Theron Le Roux

Accountants / Rekenmeesters

We care about your business

Assosiaat Algemene Rekenmeester (SA • Associate General Accountant (SA)
Professionele Rekenmeester (SA) • Professional Accountant (SA)
Belastingpraktisyn • Tax practitioner

38 Akasia Street George East 6529 • ✉ 4529 George East 6539 • Tel: 044 871 5067 • Fax: 044 871 5082

WITH COMPLIMENTS

e-mail : jgmt@jgmt.co.za

AGA(SA)
ASSOCIATE GENERAL ACCOUNTANTS SOUTH AFRICA

KEEPING YOU IN TOUCH

ca[sa] .news

In this Issue

AUGUST 2013

IT'S TAX SEASON AGAIN: MUST YOU SUBMIT A RETURN THIS YEAR?

On 28 June, SARS issued a notice setting out details of when and how companies and individuals are to complete their 2013 tax returns.

It is an offence with a penalty of up to two years imprisonment if you do not submit a return when required to, so it is worth taking note of the 2013 tax season requirements – and seek advice in doubt!

Individuals who must submit a return

- Residents and non-residents: any person -
  - Carrying on a trade, or

  - Who makes a capital gain in excess of R30,000, or
  - Who is issued with a tax return by the Commissioner or is requested by the Commissioner in writing to complete a tax return.

- Residents who –
  - Have foreign assets or hold foreign currency of over R100,000 in aggregate at any time in the tax year, or
  - Have 10% participation rights in a foreign controlled company.

- If you meet these thresholds below you are required to submit a return -
  - You are less than 65 and your gross income exceeds R63,556 per annum, or
  - You are 65 but less than 75 and your gross income exceeds R99,056, or
  - You are 75 or above and your gross income exceeds R110,889.

  However, if you meet one or more of the criteria below, you do not have to submit a return.

  - You receive less than R250,000 in gross income from a single employer who deducts the correct amount of PAYE from your income (if you receive allowances such as a travel or subsistence allowance, then this does not apply and you will need to submit a return), and/or
  - Your income is interest income and you receive annual interest of less than R22,800 (if less than 65 years old) or R33,000 (if you are 65 or older).

    Note: it is possible that both criteria can apply. For example you will not have to submit a return if you earn R249,000 p.a. from one employer and also have interest income of R22,000. This is because SARS can assess you, without a return, from your employer's IRP5 and/or from the form submitted by the financial institution to SARS of your interest earned.

Companies, Close Corporations (CCs), Trusts and Juristic Persons who must submit a return

All resident entities must submit a tax return even for South African incorporated companies which are no longer locally resident due to entering into a double tax agreement. Non-resident entities are to submit a return if they carry on a trade through an establishment in South Africa or make capital gains in South Africa.

When must you submit your return?

- Companies and CCs
  - Within twelve months of your financial year end.
  - Companies and CCs may only submit returns on eFiling.
- All Other Taxpayers (Individuals, Trusts and Juristic Persons)
  - If on eFiling, by 31 January 2014 if a provisional taxpayer or by 22 November 2013 for non-provisional taxpayers.
  - Manual submissions are due by 27 September 2013 and may be dropped off at a SARS office, dropped at a SARS collection point or posted to SARS.

THE AUDITORS' REPORT - WHAT'S IT BASED ON AND DOES IT REDUCE MY LIABILITY?

We all know how important the audit report on our financial statements is. Bankers rely on it to advance loans or provide overdraft facilities, SARS and other stakeholders such as investors, creditors and debtors also place reliance on it. This is primarily due to the fact that the external auditor is independent, professionally competent and provides a professional report.

It is worth knowing how such an important document is derived. More importantly, does all the assurance work done by our external auditors have any impact on our personal liabilities as directors/members?

What is the audit report based on?

Local audit requirements are prescribed by the Independent Regulatory Board for Auditors (IRBA), and the question of which entities then require an audit is determined by the legislation which governs them such as the 2008 Companies Act, industry-specific legislation etc. The IRBA complies with international standards (there are many foreign investors in South Africa), bearing in mind local law.

The IRBA aims to protect the public so that they get assurance that auditors act professionally, and with integrity, and add value to the stakeholders who read and rely on audit reports relevant to their needs.

What does your auditor do?

Your auditor determines what tests and verification procedures need to be carried out in order that the audit report can be issued. Once the auditor has performed these tests (including both substantive and internal control tests), the auditor gives an opinion as to whether or not the financial statements fairly present the state of affairs of the business. Thus, the auditor gives an opinion – not a statement of fact. This opinion gives readers of the financial statements "reasonable" assurance which is of more value to these stakeholders than if an independent review is performed on the financial statements. The independent review only provides limited assurance. That this opinion is relied upon by so many stakeholders indicates that in the vast majority of cases, this opinion has credibility both locally and internationally.

It should be borne in mind that a separate report (called the management report) is issued to management which highlights internal control weaknesses identified in the audit, and recommendations to rectify these weaknesses. This is a valuable tool for management.

What is the opinion on?

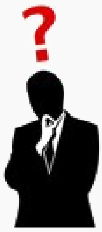
The opinion covers the income statement, the balance sheet, cash flows, changes in equity plus the notes and the accounting policies. In addition to the audit opinion, the Companies Act also requires that the auditors comment on the directors' report and the company secretary's report (if applicable). These latter two reports are scrutinised by the auditor to ensure there is no inconsistency between the financial statements and these two reports.

As a business owner does this reduce my liability?

At face value the answer to this is no – the Act clearly stipulates that the information in the financial statements is the responsibility of the directors or members (if a close corporation) and this is clearly set out in the financial statements. The auditor expresses an independent opinion to outside stakeholders of the business but that does not relieve you of your responsibilities. In practical terms however, the management report referred to above adds value to the business being audited, plus the tests auditors perform ensure legal compliance with existing laws – and this reduces the liabilities the business faces.

It is worth remembering that our auditors are rated the best in the world and thus their opinions carry considerable weight.

EMPLOYERS: WHAT DO THE NEW REMUNERATION THRESHOLDS MEAN TO YOU?



On 1 July the Minister of Labour amended the remuneration an employee earns to fall under the provisions of the Basic Conditions of Employment Act (BCEA) to R193,805 per annum (R16,150-41per month) - this is up from R183,008. The amount is the gross amount before deductions like PAYE, pension and medical aid.

The threshold is significant as employees falling below it are afforded various protections of the BCEA.

What are the protections?

In essence the significant ones are:

- The number of hours your employee works a week (45 hours)
- How much overtime they are allowed to work (10 hours a week)
- How much they get for overtime – at least one and a half times their normal wage
- Limitations provided for a compressed week (up to twelve hours per day including meal times) and averaging of a work week (allowable for a period up to four months)
- The rate for work on Sundays (double time)
- If they work on a public holiday, they are paid a full day's earnings plus whatever hours they work on the holiday
- Employees working night shift are entitled to an additional allowance (to be negotiated or their weekly working hour limit of 45 hours to be reduced), plus the employer is to pay for transport to and from work
- If your employee works consecutively for 5 hours, the employee is entitled to a one hour lunch break.

If your employee earns more than R193,805, none of these conditions automatically apply and are to be negotiated between the employer and employee.

It is thus worth checking if any of your employees are now covered by these BCEA protections.

The BCEA does not apply if your employee is part of management, is part of your sales team and travels to customers, or works less than 24 hours per month.

If you are in doubt contact us for specific advice.

RETIREMENT 101: HOW THE TAXMAN ASSISTS YOU WITH YOUR RETIREMENT

There are three main retirement vehicles used by South African taxpayers. They are pension funds, provident funds and retirement annuity funds. These funds primarily invest in the stock market, property market and bond market as it has been proven over time that these give the best returns. These funds are also subject to tax concessions to ensure better retirement returns for individuals.

We will look at how contributions to retirement funds are taxed during our working lives and how they are taxed when we retire. In looking at these examples, it is worth noting that the tax authorities provide considerable assistance in making provision for retirement.

How the tax treatment of contributions made by employer and employee varies by different fund

CONTRIBUTIONS	PENSION FUND		PROVIDENT FUND		RA (Retirement Annuity Fund)	
	EMPLOYER	EMPLOYEE	EMPLOYER	EMPLOYEE	EMPLOYER	EMPLOYEE
Tax Deductible Contributions	Up to 20% of employee salary	Greater of 7.5% of RFE* or R1,750	Up to 20% of employee salary	Nil	Nil	Greater of 15% of NRFE** or R3,500 (less pension contribution) or R1,750
Is Employer Contribution a taxable fringe benefit?		No		No		Yes

(If the table above does not display correctly, please see the "online version" – link above the compliments slip)

* RFE = retirement funding employment income which consists of salary less bonus and travel allowance. Any amounts not deductible may not be carried forward to future years but may be set off against retirement lump-sum payments.

** NRFE = non-retirement funding employment income would be travel allowance, bonus, annuities and interest received (less the R22,800 exemption for interest income, plus other exempt income). Any amounts not deductible may be carried forward to future years and may be set off against retirement lump-sum payments.

Notes:

1. You can only belong to a pension or provident fund via your employer.
2. RAs on the other hand are taken out by you in your own capacity.
3. Although the employee gets no tax relief from provident fund contributions, such contributions are set off against any lump-sum payments on retirement.
4. It is possible to make "top-up" payments to a pension fund or RA fund at end February if you have not maximised your allowable contributions. As this is effectively funded by SARS up to 40% (depending on your tax rate), it makes sense to make use of this facility.
5. There is nothing to stop an individual using a combination of these products.
6. The 20% limits referred to in the table under "employer" for pension funds and provident funds are the *total amount* the employer can deduct.

Thus the tax authorities give substantial concessions to encourage individuals to save for their retirement – not only can employers deduct up to 20% of salary towards retirement but it is not taxed as a fringe benefit in the employee's hands. In addition, individuals get tax breaks for their own contributions towards retirement savings.

This is a great incentive to save for retirement.

Taxation of withdrawals

When we reach retirement we are allowed to withdraw one third of our retirement savings at low tax rates. Although Treasury would prefer us to withdraw less and use more to buy an annuity, this tax subsidy recognises that in reality at retirement age people often need access to finance for such things as acquiring a place in a retirement home.

The tax rates for the withdrawal are:

WITHDRAWAL TAX RATES			
R 0	-	R 315,000 :	No Tax
R 315,001	-	R 630,000 :	Tax at 18%
R 630,001	-	R 945,000 :	R 57,600 + 27%
R 945,001		and above :	R 141,750 + 36%

(If the table above does not display correctly, please see the "online version" – link above the compliments slip)

In addition, we can at this stage set off any amounts we paid into retirement funds that were not allowed at the time because they were in excess of the allowed deductions per the above table.

Let’s say we are entitled to a R1 million withdrawal (one third of the value of our retirement funding) and we have R700,000 of premiums paid to the fund but not allowed at the time as a tax deduction. The tax paid would be nil.

EXAMPLE	
Payout	R 1,000,000
Deduct unclaimed premiums	R 700,000
= Amount subject to tax	R 300,000
As the first R315,000 is tax free, the R1 million is not taxed and we get the benefit of the full R1 million.	

(If the table above does not display correctly, please see the “online version” – link above the compliments slip)

Thus, at retirement age there is also favourable tax treatment on withdrawals to give individuals flexibility.

Remember the amount we get paid as a monthly pension will be taxable and thus when planning for your retirement ensure that you take this into account.

Speak to an expert about the options to choose for your retirement. The tax authorities give you powerful incentives which will assist in your retirement.

YOUR TAX DEADLINES FOR AUGUST

Apart from the tax season story above, don’t forget that the first provisional tax payment for 2014 is due by Friday 30 August.

Have a Great August!