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In this Issue

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Interest Rate Hikes: How to Buffer Your Business in 2022 and Beyond

"The implied policy rate path of the Quarterly Projection Model indicates an increase of 25 basis points in the fourth quarter of 2021 and further increases in each quarter of 2022, 2023 and 2024." (Lesetja Kganyago, SARB Governor)

After cutting interest rates by 275 basis points to record lows in response to the economic crisis brought about by the COVID-19 lockdowns, the South African Reserve Bank (SARB) recently announced the first interest rate hike in three years. The vote was split 3-2, indicating conflicting sentiments within SARB as it looks to address inflation fears while supporting a recovery.

At its November 2021 Monetary Policy Committee (MPC) meeting, the SARB hiked its main repo rate from a record low of 3.50% by 25 basis points to 3.75%, citing growing concerns about upside inflation risks.

The repo rate hike came earlier than many economists had expected, and certainly earlier than consumers and business had anticipated.

It also signals a turn in the interest rate cycle, with further increases forecast by SARB for each quarter over the next three years. While such a normalisation in rates is to be expected, its early arrival and likely extent surprised many.

Some economists estimate hikes of 150 basis points over the next two years, with others expecting around 250 basis points within the next 18 months! It is generally expected that increases will continue until pre-pandemic levels are reached at around 6.5%.

Of course, when interest rates are changed, it has a ripple effect throughout the broader economy. This is because low rates make it more affordable to borrow money, which encourages consumer and business spending and investment, and can also boost asset prices. Rising interest rates have the opposite effect.

It is important for business owners to understand how interest rate increases can affect and influence how their companies operate and perform, because of course businesses generally depend on a healthy economic environment to thrive.

Smaller businesses in particular feel the effects of changing interest rates more keenly because they have lower cash reserves and are generally more vulnerable to economic shocks.

However, if you understand the impact of interest rates on your business, you can adjust to interest rate changes to protect yourself from negative effects.

Let's start off then by analysing the possible impact of higher interest rates on your business -

What might the impact be on your business?

When interest rates are low, consumers tend to borrow more money, and also to spend more on products and services, because they have more disposable income.

As interest rates rise, consumers with debts ranging from home loans to vehicle finance to credit cards and personal loans will pay more interest to all those creditors. In South Africa, where the debt repayment to income ratio is as high as 66.7% (2021: Q2) when interest rates are at historic lows, interest rate increases can be problematic.

An increase in interest rates typically impacts consumer spending habits negatively, because with their debt costs increasing across their credit lines, they have less disposable income to spend on products and services.

The impact of a change in interest rates on customers varies from business to business. In a rising rate environment, consumer-driven businesses often see a reduction in sales. Companies that make luxury goods are hit hardest when interest rates rise because most customers first cut back on non-essentials when their disposable income decreases.

- *The impact on your cash flow*

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- This impact on consumer spending and the resultant reduction in sales is likely to affect cash flow in businesses across the board as their customers simply have less to spend.
- In addition, just like consumers, nearly every business has outstanding loans, and when interest rates rise, those loans also become more expensive – both immediately and over the longer term.
- Typically, these loans are longer term debts that will take years to pay off, so any increase in the interest rate on those loans means carrying the debt for longer and paying far more.
- Higher credit costs will also impact a company's cash flow, compounding the effect of reduced consumer spending.

- *What about your access to credit?*

- Higher interest rates make it more difficult – and more expensive – to take out new loans to cover unexpected expenses or to fund the expansion of a business.
- Higher loan repayments on existing debt will also reduce business profitability, which can make securing new loans even more difficult.
- This can curtail the growth of a company for months or even years.

- *The impact on your business planning*

- Reduced sales, constrained cash flow, and the cost and difficulty of obtaining credit caused by rising interest rates must impact your business planning.

- Of course, with changing interest rates it is more difficult to ascertain the cost of future borrowing and the cost of existing business loans on a variable rate, which makes it harder to plan your company's finances. Nevertheless, the expertise of a professional can assist in adjusting your business planning.

- In addition, projects which were viable during low-interest rate periods may no longer be viable due to the cost of - and constrained access to - loans, as well as reduced cashflow and consumer demand. Companies might decide not to start new projects or expansions during periods as interest rates rise, which hampers business growth.

How to buffer your business

- Consider the impact on your customers and how your business can offer more value for money as their disposal incomes tighten.

- It is important to factor in the effect of interest rate increases on budgets and cashflow, both immediately and over the next three years.

- Review your business loans and other borrowing to ascertain affordability as interest rates increase using a business loan rate calculator.

- Consider refinancing some of the business loans while interest rates are still low to help stabilise the debt load.

- Consider locking in the lower interest rates now to ensure loans will cost less as the interest rates increase over the next three years.

Re-evaluate projects or expansions planned for the next few years and the impact of interest rates increases on the viability of these plans.

Five Tips for Improving Your Workforce Management

"It is equally important to know if we have a happy and engaged workforce as it is to have a profitable bottom line." (Vern Dosch, Wired Differently)

Managing any workforce, but particularly a large one across many units, sometimes in multiple countries, is far from easy. From your staffing levels and scheduling to making sure your labour costs are within budget and your forecasts are accurate, there are a number of elements involved in ensuring your workforce management is streamlined. There are however fewer areas of a business which are more important to get right if you hope to keep your workforce happy and ensure profitability. Here are 5 tips for efficiently managing your employees.

1. **Streamline Scheduling**

Even if you have managed to hire a top team they can't operate at their best if they aren't in the right place at the right time. Scheduling where an employee should be, and when, is critical if processes are to be streamlined, costs reduced, and service maintained at the highest levels. Just as bad rotas will cost you money, a good schedule will empower employees and deliver business intelligence. This is not an area in which one should skimp on using technology and it is highly recommended that any modern company invest in good scheduling software.

Although you might be used to spreadsheet scheduling, modern employee scheduling software can save you time, and ultimately money, in your day-to-day operations. These tools allow managers to create schedules with intuitive drag-and-drop interfaces, send push notifications to employees, and update schedules in real time. By creating stability, it also delivers a more pleasant experience for managers and employees alike, which keeps morale high and work moving smoothly.

Further, two-way communication is key. You should not be afraid to engage your staff on scheduling difficulties. Often, being on the floor can give them insights into just where things are bottlenecking. You may also be surprised at how willing staff can be to assist when there is a problem. Simply communicating the business needs to staff and encouraging their input into scheduling preferences can help identify and cover the gaps you are facing. It is also empowering for them.

2. **Codify your company policies**

Rules are necessary for the functioning of any business or organisation, but having rules that aren't written down and made abundantly clear may ironically make it difficult to maintain order and can lead to employees claiming they have been treated unfairly or even discriminated against.

To avoid these issues, it’s crucial that you clearly put all your policies and procedures in writing along with the related consequences for breaking them. This will ensure there aren’t any misunderstandings within your team, and new employees will immediately know what they’re getting themselves into. The stability and clarity brought about by doing this will also take pressure off employees who may feel additional stress if the boundaries are not clearly demarcated.

3. **Pay employees fairly and timeously**

Nothing leads to more unhappiness in a business than poor pay or delayed salaries. Whether an employee is full-time or freelance it's extremely important to make paying them a priority if you want to keep them happy and working at the best of their abilities. Being casual with when you pay your employees will only lead to resentment and underpaying them in terms of your industry will only see you experiencing high employee turnover.

Many companies with payroll issues experience them simply because the people responsible are not experienced, or don't have the correct tools at hand. Delays can be caused when commissions are miscalculated, tax deductions are incorrect, or hours are input erroneously. The best solution is to bring on a trained and certified accountant or bookkeeper to handle these issues and to give them the right software to ensure the job is done correctly and accurately – your employees can't focus if they are worried their bills won’t be paid.

Interestingly, recent studies have shown that what an employee earns is not as important for happiness as the benefits they get with that salary. For full-time employees, their salary is only part of their total compensation. The rest is what’s referred to as the benefits package, which typically includes health insurance, paid time off, and sometimes education opportunities. A recent survey conducted by The Harris Poll for the American Institute of CPAs (AICPA), found that 80 percent of respondents would choose a job with benefits over an identical job with 30 percent more salary but no benefits.

If you want to attract top talent and retain your employees, it’s important to put together a benefits package that will bring candidates to your business over your competitors’. In fact, it’s so important that the Willis Towers Watson survey reported that more than two-thirds of employers surveyed (69%) “plan to differentiate and customise their benefit programs over the next two years.”

4. **Better Forecasting**

Great forecasting is one of the key ingredients in your recipe for better workforce planning and management. You already know what your staffing levels should be based upon historic customer demand, but being able to accurately know what they will be in future is even more useful. Building up accurate forecasts will help you to understand when your peak times of business will be, and whether the company will need more staff in future. Having staff trained and on hand to help when demand increases will mean you are better equipped to keep client service at the proper levels, and that your workforce is not overworked and unhappy. Plus, knowing you may experience a downturn can save money on future retrenchments by not hiring in the first place.

Forecasting for workforce management should look at the number of sales broken down per hour and per employee, the percentage of salary cost compared to sales, your payroll costs and other more nuanced data such as your absence percentage, which encompasses sick leave and holidays, as well as the amount of time it takes to train staff, how large your on-call freelance staff contingent is, and how many part-time workers you have that could be bumped up to full time in a crisis.

When you balance your planned costs against your results, you create the most profitable resource plan. Better forecasting goes hand in hand with smarter scheduling and gives you the data you need to make sure you always have the right people in the right place at the right time.

5. **Stronger Communication**

   Communicating with your employees is going to be the best way to ensure your company runs smoothly. Good WFM requires that all expectations, deadlines, and work requirements are adequately and clearly explained to avoid confusion and missed opportunities. **With an increasing number of staff working remotely this has never been more important.**

   A 2020 report on “The State of the Deskless Workforce” shows that 80% of the remote workforce are contacted by their employer outside of work hours. The report also found the majority of global workers were contacted by their employer via SMS, instant messenger or phone call, which is an easy form of contact, but disrupts employees' personal lives and makes it harder for them to achieve a work life balance.

Ultimately, it's important to find a solution that works for you and your teams that allows you to effectively communicate requirements without crossing boundaries and causing friction. Many large corporates have turned to Zoom, or Teams for meeting purposes as email chains can cause information to become lost. Don't be afraid to set up a work WhatsApp group or a Slack channel but undertake not to use them out of office hours.

The Top 10 Complaints Against SARS: What You Can Do to Protect Your Rights

"… the OTO commits to continue doing everything possible to ensure that taxpayers are not forced to pay a cent more than what is required." (Judge Bernard Makgabo Ngoepe, the Tax Ombud)

The list of the top 10 complaints made against SARS over the last eight years to the Office of the Tax Ombud (OTO), published in its recent newsletter, makes for interesting reading, and highlights the areas where taxpayers are most likely to encounter pitfalls in their dealings with SARS.

The Top 10 complaints made against SARS

1. SARS placing unwarranted stoppers on taxpayers' accounts for refunds not to be paid, significantly impacting the taxpayer's cash flow.

2. Delays in finalising verifications result in delays in releasing refunds due; even when taxpayers have submitted all the requested information.

3. Non-adherence by SARS in finalising dispute resolution within the dispute resolution timelines - already an identified systemic issue.

4. Incorrect allocation of payments, often first covering administrative penalties before principal debt and ignoring taxpayers' letters to SARS about how to allocate the payments.

5. Taxpayers do not receive outcomes of their objections, and in some instances, SARS could not prove that they had sent the outcomes to the taxpayer.

6. Recalled refunds where SARS pays refunds into taxpayers' bank accounts and then recalls these refunds, in some instances taking more than six months to resolve the issues.

7. E-filing profile problems for tax practitioners, resulting in them not being able to add or remove clients from their profiles.

8. SARS deducting more money from taxpayers' bank accounts than it should, prejudicing the taxpayer financially.

9. Banking details of taxpayers have been updated, but the refunds are still not released.

10. SARS Complaints Management Office (CMO) incorrectly rejects taxpayers' complaints lodged with it.

Source: OTO Fair Play Issue 22

The Ombud has also launched a new taxpayer rights awareness campaign, #TaxpayersRightsMatter, to help improve taxpayers' understanding of their rights and the recourse available if their rights are not upheld by SARS.

What are your rights as a taxpayer?

Issues with refunds feature quite prominently on the list of complaints, as do delays and ignored requests or complaints. These certainly constitute infringements of taxpayers' rights, when considering the brief overview below of the rights related to these complaints.

The interaction between SARS and taxpayers is governed by the TAA (Tax Administration Act), and SARS' Service Charter also stipulates service levels and time frames.

The TAA, like all laws in South Africa, is also subject to the Constitution and the Rule of Law. Conduct inconsistent with the Constitution is invalid and illegal.

Some key features and principles of the Constitution are included in other Acts such as the TAA, PAIA (Promotion of Access to Information Act) and PAJA (Promotion of Administrative Justice Act).

- *Taxpayers' Constitutional Rights*
    - The right to privacy includes the right not to have your person, home or property searched; your possessions seized; or the privacy of your communications infringed. SARS cannot search or seize in violation of this Constitutional right.
    - The right not to incriminate yourself – there are Constitutional restrictions on the information SARS can use to determine your taxes and potential penalties.
    - The right to a high standard of

professional ethics as well as rational and accountable actions from SARS; services provided impartially, fairly, equitably and without bias; transparency; and accessible and accurate information.

- *Taxpayers' Legal Rights*

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        - The TAA details many taxpayers' rights including, for example, SARS must keep taxpayers informed at all times, including providing a Letter of Findings before issuing a revised assessment.
        - PAIA provides the right of access to information, detailing rules regarding how SARS is allowed to obtain information and ensuring taxpayers can find out what information SARS has accessed.
        - PAJA protects the right to just administrative action, requiring that any action by SARS must be lawful, reasonable and procedurally fair.

- *Taxpayers' Rights as per SARS' Service Charter*

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        - Where a current year's refund is due to a taxpayer and no other debt is due; all obligations have been met; SARS administrative control processes are adhered to; and no inspection, verification or audit is required or has been initiated; SARS will endeavour to pay the current filing period refunds within 7 business days of finalising the final assessment.
        - SARS endeavours to provide reasons for an assessment within 45 business days; to consider objections within 60

business days; and to respond to service complaints within 21 business days.

How to protect your personal and business rights

- Careful compliance and excellent record-keeping are always the first line of defense when it comes to dealing with SARS. An annual tax audit by a professional will help ensure that you have the correct processes in place to ensure both.

- SARS' Service Charter stipulates service levels and time frames with regards to returns and declarations; inspections, audits and verifications; refunds; payments; debt and disputes; and provides official channels for complaints. Understanding these can help you protect your rights as a taxpayer.

- Private and business taxpayers have free and independent recourse against SARS through the OTO. However, the powers of the OTO are very limited. It can only deal with complaints against SARS that relate to a service, administrative or procedural issue and only after all avenues of recourse within SARS have been exhausted, except where there are compelling circumstances or the matter is a systemic issue. For example, the Tax Ombud has no control over how long SARS will take to implement its recommendations, which are also not binding on either SARS or the taxpayer.

- Access to an expert who can defend you or your business in the event of a tax dispute is essential.

- If taxpayers are uncertain of their rights or if their rights are being infringed, they must seek expert advice to protect their Constitutional and legal rights.

- A long list of High Court cases against SARS reveals a growing trend of taxpayers seeking legal recourse against procedurally unfair conduct by SARS or administrative decisions by SARS that prejudice the taxpayer's rights. The cost of legal defense is often prohibitive, making tax risk insurance worth considering to ensure access to experts in constitutional and tax law when required.

SMEs – Why You Should Consider Employee Benefit Packages

"Human resources isn't a thing we do, it's the thing that runs our business" (American real estate developer, Steve Wynne)

An effective employee benefit strategy is more of an advantage to an employer than may at first meet the eye. Although providing benefits naturally comes at a price, it also comes with substantial benefits, plus you stand to regain a portion of your investment from SARS in tax deductions.

Moreover, providing benefits that employees can't readily access on their own could position you as an employer of choice in your industry, affording you the best pick of available talent. This leads to better products and service, meaning your business wins.

The year-old *Africa Insights from the 2019/2020 Benefit Trends Survey* shows that employers are getting more creative concerning the mental and physical wellbeing of their staff, as these companies are more aware of the benefits of a healthier staff.

A report by Johannesburg based HR firm, Willis Towers Watson states "A third of African employers are planning/considering stress or resilience management programs. A quarter is planning/considering mental health or substance abuse programs. 23% is planning/considering health coaching."

Employee benefit packages are not forced by law on business policy; however the World Health Organisation (WHO) has drawn a link between employee benefits and a physically and mentally healthier workforce. The organisation's ***Healthy Workplace Framework and Model***, which is a guideline to creating a healthier working environment, says "the mind and body are one, and what affects one, inevitably affects the other."

The document also advises that "If the insurance costs for health benefits in your enterprise keep increasing, even after implementing healthy workplace programmes, that does not necessarily mean the programmes have failed. Look at industry benchmarks for comparison. If health insurance costs have increased by 20% in similar industries, yet have only increased by 5% in your enterprise, that is an indicator of success."

Five major reasons why SMEs should consider employee benefits

1. The tax advantages via tax deduction of contributions.

2. Health insurance as an employment benefit translates to a healthier workforce, which translates to improved quality of production and efficiency.

3. Improved employee retention, which is key in certain industries where employees have to maintain relationships with specific clients, who may view continuity as a vital consideration.

4. It improves the work culture between employees and employer.

5. Improved staff recruitment, as the employer would be better positioned in the job market.

Changing or initiating an employee benefits strategy involves new financial responsibilities so take professional advice on the best way to go about it.

Your Tax Deadlines for January 2022

- 7 January Monthly Pay-As-You-Earn (PAYE) submissions and payments

- 25 January Value-Added Tax (VAT) manual submissions and payments
- 28 January End of Filing Season 2021 for Individuals (Provisional) and Trusts
- 28 January Excise Duty payments
- 31 January Value-Added Tax (VAT) electronic submissions and payments & CIT Provisional payments where applicable

Have a Healthy, Happy and Successful 2022!

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