the CORE group

360°

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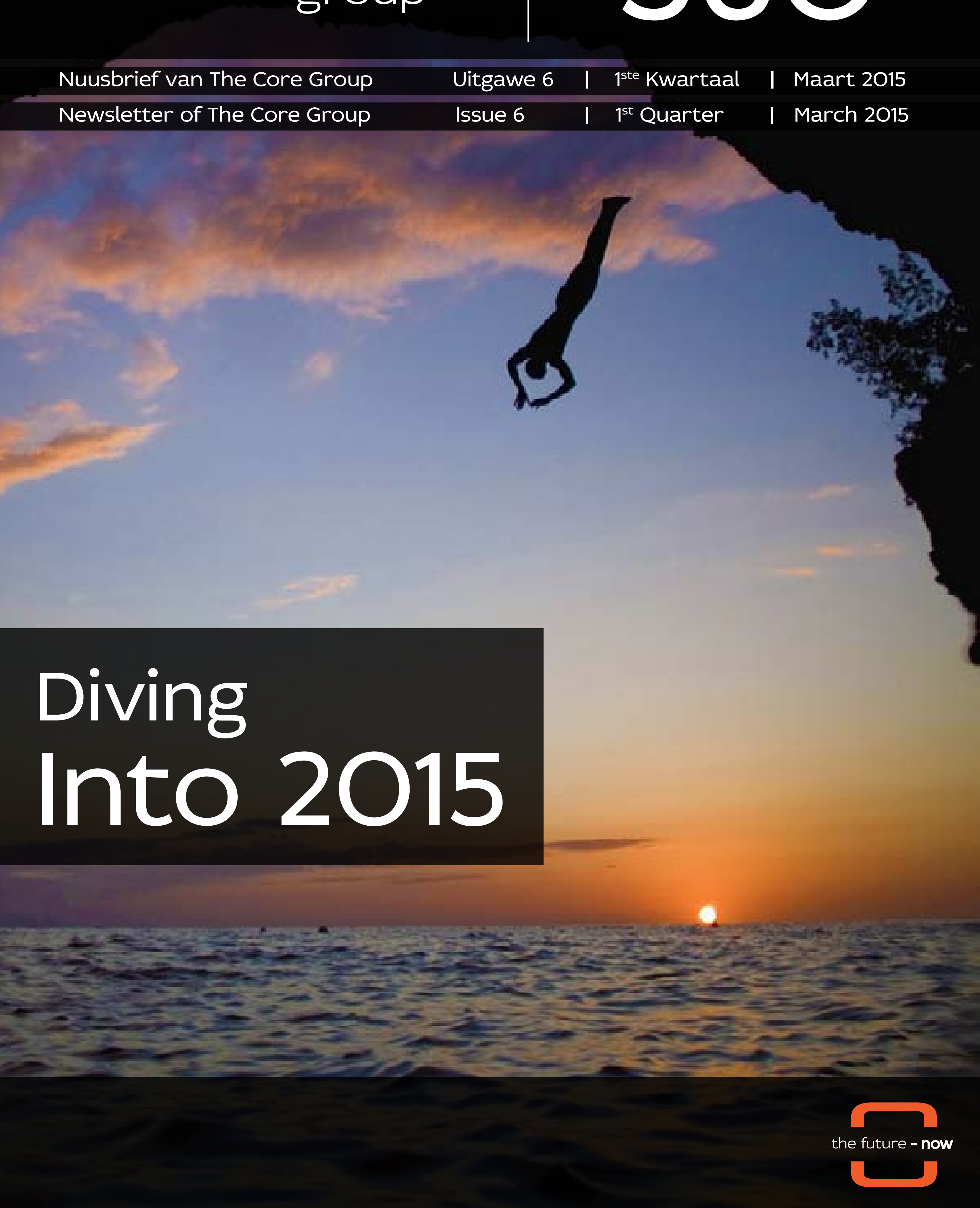
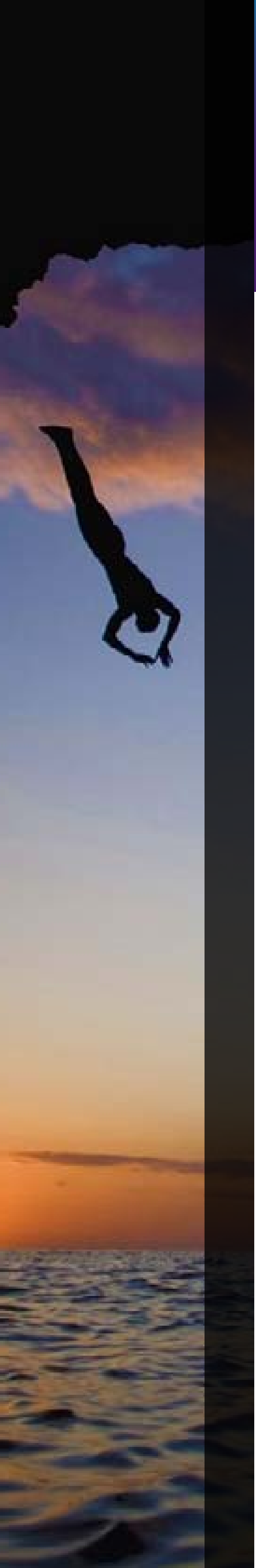


Diving Into 2015

the future - now



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CORE Tax highlights some of the main tax proposals in the 2015 budget

Middle to high-income taxpayers will be hit with a one percentage point hike in their tax rates as well as a sharp rise in the fuel levy. These are some of the proposed changes announced by Finance Minister Nhlanhla Nene in his 2015 budget speech. CORE Tax Director Wessel Smit says cuts in government expenditure are also part of Mr Nene's recipe for fiscal consolidation and debt reduction. "With this combination of measures, the Treasury hopes to see the budget deficit fall to 2.6% in 2016/17 and again to 2.5% in 2017/18, which, if achieved, would be well within the fiscally sound benchmarks of concerned credit rating agencies," says Wessel.

CORE Tax also highlights the follow main tax proposals:

Individual taxpayers:

The marginal personal income tax rates will be increased by one percentage point for all taxpayers earning more than R181 900. Tax brackets and rebates to account for fiscal drag will be adjusted. The tax-free threshold for individual taxpayers below 65 years will increase from R70 700 to R73 650.

The annual exemption on interest earned by individuals younger than 65 years (R23 800) and for individuals 65 years and older (R34 500) remains the same. The tax free investments became effective on 1 March 2015 and apply to approved investments of up to R30 000 per year.

Since 1 March 2015, monthly medical scheme fee tax credit has increased from R257 to R270 per month for the first two beneficiaries, and in respect of each additional beneficiary from R172 to R181.

From the administration side of things, income tax will change to a self-assessment system for income tax. The taxation of contributions and the rules on compulsory annuitisation for pension funds, provident funds and retirement annuity funds will change from 1 March 2016. The level of deductible contributions will be limited to 27.5% of the greater of taxable income or remuneration per year. An additional amendment will be investigated to correct an omission in 2013 that inadvertently excludes some retirement funds that enjoy the benefit of higher deductions without being subject to the uniform annuitisation rules.

Companies:

No change is proposed to corporate tax rate of 28%. In line with international trends, further steps will be taken to combat base erosion and profit shifting such as improved transfer pricing documentation and reporting.

Government will also consider the provisions of section 9C of the Income Tax Act to address the problem of return of capital after a taxpayer has held a share for a period of three years, as well as the meaning of the term "disposal" for the purpose of this section.

Section 12C of the Income Tax Act makes provision for an accelerated depreciation deduction for manufacturing assets, provided that the assets are directly used by the taxpayer for the purposes of his or her trade. Due to changes in the business models of some manufacturing activities, government will review the conditions of the granting of this allowance without undermining the current limitation provisions in section 23D of the Income Tax Act.

VAT:
The VAT standard rate of 14% has remained unchanged. The diesel refund system will be delinked from the VAT system from 1 April 2016, limiting diesel refunds for land mining activities and the generation of electricity.

To help with cash flow, some vendors with annual taxable supplies below R2.5 million are allowed to account for VAT on a payment basis rather than an accrual basis. These vendors must be natural persons or unincorporated bodies of which all members are natural persons. The Davis Tax Committee is reviewing this provision. There may be scope to increase the threshold and/or broaden the application to include incorporated businesses under this regime. However, the abuses previously experienced when businesses on the accrual basis transact with businesses on the payment basis will have to be addressed.

Other tax proposals:

- The general fuel levy will increase by 30.5 cents per litre and the Road Accident Fund levy increases by 50 cents per litre on 1 April 2015, with a total increase of 80 cents per litre.
- A more generous turnover tax regime for small businesses is proposed.
- Changes to the transfer duty rates and brackets are proposed.
- Consideration is being paid to increasing the electricity levy by 2 cents per kWh as a temporary measure until carbon tax is introduced in 2016.
- Government proposes a tyre levy, with effect from the last quarter of 2015, to be implemented through the Customs and Excise Act and collected by SARS. The existing levy arrangements for tyres as per the Department of Environmental Affairs' regulations will be replaced with the proposed tyre levy.

"Although in general the 2015 budget speech and related tax proposals are considered to be a balanced budget in light of the current economic climate and specific problems experienced in South Africa, the continuous increase in the tax burden of individual taxpayers is concerning," says Wessel.

Prepared by CORE Tax.
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When is a mandatory audit of a company expected?

There is often confusion surrounding a company's duty to conduct an audit. "It is usually new or smaller businesses that have doubts about their duty regarding an audit," says Delia Mc Lean, Director of CORE Audit. To help clients get clarity regarding the audit duty, CORE Audit provides a brief overview of the regulations.

A public and state-owned company or profit or non-profit companies must be audited if that company meets the requirements in the regulations, depending on the annual turnover, the number of staff and the nature of the activities.

The regulations state that the following companies should be audited:

- any profit or non-profit company, if any assets of more than R5 million are held in a fiduciary capacity in the ordinary course of business for any financial year;
- any non-profit company incorporated by a organ of the state;
- a state-owned company;
- an international entity;
- a foreign entity;
- any non-profit company that has a statutory or regulatory function; and
- any other company with a public interest score in that financial year of 350, or 100 to 350 when the financial statements are prepared internally .

What is the purpose of an audit? Delia explains that the purpose of an audit is to express an opinion on whether the financial statements present fairly in all material respects whether the financial position of the entity on a specific date and the results of its operations and cash flow information are fairly presented in conformity with the necessary reporting framework and statutory requirements.

Two types of audits can be carried out. Firstly, there is a statutory audit which is prescribed by law as stipulated in the Companies Act. The auditor's duties and responsibilities are statutorily stipulated in this Act. Then there is a non-statutory audit which is requested by the client even if it is not statutorily required.

"It is important that companies should be aware of especially the stipulations surrounding a mandatory audit. However, companies that are not required to have a mandatory audit carried out may still request an audit," says Delia.

In follow-up articles in The CORE Group's newsletters, CORE Audit will look at who should be independently reviewed and what the purpose of an independent review is, the calculation of the public interest score and the differences, advantages and disadvantages of an audit and an independent review.

Prepared by CORE Audit.
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CORE business development

Has South Africa lost the Madiba magic?

The start of every year is marked by a number of government addresses. The aim of these speeches is to provide direction to expectations on the economic front regarding challenges and opportunities, the status of the machinery of government especially in complementing economic development as well as other relevant issues. Provinces then follow suit with similar speeches with the intended aim of translating national direction into implementable applications. These speeches are often preceded by quite extensive media coverage, and in the midst of a slow economy the average citizen wants to know more about how bread and butter issues are to be handled.

"The 2015 round of addresses clearly did not succeed in meeting these expectations," says Dr Kobus Laubscher, Director of CORE Business Development. Kobus says due to an economy that barely reacts to positive economic shocks, a keen eye was kept on the national budget speech in February. "It was Minister Nhlanhla Nene's first comprehensive budget speech since his appointment last year and he was confronted by the nearly impossible. These views are not the result of pessimism, but rather of deadly realism. More and more economic participants have to delve deep for solutions, and good news such as lower inflation and a decreasing oil price are not enough. In addition there are indications that South Africa has lost its shine as the so-called gateway to Africa."

When one listens to the speeches that were supposed to provide direction, the overwhelming references to what are planned is actually tragic, says Kobus. Over time, government has perfected the art of announcing new plans. Every year a whole host of new plans are announced, but very little is being said about the plans from previous years and the successful progress of these plans. Following through on plans is the key and it seems that the population is losing patience with all the splendid ideas.

Kobus refers to Dr Roelof Botha who writes about the negative impact that a loss of competitiveness has on economic freedom. Economic freedom is curtailed when a country squanders state expenses. A decelerating economy means a decrease in fiscal space and as the trust in political leadership wanes, the crisis of confidence grows.

"The Minister of Finance is facing a huge challenge, namely where to find sufficient funding to pay for all the new promises and squandered opportunities. Unfulfilled promises are piling up," says Kobus. He explains that public service is threatening with industrial action should a claim for double figure salary increases not be met, while at the same time inflation is going down. Growth expectations have been adjusted downwards, which means that the tax base is influenced negatively. Layoffs have become the norm, not only because the economy has lost its labour absorption ability, but also because economic development is also measured against, amongst others, higher productivity. Less suppleness with wage determination and the promise of national minimum wages will erode existing imbalances further.

"It is clear that there is space within the national debate to demand delivery on promises. The new broom will have to sweep hard and clean, but only time will tell whether the Madiba magic can be revived," says Kobus.

Prepared by CORE Business Development.
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CORE business development

Jos Cohn

joins CORE Business Development

The CORE Group recently welcomed Jos Cohn to CORE Business Development. Jos is a chartered accountant and was previously a partner in an auditing firm in Bloemfontein before spending more than two decades in corporate companies. He also brings extensive management experience to the group through his involvement in financial, operational and general management in corporate businesses in industries as wide-ranging as manufacturing, processing, farming, logistics, warehousing, FMCG, wholesale and retail trading as well as imports and exports.

"I will be focusing on business advice and consulting for new and existing businesses through the application of my experience. This will include assistance to businesses with strategic and business planning, mergers and acquisitions, change management, CAPEX planning and operational improvements. I am also available to act as an independent director and trustee where needed," says Jos. He also intends to act as a business rescue practitioner in order to try and rescue companies in financial distress from liquidation through the business rescue process as defined in the Companies Act.

To Jos, the concept of The CORE Group is unique and attractive due to the availability of various specialists who can support each other and also be utilised in the business consulting process. "I am a team player and believe in utilising the strength of a team, which is another reason why The CORE Group's business model appeals to me."

A personal interest and passion for Jos is to analyse the stock market and individual stocks in order to develop his own investment philosophy. "This is still in the beginning stages and I would like to expand my knowledge by learning from others. I am interested in testing my philosophies on a small scale and benchmark it against the current norms in the market."

- *Jos is planning a series of articles on business rescue for The CORE Group's next newsletters.*

Prepared by CORE Business Development.
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CORE financial solutions

What you need to know about tax-free accounts

Tax-free accounts? Yes, since the 2015/2016 budget was tabled early in February the hot topic under discussion in the financial services industry has been tax-free accounts. Over the years, the Treasury has been committed to encouraging saving by, amongst others, not taxing pension fund and retirement annuity contributions. However, this sector has reached a ceiling which in some instances discourages investors to increase contributions. With tax-free accounts the aim is to encourage a broader section of society to save, which in turn could decrease the burden on the State to support large sections of society.

What would tax-free accounts entail? Basically, you will be allowed to invest up to R2500 per month but not more than R30 000 per year, and not more than a cumulative total of R500 000 in your lifetime. This investment would be exempt from income tax on the interest, dividend tax on the dividends or capital gains tax on the capital gains. However, there are no tax deductions on contributions. An important advantage of tax-free accounts is that investors will be allowed to access these savings, which is not the case with retirement funds. Products that are likely to be used as tax-free accounts include unit trusts, RSA retail savings bonds money markets accounts and other interest-bearing products.

The amendment to the Income Tax Act came into effect on 1 March, but it could be a couple of months before a wide variety of products will be on offer. Details on specific products are still sketchy, but the regulations are quite clear on what will not be allowed: investment in the savings accounts should be straightforward and transparent, fees must be reasonable and not performance-based, penalties for early withdrawals must be limited and no complex structured products or smoothed bonus policies are allowed. Investments in tax-free accounts must be “new money” – reinvestments will not be allowed.

CORE Financial Solutions Director Gerhardus Liebenberg sees this as a positive development. “Disciplined savings is the key to financial freedom. We encourage our clients to read more about tax-free accounts and gain as much knowledge as possible in order to make an informed decision regarding the new products as these become available. As always, CORE Financial Solutions will keep abreast of developments so that we can advise our clients.”

Gerhardus says clients should keep two key aspects of tax-free accounts in mind. “Firstly, withdrawals from a tax-free account may not be replaced or ‘topped up’, which means your cumulative tax-free investment total will remain the same and cannot decrease. The second is that SARS will keep an eye on these investments in order to prevent clients from investing in different products from different companies as a way to create confusion regarding their cumulative total. A stiff penalty tax of 40% will be levied on any amount that exceeds the annual and life-time investment limits.”

“As always, CORE Financial Solutions will keep abreast of developments so that we can advise our clients, especially since tax-free accounts are still very new and details will only emerge over time,” says Gerhardus.

Fact sheet: tax-free accounts:
(adapted from Personal Finance)

- *If you contribute R2 500 a month (R30 000 a year) to the savings account, it will take you 16 years and eight months to contribute the lifetime limit of R500 000.*
- *You can withdraw your investment at any time, but withdrawals do not affect your annual or lifetime contributions.*
- *You cannot convert an existing investment, for example, in a unit trust, into an investment within a tax-free savings account, or have an existing investment reclassified. You will have to cash in the investment and invest again, even if it is, for example, being invested through the account into the same unit trust fund.*
- *You won't be able to set up debit orders or stop orders, or use debit or credit cards linked to the accounts, or make ATM withdrawals from the tax-free savings accounts.*
- *You won't be able to invest through the account in a policy that includes life or disability assurance.*
- *You won't in the first year be able to transfer your tax-free savings from one provider to another.*
- *Only individuals can open accounts. You cannot open an account in the name of a company or trust.*
- *You can open an account in the name of any minor child, but withdrawals must be paid to that child. You can donate up to R100 000 a year free of donations tax, so this would cover a R30 000 contribution to the account for a child.*

Prepared by CORE Financial Solutions.
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CORE short-term

Always read the fine-print

Reading through the fine-print of a policy document is often a daunting task. However, it is of the utmost importance that clients thoroughly check their policy schedule and wording as soon as they receive it from their insurer or broker. CORE Short-Term's Directors, Jaco Wiehman and Wickus Pelser say it is very important that clients inform their insurer or broker of any omissions or errors. "You have to do this in writing as soon as possible to avoid any potential problems should a claim arise."

CORE Short-Term has compiled a quick fact sheet to assist clients to make sense of the fine-print.

Key terms to understand:

- Schedule: The section that explains what you are covered for and for how much
- Claim: When you ask your insurer to compensate you for loss or damage
- Insured event: When something happens for which you are allowed to claim
- Excess: The amount you must pay for any claim

Why the schedule is so important:
This is probably the most important section of the policy. It includes information such as:

- how much you pay in premiums and fees;
- how much your excess is;
- which parts of your property are covered by the policy; and
- which kinds of cover you have chosen.

The significance of the wording:
The wording sets out all the terms and conditions of the policy. Terms and conditions are the rules you have to comply with in order for the policy to remain valid. Some conditions are so strict that they are actually guarantees on your part – for example, that all jewellery must be kept locked away in a safe. Make sure you understand all the terms and conditions. If you don't, it may result in the insurer refusing to pay out your claim. It is important to note that each insurer has its own policy wording and that you must never assume that all insurers have the same terms and conditions.

Your responsibilities as the policyholder or insured:

- always provide the broker with accurate information;
- be aware of how this information will be used;
- prevent or minimise loss or damage;
- inform your broker or insurer if you wish to cancel your policy;
- pay your premiums on time;
- inform your broker of any material changes;
- avoid fraud; and
- observe all terms and conditions.

Jaco and Wickus agree that prevention is better than cure. "CORE Short-Term encourages its clients to keep the above-mentioned information in a safe place and to revisit it regularly. CORE Short-Term will also assist clients should there be any enquiries."

Extract of policy wording of one of our insurers:

09 HOUSEHOLD CONTENTS

9.3.2 Accidental damage to television sets and glass

We will cover you for accidental loss or damage to the following:

Any television set, and/or allied audio visual equipment

Any glass or mirror glass that forms part of any article of furniture.

We will not cover damage as a result of:

Electrical, electronic or mechanical breakdown or any process of repair or maintenance

Scratching, denting, chipping, cracking or tearing of the items

Subsidence and landslip.

The maximum amount that we will pay is shown in your Benefit Limit Annexure.

9.6 What is not covered?

You will not have cover for:

Money, negotiable instruments (such as cheques, postal orders, money orders, traveller's cheques and gift vouchers), stamps, medals or coins.

Theft or attempted theft from the building while lent, let, sub-let or being renovated, unless there is forcible, violent entry or exit.

Loss or damage from the building when vacant, abandoned or illegally occupied.

Wrongful use by a tenant.

Accidental damage while lent, let or sublet.

Household contents left in the open, unless designed to exist or operate in the open.

Loss of or damage to motor vehicles, motorcycles, caravans and trailers including their fitted accessories.

Loss of or death or injury to animals.

Scratches, dents, cracks, chips or defacing.

Any amount more than one third of the sum insured for the total value of gemstones, furs, jewels, jewellery, watches and articles of platinum, gold or silver.

Property more specifically insured.

Loss or damage where the building is not lived in for a period of more than 60 consecutive days, unless you have chosen the optional benefit as shown in your Plan Schedule.

Theft of laundry from communal washing lines.

Accidental damage unless specifically covered.

Loss or damage by our domestic pets.

Prepared by CORE Short-Term.
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CORE brand management

Branding's moment of truth

It's called the Zero Moment of Truth, and you want to be there.

Zero Moment of Truth, or ZMOT, is a term developed by Jim Lecinski in an ebook published by Google titled Winning in the Zero Moment of Truth (2011). The book describes any purchasing decision as a serious of "moments of truth". "Understanding what takes place during these moments essentially enables a marketer to point customers in the right direction towards the path that ends in a positive purchasing decision," explains Hein du Plessis, Director of Brand New.

The ZMOT is that period between the stimulus, where a person becomes aware of something, and the so-called First Moment of Truth, where the person decides to buy something. "It is the moment that someone decides to google something, or ask someone, or do research to learn more about a product or services or topic," says Hein. In terms of branding and marketing, the ZMOT is the moment that you want to be there for: that moment that the potential customer starts to search for information. This is closely tied to search engine optimisation, or SEO, which refers to the page ranks in a search engine. For example, if someone enters the search term "plumbing" into a search engine, you want your website to come out tops.

"SEO has long been part of marketing strategies. ZMOT actually encompasses more than just 'being there' in terms of a Google search," says Hein. In order to maximise a product or service's presence during a potential customer's ZMOT, a marketing strategy should include this in all the elements of the strategy. "Increasingly people are using social media to ask opinions regarding products or services. Social media have become the new word-of-mouth, and people put a lot of trust in the responses of their friends on social media."

The Moments of Truth:

- Stimulus: The consumer becomes aware of a need, product, service or topic.
- Zero Moment of Truth: The process of social discovery and research starts.
- First Moment of Truth: The consideration to purchase.
- Second Moment of Truth: The customer's experience of the product or service.
- Ultimate Moment of Truth: The customer shares his or her experience on, for example, social media. This Ultimate Moment of Truth becomes part of another customer's Zero Moment of Truth.

How to be there during the Zero Moment of Truth

- Make sure information about your product is readily available. Consumers will be looking for customer testimonials, buyers' guides and case studies. They will use hashtags searches on social media, and ask their friends. They want reviews and opinions from other customers or clients, not from you or the company. People trust other everyday consumers like them.
- In terms of search engine optimisation, focus on both the desktop and mobile versions of your website. Google your brand, reviews of your brand and opinions on the best products or services in your industry in order to benchmark your brand as well as to establish what a consumer obtains when they are researching your product or service. People are looking for shared experiences, not advertisements.

powered by BRAND NEW

- The importance of video searches should not be underestimated. YouTube is the second most popular search engine apart from Google. Consumers wants visuals, product demonstrations and short webinars to help them come to a decision.
- Managing your customers' Ultimate Moment of Truth – their shared experiences – will become vitally important to your brand's image. Eventually the sheer volume of online information in the form of blogs, tweets, status updates or online comments will overwhelm any traditional branding strategy.
- Provide helpful content that actually answers a customer's questions: Discover valuable content, additional links, reactions, and a rabbit hole of ambient experiences that further guide customers to you.
- Discover the communities and people of value where people are finding and sharing experiences outside of Google or other traditional search engines as this introduces new touch points in the customer journey.

the CORE group

www.thecoregroup.co.za