the CORE group | 360°

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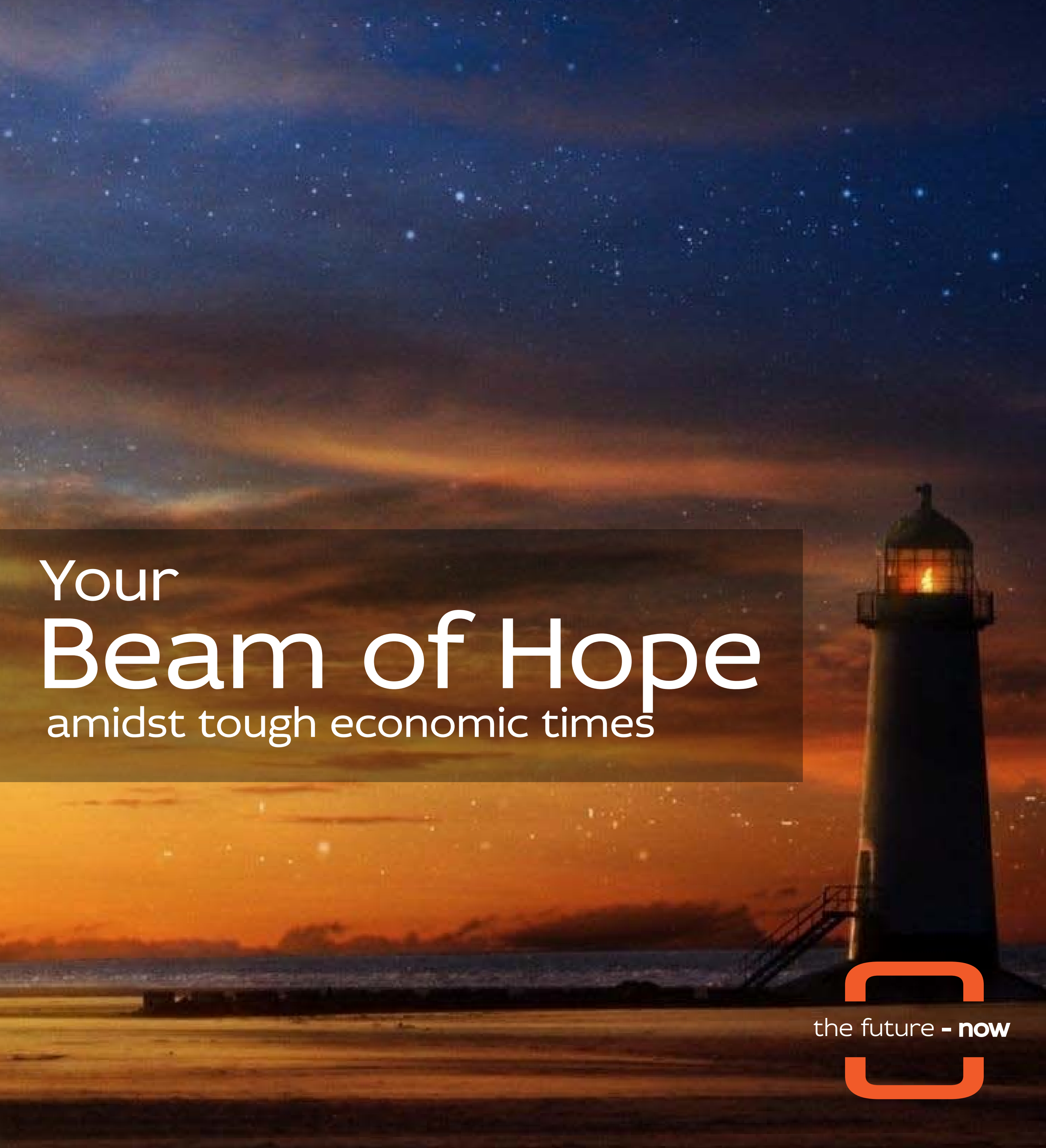
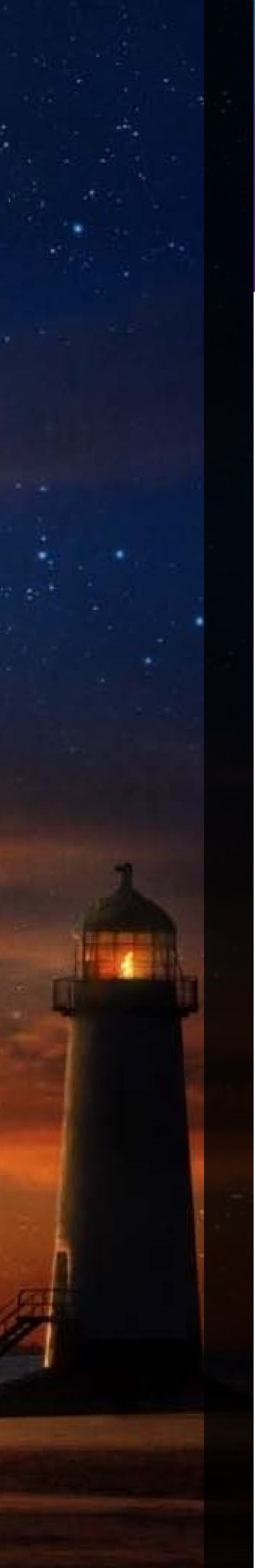


Your Beam of Hope amidst tough economic times

the future - **now**



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Tax and fixed property: Timing of CGT vs VAT

Most businesses holding fixed property will have a capital gains tax (“CGT”) and a Value-Added-Tax (“VAT”) consequence on the disposal of such fixed property. The disposal of any fixed property usually has significant CGT and VAT consequences. For most businesses it is very important that the cash flow from the disposal of the fixed property coincide with the time of the CGT and VAT payments to prevent hardship. The reality however is that there is significant differences in the timing of the CGT and VAT liabilities that vendors and taxpayers need to take into account to prevent cash flow problems.

Timing of output VAT liability

A registered vendor that use fixed property for the making of taxable supplies, or partly for the making of taxable supplies would have to account for output VAT on the consideration on the disposal of the “fixed property”.

The phrase ‘fixed property’ includes land (together with improvements affixed thereto), any unit as defined in the Sectional Titles Act of 1986 (Act No. 95 of 1986), any share in a share block company which confers right to or an interest in the use of immovable property, and, in relation to a property time-sharing scheme, any time-sharing interest as defined in the Property Time-Sharing Control Act of 1983 (Act No. 75 of 1983), and any real right in such land, unit, share or time-sharing interest.

Where fixed property is disposed of under a sale agreement output tax only has to be accounted for to the extent that the seller of fixed property has received payment of the purchase price. Input tax may only be claimed to the extent that the purchaser has made payment of the price.

The payments are usually made in a fixed property transaction on the date of registration of the fixed property at the Deeds Office. As such, there does not appear to be a risk that the timing of the VAT liability exceeds the cash flow from the disposal.

Timing of CGT

The proceeds on the disposal of fixed property where the fixed property was held as a capital asset, will not be included in “gross income” per the Income Tax Act. In such a case the disposal of fixed property would be subject to CGT, assuming none of the exclusions, for example the primary residence exclusion would not apply.

In terms of the time of disposal of assets for CGT purposes when a specific event, act, forbearance or operation of law occurs, the time-of-disposal rules apply when that stipulated event occurs, whether it precedes a change of ownership or, for some unforeseen reason, a change of ownership never occurs. Therefore, applying this principle to fixed property transactions there is no doubt that the time of disposal for fixed property transactions will not necessarily coincide with the date of the change of ownership, namely the registration at the Deeds Office.

The time of disposal rule for assets, that would include fixed property states the following:

- An agreement for the disposal of the asset subject to a suspensive condition, the date on which the suspensive condition is satisfied, or

- An agreement not subject to a suspensive condition, the date of conclusion of agreement (usually the date when the offer is accepted by the seller).

In the case of a suspensive condition that is included in a fixed property disposal agreement, the time of disposal is suspended pending the occurrence a specified event. A suspensive condition suspends the full operation of the obligation under a contract and renders it dependent on an uncertain future event. An example of a suspensive condition is a clause in a sales agreement stating that the sale will only be confirmed if a mortgage bond is granted.

Example 1 – Disposal subject to a suspensive condition

Facts:
Lindsay disposed of his luxury townhouse at Ballito to Kevin on 28 February 2014, subject to Kevin being able to obtain a bond. On 30 June 2014 Kevin obtained the bond, and on 15 August 2015 the property was transferred into his name.
Result:
The date of disposal is 30 June 2014 when the suspensive condition is fulfilled.

A suspensive condition must be distinguished from a term of a contract. In the case of a suspensive condition, the operation of the obligations flowing from the contract is suspended, in whole or in part, pending the occurrence or non-occurrence of a particular specified event. A term of the contract, on the other hand, imposes a contractual obligation on a party to act, or to refrain from acting, in a particular manner. A contractual obligation flowing from a term of the contract can be enforced, but no action will lie to compel the performance of a condition.

A mere term in a contract is one in which the continuance of the operation of the agreement is made to depend upon the happening of an uncertain future event. In the case of a term in a contract there is no postponement of the disposal.

Example 2 – Disposal subject to resolutive condition

Facts:
On 15 January 2014 the Acorn Trust disposed of its investment in Oak Tree (Pty) Ltd to an empowerment consortium. The sale agreement provided that the sale would be cancelled and any monies paid by the purchasers would be forfeited to the seller if the company did not produce a turnover of R100 million by 30 June 2014.

Result:
The date of disposal is 15 January 2014.

As such in the case of an unconditional agreement of fixed property, the time of disposal of fixed property would be on the date when the agreement is concluded, which in itself is a matter of contract law and will depend on the facts and circumstances in a particular case. As discussed above the time of disposal could this precede the time of transfer of ownership of the fixed property and could this precede the cash flow of a taxpayer. The negative cash flow impact for a taxpayer could be due to the fact a taxpayer needs to include the taxable capital gain in his or her estimated taxable income for the purpose of the second provisional tax calculation, to ensure that the taxpayer's estimate is within 80% of the actual taxable income of the taxpayer to prevent an underestimation penalty for the second provisional tax purposes.

If the time of disposal of the fixed property was before year-end but the registration of the property in the name of the taxpayer at the Deeds Office only took place after year-end, which is not an uncommon occurrence the taxpayer would have to account for the estimated CGT as part of the second provisional tax payment before the proceeds on the disposal have been received.

An even worst scenario as far as the cash flow impact for the taxpayer go, is when the time of disposal of the fixed property is before year-end but the sale agreement is cancelled after year-end due to the non-satisfaction of a term of the sale agreement.

In short the cancellation of the sale in the subsequent year of assessment will result in the capital gain that was taken into account in the year of disposal would be reversed as a capital loss in the year of cancellation, while a capital loss that was taken into account in the year of disposal would be taken into account as a capital gain in the year of cancellation. Clearly fixed property transactions concluded just before year-end could have significant negative cash flow consequences for a taxpayer.

For fixed property that is expropriated there is a specific time rule stating that the time of disposal is only the date on which the person receives the full compensation agreed to or finally determined by a competent tribunal or court. On expropriation of fixed property the negative cash flow impact resulting from the payment of CGT is therefore limited.

Conclusion

As registered VAT vendors only have to account for the output VAT on the disposal of fixed property to the extent that payment has been received, which is normally on the date of transfer of ownership of the fixed property (registration date at the Deeds Offices) the timing of the liability of the output VAT for the vendor usually match the receipt of the proceeds on the sale of the fixed property, therefore not leaving the vendor out of pocket as far as the payment of the output VAT liability.

The CGT time of disposal of disposal of fixed property will be on the date of the conclusion of an unconditional sale agreement which would usually precede the actual transfer of ownership of the fixed property before year-end. As discussed above this could result in the taxpayer having to pay the CGT as part of provisional tax in one year, while the proceeds on the sale is only received in the next year. Subsequent cancellation of sale agreements will even have a worst cash flow effect for a taxpayer.

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business development

Challenges for managers in turbulent economic circumstances

A distinction has been made on occasion between two important factors which stand in relation to one another, namely What to have/ do versus What cannot afford to be had/done.

$$\frac{\text{What must I have/do}}{\text{What can I not afford to have/do}}$$

On the surface the denominator and the factor (divider) appears to be basically the same, but they are not. The farm is a business enterprise and as such it ought to comply with the basic requirements of competitive management in order to be competitive. Farmers/managers should set aside time to reflect on this relationship.

The decision making within the four farm fences is influenced increasingly by what happens outside the farm with very little the manager/decision maker can do to affect the situation. He or she, however, is tasked to run a profitable operation and the question arises as to what should be done.

The Business School of Stellenbosch University drew up and published the first Management Index in South Africa. With this a measuring stick has been set of the most critical challenges of business leadership and management. The survey involved almost 600 managers. Some of the most important findings are that 71% of the respondents were convinced that their employers maintained high levels of interaction with their staff in the midst of challenging business circumstances that were recession-related. 94% stated that they were proud to be working for a particular employer. The vast majority were also satisfied with the strategic leadership within the organizations. There were, however, also significant challenges, amongst which was change management. Only 54% were convinced that their organizations were sharp enough in this area – only 64% were of the opinion that their leaders possessed the necessary skills to effectively manage change. Inefficient communication (timeliness, quantity and content) are seen as being the Achilles Heel of the organizations that were involved. Only 53% of the respondents were of the opinion that communication was adequate. Training and learning opportunities is a further challenge with fewer than 50% of the respondents satisfied with the status quo. Top managers therefore will have to give attention to efficient intervention in training and development and to create a culture of fairness and trust. They ought also to give greater support to female managers.

Herein lies many lessons for the entrepreneur on the farm, whose management and leadership is definitive for the welfare of everyone concerned. If one applies this to the above-mentioned relationship, matters falling under “What to have” would be: competent partnerships between stakeholders, to differentiate and diversify, improved circumstances to be able do better and cheaper business and to leave no stone unturned to make farming better than what it is. Under-the-line aspects of importance is not to declare victories too soon, to be pro-active and not to wait till something breaks before it is fixed, to confuse dynamics with mechanics, to base the future on extrapolation of the past, to suffer from analytical paralysis and no to practise what one preaches.

Agriculture is part of the economy, but dimensionally more erratic. Farmers as entrepreneurs are firstly leaders and then managers, but in spite of their involvement, the turbulent present requires that these people should build the road while walking on it.

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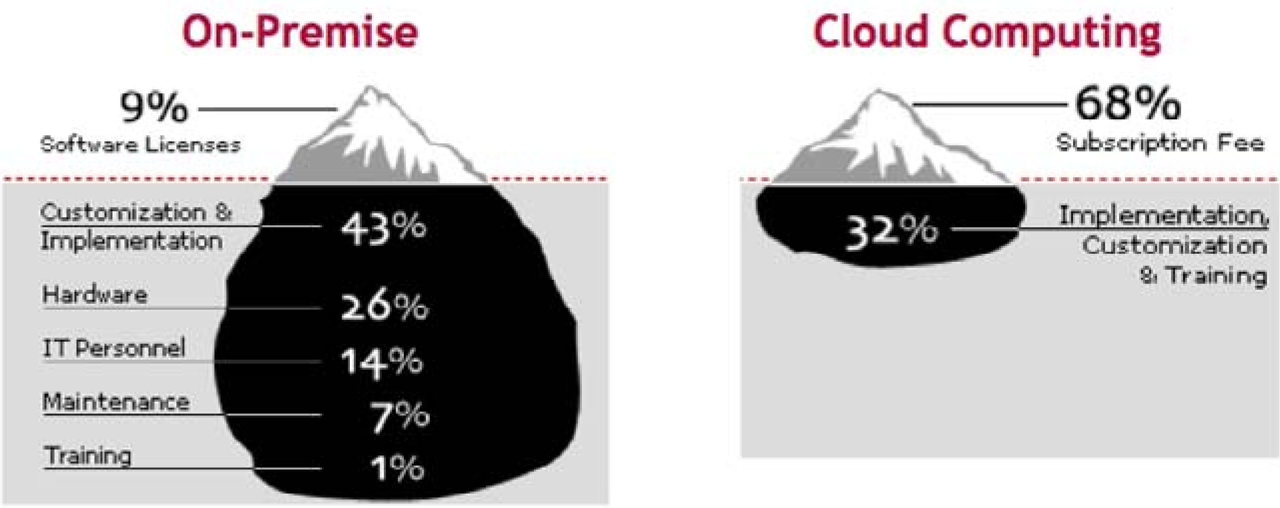
The Economics of using cloud accounting systems

Using cloud based accounting platforms unlocks several advantages in a business environment that can take your business to the next level. In our previous article we have explained the advantages of using cloud based accounting platforms in your business. Today we are going to look at the economics of using cloud-based platforms and how it can be used to unlock your business's optimal economic potential.
Cloud-based Accounting systems as opposed to more traditional systems like Pastel, Quicken and SAP, reduce the total cost of ownership, improve your return on investment and shorten the payback time of your investment, all while delivering other advantages in system-performance, reporting and working more efficiently.

Comparing total cost of ownership: Cloud vs On-Premise

When comparing the cost of ownership of a cloud and on-premise system, it may appear initially that the on-premise solution provide a more cost-effective solution. If you compare the options, the start-up costs, on average, for software licences is about 9% of the total IT expense as opposed to the initial subscription fee of cloud computing which can be 68% of the total IT expense. However, looking at all of the costs associated with each system shows there is more than meets the eye:



With on-premise software solutions, the majority of the ongoing costs become visible after the system has been implemented. With the cloud, the only ongoing costs include implementation, customization and training which require a less substantial ongoing investment. Because of this, businesses can actually save money with the cloud. With lower total costs, Return on Investment (ROI) can often exceed triple-digit percentages, while Payback timing is typically a fraction of on-premise, averaging 3-6 months.
Cloud System Benefits
In addition to reduced on-going expenses, the cloud offers multiple benefits over on-premise systems including enhanced data security, reduced maintenance costs and easier workforce management.

- Enhanced data security: Keeping sensitive financial data safe is paramount to any operation. Because a cloud-based system resides in a managed data centre, the data are significantly more secure and stable that compared to on-site solutions. Offering 24-hour security, multiple redundancy and other forms of continuity, cloud-based systems significantly reduce the risk of theft, damage or other issues when compared to on-site, on-premise PCs within a central office.

- Reduced maintenance costs: Cloud-based systems provide software upgrades that are automatically installed, which reduces the need to expend IT resources to install, reinstall or upgrade software programs. Additionally, because cloud-based software is monitored at a data centre, any incompatibility issues have already been addressed and resolved before a new programme is implemented. Cost savings are also realized due to reduced system downtime.

- Easier workforce management: Cloud-based solutions enable software access from any computer. This makes it easier for business partners, such as auditing firms and outsourcing companies, to access relevant data more quickly. Companies also enjoy a greater degree of immediate control over data access when employees leave the company.

- Flexibility and Scalability: cloud-based systems offer anytime data access from any computer, which optimizes the system's flexibility. Providing real-time data, reporting is more flexible with up to 13 dimensions and visibility for consolidated or multiple entities. Able to expand when needed, cloud-based systems are extremely scalable to suit the needs of an operation. Instead of having to procure user licences and suitable hardware that is needed in traditional on-site installations, the cloud easily accommodates new users and multiple entities, as well as multiple currencies through its central data centre.

Cloud vs. On-Premise: A Gift that Keeps Giving

When comparing the features of a cloud-based system to an on-premise system, factors such as enhanced data security, reduced maintenance costs and easier workforce management, as well as flexibility and scalability offer a significant improvement in performance over the long-term. Additionally, the greater costs and risks of on-premise systems associated with hardware, running software and maintaining data integrity make cloud-computing a much more appealing option.

For more information on the platforms available and how they can benefit your business, you can contact Dirk van Velden on (051) 448 8188.

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CORE
trusts & estates

Structure of a properly drawn-up Will

This article is the first in a series of articles on the importance of a properly drawn-up will and also about its contents. The first article was aimed at explaining the structure of a properly drawn-up will.

When any will is drawn up, it is important that the correct procedure is followed. Wills can be drawn up severally or jointly (e.g. with a spouse). There are a number of clauses that appear in most wills and that can be seen as the basic structure of a will.

The revocation clause is always used at the beginning of a will to ensure that all previous wills are revoked and that the will that is drawn up would be the last wish of the testator or testatrix.

The next clause is normally the core of the will and all bequests are set out therein. It is very important that the bequests are set out as clearly and as simply as possible to prevent any confusion. When joint wills are drawn up, it is important to make provision for possible scenarios, where the persons drawing up the will, can die as the first deceased, be the survivor or where they die together.

A further important clause is where the executor (the person that has to finalize the estate) is appointed. The choice of executor is very important. The person whose will is being drawn up has the choice of nominating an executor who has the necessary knowledge to finalize the estate, or a family member can be nominated, who will then assume responsibility to appoint a competent agent to administer the estate. If the Master of the Supreme Court calls the competence of the appointed executor into question, it will be required that a competent agent be appointed.

A further very important clause has the tenor that the bequest to any heir is excluded from the legal consequences, including marriages in community of property and the accrual dispensation, of any present of future marriage of an heir.

Where a minor heir is involved, it is also very important to appoint guardians for such children in the will who will replace the natural guardian at his / her death. Lastly, it is also important to protect the inheritances of minor heirs in trust until such minors are competent to look after their own assets.

Please read the next contribution in the series on wills in the next Newsletter. Do not hesitate to contact us if you have any questions.

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Transitional Period for commencement of the Amended B-BBEE Codes of Good Practice extended

On the 11'th October 2013, Minister Rob Davies promulgated the Amended Codes of Good Practice on B-BBEE and provided for a 12 month transitional period, during which enterprises could familiarise themselves with the new Codes and adapt to the new, more challenging requirements.

In promulgating the Amended Codes, a few Statements were omitted, amongst others: No Qualifying Small Enterprise (QSE) Scorecard was published, leading to confusion on how QSE's would be rated and the Verification Guidelines was also omitted. The Dti acknowledged at the time that additional Statements, including the QSE scorecard needed to be issued before the Amended Codes take effect and also indicated that the Sector Codes would need to be aligned to the Amended Codes as a matter of urgency.

On the 18'th of March 2014, Minister Davies announced that the transitional period had been extended to 30 April 2015 and as such that the Amended Codes will come into effect on 1 May 2015, instead of 10 October 2014, as originally intended.

With the announcement of the extension of the transitional period, came a sigh of relieve from many business owners, as the Amended Codes will require proper, timeous planning and much more effort, in order to achieve the set transformation targets. Whilst we welcome the announcement of the extension, it is important to remind you, our valued client, that you should not delay gaining an understanding of the Amended Codes and how it will impact on your business. The time to start planning and putting strategies in place, is now.

For enterprises with financial years ending in December (2014) or even February (2015), the possibility exists to fit in one more verification in March or April 2015, just prior to the commencement of the Amended Codes, and still be rated on the "old" Codes, provided Annual Financial Statements are finalised in time. For enterprises with financial years ending in June, for instance, the current financial year would probably be the last year that would be rated based on the "old" Codes, meaning that those enterprises would have to start implementing their new B-BBEE strategies in July 2014 already.

Our recommendation to our clients is to use the additional time that has been afforded, to plan properly and plan wisely. No B-BBEE strategy can be successful, if it does not make business sense and if it does not add value to your business overall. The time when B-BBEE was a "tick-box exercise" has gone. The enterprises that will reap the rewards, are the ones that will put in the effort to explore opportunities of true transformation and put strategies in place that will not only put them in the position to be B-BBEE compliant, but will also provide them with a return on their B-BBEE investments and give them a competitive advantage.

For any advice on the impact of the Amended Codes on your business, or how to improve your enterprise's B-BBEE compliance, contact the CORE BEE team.

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Insurance Fraud

In a declining economy everybody needs to curb expenses and business owners always have to look for for additional streams of income.

What does this have to do with insurance, you may ask? Let us look at the possibilities.
Specified all-risk item claims under a certain value, are dealt with as fast-track claims --no questions asked by insurers; just quick and effective claims handling to put the insured back in the same position as before the claim. We've all been asked the question: "will it be an insurance claim or is it going to be private?"

In the previous year, insurers lost an estimated R4bn to insurance fraud. False claims, inflated pricing, fictional items and even fictional clients, all of which account for the aforementioned amount. As the industry moves forward in data sharing and in closing all loopholes, fraudsters also evolved integral systems of fraud and corruption. A major part of motor vehicle fraud stems from written-off
vehicles that are being used to clone stolen vehicles. The Natis documentation are being used for the old cars to put stolen vehicles back on our roads which then find their way to innocent buyers.

All of the above impact on our insurance premiums and our policy renewal conditions. Insurers are there to pay legitimate claims in return for the premiums they receive from the policy holders. The loss to insurance fraud has to be accounted for and thus the policy holders' premiums will increase by more than the annual inflation rate increase. Although the increase in the budget for the fraud in very is minimal, it is still a reality that needs to be investigated. The South African Insurance Crime Bureau was established in 2008 and addresses organised fraud and crime in the insurance industry. The insurance industry shares clients, intermediaries and sometimes service providers. Unfortunately, in this chain we also share fraudsters. Through this data-sharing process, trends on claims , clients , items and vehicles is are picked up and the culprits are being identified.

So how is a car cloned? I'll explain. A thief copies the Vin number of a legally-owned vehicle. This Vin is then used to create counterfeit documents. A car with the same description and colour is then stolen.
The Vin tag is replaced with the counterfeited documents and sold to an unsuspecting consumer. When buying a vehicle always check and ask for all documentation of the vehicle, including the owner's manual and service book, and two sets of keys, and always buy from a reputable
seller.
The South African insurance crime Bureau can be contacted on 0860002526 , sms 32269 or visit the website www.saicb.co.za

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CORE brand management

How to know if it is time to Rebrand

Like everything else, over time, a brands' image gets tired and dusty, no longer able to raise to our customers' expectations and even our own. When that happens, it's time to let go of the past: it's time to rebrand.

Remember – image and perception help drive value, without image there is no perception. Many new and existing businesses leave the image of their brand at the bottom of their to-do lists. Doing this help crate the perception that the brand, is either cheap, unprofessional or outdated. Unfortunately, too many companies are far too accustomed to the way things were to recognize the way things could be.

Sow, why should you change the way your business looks? Consumers respond positively to what is new. We are always looking for the newest smart phone, the newest paint colour, the newest car, the coolest hairstyle, the newest fashion…new, new, new, new, new. While new doesn't always mean better, old rarely is better. Perception, as mentioned, goes a long way. A company can tell us how much they care about themselves and their customers by how in-tune they are with staying relevant. A dated brand; a brand struggling to remain relevant, doesn't have a clear positioning in the market, doesn't have clearly visible values for customers to align themselves with, can give consumers the impression that they are not serious about their business. This may lead customers to believe the product and service is poor.

Brands like Apple, Coca-Cola, Starbucks and Nike are iconic, global in their status. Yet when you look at their market leadership over the decades, they have all changed even if it has been in a more evolutionary sense over time, rather then radical overhauls.

Because the world of business is in constant motion, clients' needs evolve, new competitors emerge, new products and services are developed – change is therefore necessary to stay relevant to the times in which a brand exists and to ensure its future success.

If you are undecided to rebrand or not, ask yourself the following questions:

- Are you are entering a new market?
- Are you struggling to attract top talent?
- Has your firm's growth slowed or stopped?
- Are you are introducing significant new services?
- Have new competitors entered the marketplace?
- Are you are getting fewer leads than in the past?
- Are competitors hiring away valuable employees?
- Has your firm changed since you last adjusted your brand?
- Are you trying to figure out how to take your firm to the next level?
- Does your visual identity of your brand look dated compared to the competition?

If you answered yes to any of these questions, it may be time to take a hard look at your brand and consider to engage in a rebranding process.

powered by BRAND NEW

Remember consumers make purchasing decisions based on perceptions created by image. The more you can influence those perceptions in a positive way, the better off your company will be. Consumers may take days or weeks to decide which product or service they want to acquire, but they can eliminate a company in just seconds. All it takes is a weak brand or ineffectual message.

Rebranding has three immediate positive benefits:

1. **Improved focus** — Management and staff really understand — often for the first time — what their firm stands for and where its priorities lie.
2. **Competitive advantage** — Companies become more relevant to prospects because they are better able to fill a need in the marketplace. In addition, negatives associated with an outdated brand have been eliminated, providing an instant credibility boost.
3. **Confidence** — Employees feel more confident in their firm's future. They know how to talk about their firm and no longer need to apologise for the old look and feel.

There are actually a multitude of reasons why a company might initiate a corporate rebranding process, but no matter what the reasons are, those reasons can always be categorized as either proactive or reactive.

Proactive Rebranding

A company **sees or understands** the reason to rebrand and seizes the opportunity to embark on a process of change. Proactive rebranding might happen in the following situations:

- *Predicted Growth, New Line of Business or Market, New Audience, Relevancy, Old or Outdated Image, etc.*

Reactive Rebranding

A company **reacts to an event** that is so significant that the existing brand must be changed. Reactive rebranding might happen in situations like the ones listed below:

- *Merger or Acquisition, Legal Issues, Competitive Influences, Negative Publicity, etc*

Regardless if the rebranding was brought about by proactive or reactive influences, it is crucial that your company leaves your prospects with little doubt as to who is the best choice.

A good rule of thumb is to update your brand image when it doesn't portray the professionalism you want it to. You have to remember that whether you like it or not your company has an image, good or bad, it's always representing you. An unprofessional image can often do irreparable harm because much of our decision making as consumers are based on preconceived perceptions. If you don't look the part, how can you expect to attract the right kind of business?

Hein du PLessis
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the CORE group

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