but the smallest offices. The same goes for the receptionist, whom you come into contact with every morning and occasionally during the day. Giving a compliment for a job well done (and a little constructive criticism when a lapse is noticed) works both to their advantage and yours.

Some secretaries are of the old school and take pride in having mastered secretarial duties to a tee. Your relationship with an assistant of this sort is relatively cut and dried. There's little or no question as to what each other's duties and obligations are. Other assis¬tants are often those who aspire to a higher level, and it is here that the definitions become less clear – and management more sensitive!

Coaching Tip:

Common decencies, in and of themselves, produce absolutely nothing. Their absence, however, destroys *everything!* A simple thing to do in any position of authority is to insist that people afford each other the common decencies we all deserve. Lead by example and demand that the practices of common decency are practiced, and thereby continuously reinforced all the time – then observe the culture begin to change and productivity and efficiency increase! A word of warning – weed out serial offenders.

Remember that internal misjudgments are six times more likely to cause failure than external factors. Success in business, as in life, is all about getting the fundamentals right … and the actions you take!

Dr Kulu Ferreira
D.Tech HR Management
Direkteur/Director: Core Labour

CORE financial solutions

African Bank

“The function of economic forecasting is to make astrology look respectable.”

-John Kenneth Galbraith

In the economic world, there is only one constant ... uncertainty!

The African Bank (ABIL) saga is still fresh in everybody’s minds. For a few days there was slight panic in the markets. Many people thought that this was the first domino falling to announce the start of the correction. This correction in the market has been forecasted for quite some time and it is coming true now ... or not?

Fortunately, the Reserve Bank saw the writing on the wall and acted just in time to prevent the situation ending in total chaos. By suspending the trade in ABIL shares, they somehow restored order and, together with the other major banks, decided to attempt a joint salvation endeavour. To a large extent their action were forced, because they all had some or other form of exposure to ABIL, and it is in everyone’s interest that all confidence in the financial sector is not lost.

What is the meaning of all of this for us at grass-roots level? As we have already seen, there is always a ripple effect stretching much wider than the obvious. Take, for instance, Capitec. They don’t have the same business model as ABIL, but because they are also to some extent active in the micro-lending arena, they were immediately regarded with uncertainty. Suppose you were a major fund manager – when the first shots were fired, what was one of the first reactions taking place? Asset management was convening to see where they can score possible exposure to a share which may be caught in the crossfire. Suppose they have 3% exposure to Capitec – the first reaction would be to maybe reduce their exposure to 1.5%. Nobody wants to see their names in the newspapers and in the financial news, like what happened to Coronation (Coronation had a significant position with ABIL and didn’t analyse the warning signs accurately). As a result of this panicky selling of Capitec shares, its own share price suddenly also came under pressure. So, there are always victims who weren’t involved in the struggle directly.

Furthermore, we shouldn’t forget that the loss of ABIL will also spill over to other sectors. Much of the money borrowed from ABIL ends up at Woolworths, Pick & Pay, Shoprite, Checkers – to name but a few. A vacuum now exists. The cost of this spending, or loss thereof, will only be calculated in the coming months.

This brings me to the point I want to make. There is always uncertainty in the market. Will there be a correction? Possibly. How big will it be? Nobody knows. Will it be the 43% of 2008/2009 again? Unlikely, but time will tell. If we changed our portfolios in anticipation of correction in order to escape the impact of a possible correction 12 months ago, we would have forfeited an average of between 12% and 18% on growth. If a correction is indeed coming, we would at least have shown growth to help absorb that impact.

To use the words of a legendary investor, Peter Lynch: "Far more money has been lost by investors preparing for corrections and trying to anticipate it than has been lost in the corrections themselves."

Our investment philosophy at Core was and will always be, to invest in accordance with our specific strategy or mandate. This means that, in the short-term, we shouldn't lend our ears too much to the 'noise' often being dished out by the investment media. We try to make good choices in the selection and combination of our fund managers by doing a great deal of research. Short-term buying and selling is almost always counterproductive. Statistics have shown that, even if you had a very average fund in your portfolio for the past 15 years, it would probably perform better than a client moving emotionally in and out of the market in an attempt to improve his return.

The one principle that simply can't be argued away, is that time spent in the market will deliver much better returns that annually shifting to the previous year's best fund.

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

CORE trusts & estates

Wills: Specific bequests

In our previous newsletter, we looked at the structure of a properly drafted will and the different clauses that should be contained in a will. In the next few issues, we will focus on the various ways in which assets can be bequeathed in terms of a will, namely direct inheritance, usufruct, fidei commissum, right of use (usus) and right of habitation (habitatio). In this issue we will look at **direct inheritance**.

Direct inheritance happens when an asset is bequeathed directly to an heir. An example of this is: "I bequeath my farm, known as Mooihoek, to my son Jan". In a case like this, the heir (Jan) obtains unlimited ownership of the said farm after the death of the testator.

Where minor heirs are involved, trusts are normally used to manage assets until the heir has reached a certain age. If you are using a trust for minor heirs, it is important to distinguish between these two examples:

1. "I bequeath my farm, known as Mooihoek, to my son Jan. The bequest must be held in trust and managed in accordance with the provisions outlined in paragraph __ of this will, until said son reaches the age of 25."

2. "I bequeath my farm, known as Mooihoek, to my son Jan. Should the said heir not have reached the age of 25 when the inheritance becomes due, I recall the bequest to him and pass the inheritance of the said farm to the trustees of the Mooihoek testamentary trust, to manage the bequest in accordance with the provisions outlined in paragraph __ of this will, to the benefit of said son and his descendants."

Fairly recently, the age of a person reaching majority was reduced to 18 years. When the heir becomes 18 – in the first example – he will be entitled to terminate the trust and claim the property. The property will immediately form part of his estate and be subject to the risks the said heir may encounter.

In the second example, the inheritance will be protected in trust until the trust is terminated according to the instructions set out in the will, even up to a date after the heir has reached the age of 25.

Please watch this space for more information regarding wills and estate planning. You are also welcome to contact us any time, should you have queries.

Piet Swanepoel
B.Iuris LLB Adv Tax Cert Adv PDFP
Direkteur/Director: Core Trusts & Estates (Pty) Ltd

short-term

Security for your Short-Term Insurance

Recent months have seen a drastic increase in home burglaries and home alarm systems have become more commonplace in South Africa. A proper alarm system can help deter criminals from targeting your property and it can also assist in reducing your insurance premiums. However, if the alarm system is not properly maintained, homeowners and tenants put themselves at greater risk of home burglaries and resultant insurance claim rejections. If your insurance stipulates a 24h linked alarm or armed response, or if your insurer provides a premium discount on account of such measures being in place, it is essential to ensure the system remains in working order.

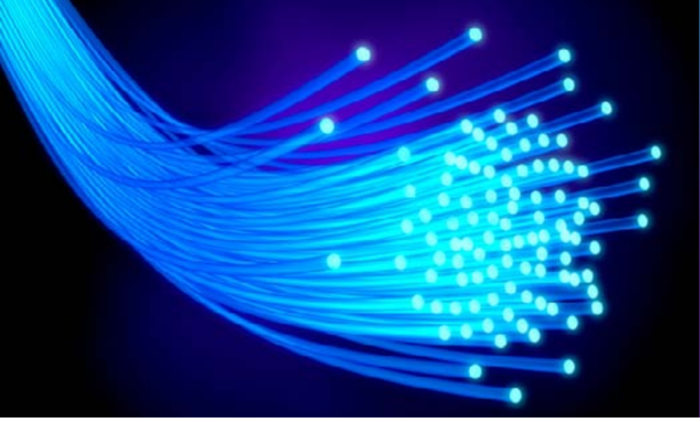
It is imperative for homeowners and tenants to ensure that their home alarm systems are properly maintained and are always activated when they are not at home. If a burglary takes place while the insured was not at home and the alarm was not activated, faulty, or the back-up battery was not charged, then the insurance claim may likely be rejected by the insurer.

Useful hints to remember:

- Test your alarm system regularly by activating it on purpose;
- Ask the alarm company to service the system bi-annually;
- Regularly test the back-up battery by switching off the electricity;
- Outdated alarm systems can increase the risk of burglaries because older technology is often easier to bypass by experienced criminals. It is a good idea to update your alarm system with new technology every couple of years.
- Be careful when providing domestic staff with security access. It is advisable to do a full background check on your domestic staff before giving them any security access to your home.
- It is important to select a trusted security company that is aware of all by-laws or restrictions that may be in place.

There are a number of other simple measures homeowners and tenants can take to protect themselves and their property over-and-above an alarm system, such as: burglar bars and security gates, beams in gardens, electric fencing and pin- lock sliding doors.

Wickus Pelser
B.Com (Hons) (Accounting) ICBS
Direkteur/Director: Core Financial Solutions (Pty) Ltd



Broadband
in South Africa

With the adoption of cloud services in South Africa, one of the biggest question marks is the cost of bandwidth. However there are some choices to be made between ADSL, 3G, 4G and fibre for businesses. The quality of service is also very much a deciding factor. Although cost is declining at a rapid speed, South Africa is still lacking when compared to developed countries (where cloud technologies are developed).

But, there is hope if you compare data from 2003 to 2013. Cost per MB in 2003 compared to 2013:

Telkom:

2003: R73 per GB   2013: R6 per GB *

Vodacom:

2003: R599 per GB   2013: R50 per GB *

**this is with certain packages from the relevant companies*

A factor that many companies do not take into account when deciding on bandwidth technologies, the fact that with broadband, you have upstream and downstream speeds, contention ratios and uptime guarantee. All of these are terms thrown around by tech-savvy ICT professionals, but which are not always understood by decision makers in companies. With cloud services, some of these are really important, especially **upstream** speeds. Internet-connection advertising mostly focuses on down-stream speeds, but not upstream, while with cloud technologies this of course is very important. For example:

Price comparison between ADSL and fibre optic:

Telkom Business ADSL premium: R1 209 per month

Download: 10MB's
Upload: 1 MB's

Fibre optic solution from Neotel:

Price: ± R5 000 per month, subject to location and availability

Download: 10MB/s
Upload: 10 MB/s

Seems Telkom ADSL is the clear winner ... or is it?

Let’s compare upstream (upload) speeds with a 10MB email to send:

Telkom: That email will take 8 seconds
Fibre optic: Email will take 1 second

Take note that a sent email is counted as an upload, as well as a document saved onto cloud services.

This brings us to the second term, contention ratio. This refers to how many clients are sharing the same bandwidth. For example: you have a 10MB/s ADSL line, but you have a contention ratio of 20 (as an example). This means your internet connection is shared with 20 other clients from Telkom. So, the speed you have available is subject to what the 19 other guys are doing...

Now, the exact figure for Telkom is not always certain, but it is generally accepted to be between 15 and 20. Compared to the 1 to 1 from Neotel, once again you can see the benefits.

Uptime guarantee refers to the availability of services and, obviously, with Telkom (the cheaper option) you can imagine that you do not have much of a guarantee.

Now, I’m not marketing certain products, not in the least. What I want to point out though, is that when you are considering broadband technologies, you must really make an effort to understand how broadband works and what questions need to be asked. With the introduction of cloud technologies, this becomes incredibly important.

Martin van Lill
MCSE (Microsoft Certified Systems Engineer)
Direkteur/Director: Core IT-support

CORE co services

COMPANY / CLOSE CORPORATION STATUTORY DOCUMENTS

The importance of the statutory documents of companies and close corporations is often underestimated.

According to the amended Companies Act of 2008 the following is of utmost importance:

- The records must be kept in written form for a period of seven years (Section 24(1)(a) & (b);
- Every company must maintain a copy of its Memorandum of Incorporation (MOI) and any amendments or alterations thereof (Section 24 (3)(a);
- A record of its directors and/or details of persons who has served as directors (Section 24 (3)(b);
- Notice and minutes of all shareholders meetings including all resolutions, copies of any written communication, minutes of the meetings and resolutions of directors or directors' committees (Section 24 (3)(d), (e) & (f);
- In addition to this, each company/- close corporation must maintain a securities/ members interest register and records required by the Companies Act (Section 24 (4)(a);

Company records must be accessible at the company's registered office or another location or locations within the Republic. The company must file a notice at CIPC, setting out the location of the records and list all accessible documents held at this location.

Previously, the registered address of companies and close corporations was the address of the registered auditors/ accounting officers.- As per Section 23(3((b). the companies/close corporations registered address should be the principal office of the company/ close corporation.

These records must be accessible in accordance with the Promotions of Access to Information Act of 2000.

It is an offence for a company/ close corporation to fail to accommodate any reasonable request for access to these documents or to unreasonably refuse access to such documents.

The law may also require the company / close corporation to present these documents.

We hereby suggest that each company/ close corporation take this to heart and maintain a register of the applicable statutory records for their own peace of mind. They may also ask their accounting officers / auditors for assistance in this matter.

Daleen Bezuidenhoudt
Direkteur/Director: Core Co Services

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