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

Email: jgmt@jgmt.co.za

AGA(SA)
ASSOCIATE GENERAL ACCOUNTANTS SOUTH AFRICA

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June 2022

Estate Planning: Act Now to Protect Your Family and Business After You Are Gone

"The golden rule of all estate planning is: don't wait." (Missionwealth.com)

Just 20% of South Africans have a valid will ("Last Will and Testament"), resulting in countless heart-breaking stories of grief-stricken surviving spouses and children with no income or access to funds as bank accounts have been closed, floundering in confusion with no idea where the deceased's will or important documents are kept, what assets and debts there are, how to access password-protected devices or who to contact for help.

To avoid this sad scenario **everyone**, regardless of age, health or financial position, should have their own estate plan ready, including a valid and properly executed "Last Will and Testament."

If you are a business owner, estate planning is even more important, especially if your business is your family's only income. Without proper estate planning, your passing may leave them at a most difficult time without any money and possibly trying to manage a business with no experience.

Implement the six steps below as a matter of urgency to ensure that when you pass away, the legacy you leave behind is maximised and structured, and protects those important to you when you are no longer around to protect them yourself.

Act now!

Not one of us is assured of tomorrow and the consequences of dying without estate planning and a will are dire.

Act today! Allocate time right now to attend to this most urgent and important responsibility, or contact a trusted professional to help you get the process started.

If you already have an estate plan and will, schedule time to review and update them immediately, and diarise regular reviews – at least quarterly and definitely no later than annually. It is essential to ensure an always up-to-date estate plan to account for any ongoing changes in personal circumstances, business circumstances, financial structures, laws and taxes.

Call in the experts

Your legacy depends on the quality of your planning, involving a combination of financial planning, wealth planning and estate planning, and therefore requires the expertise of qualified professional advisors such as your accountants.

The issues at stake are too complex and the consequences of mistakes, omissions or oversights too dire to risk going it alone - there is just no substitute for specialised expertise and professional advice specific to your circumstances.

For example, a professional should draw up or check your will, which must be properly formatted and worded to reflect your wishes correctly and clearly, and it must be validly executed.

Similarly, specialised advice may be required where there are minor children, or if you have assets in another country.

If one of your assets is an operating business, or an interest in a business, you will need professional advice to ensure the best outcome for your loved ones, business partners, employees, investors and other stakeholders.

Draw up a will

The absence of a will; or an invalid will; or a will containing areas of uncertainty or dispute, will almost certainly result in animosity and long delays in winding up your estate.

If you pass away without a valid will:

- You put your grieving loved ones at risk of financial and emotional hardship;
- You forfeit your right to choose who inherits what from you, instead leaving assets to be distributed according to the laws of "intestate succession"; and
- You forfeit your right to nominate someone you trust to administer your deceased estate.

A valid and updated "Last Will and Testament" is the core and foundation of your plan to protect the people you care for. It should communicate precisely your expectations to all concerned and be valid and accurate in every respect.

Proper estate planning

Estate planning means arranging your financial affairs in such a way that you leave behind a legacy that is as large and as well-structured as possible.

Without a proper estate plan, the assets you have accumulated over a lifetime may be decimated by costs and taxes and the business you worked so hard to build could be lost.

Proper estate planning doesn't have to be overly complicated or expensive, but must:

- Maximise the assets in the estate, including business assets,
- Reduce estate costs and taxes, and
- Streamline the process of winding up your estate.

For business owners, a well-conceived estate plan will include consideration for the owner's specific intent, for example, that the business continues to provide income as an ongoing concern; or becomes a source of capital for the surviving family. This may involve handing over to the next generation, or an employee, or an outside buyer. A business might be sold to family or staff, and this often requires special planning, for example, staggered payments or a slower transition where the cash is not available upfront.

If you have business partners, a buy-and-sell agreement should be drafted in advance and measures put in place to ensure co-shareholders are financially able to take over your share of the business when you pass away, and vice versa. A shareholder's agreement is also necessary to deal with potential conflict and shareholders selling their shares.

Provide liquidity

To protect your family from financial distress, it is essential to provide money for ongoing financial needs during the lengthy winding up of the estate.

As soon as the bank learns of your death, all your bank accounts will be frozen. Pensions and insurance policies will take time to pay out, and your assets will generally be tied up in the estate, inaccessible to your loved ones. This means you need to find other ways to provide your family with immediate funds to live on after you pass on.

Separate bank accounts and investments, businesses held in entities unaffected by your death, and family trusts are some options, while nominating beneficiaries for life policies, annuities and tax-free investments can ensure payout directly to the chosen recipients.

In addition, your family will need funds to cover significant 'final expenses' such as existing debts, medical bills and funeral costs, income taxes and capital gains taxes, estate duties and executor fees.

Similarly, if you have a business, you may need to provide operating capital or liquidity through, for example, key person insurance, life insurance for partners and contingency policies.

If there isn't enough money in the estate to meet the various costs and taxes of winding it up, heirs will have to use their own funds or the executor will have to sell an asset, such as the family home or the business, to cover the liabilities.

Create an "Important Information" file

All the relevant parties will require documents and information to settle your affairs quickly and easily.

Create a file for your loved ones that contains all the information they might need, for example, details of funds they can access while the estate is being wound up; the location of your will and important documents such IDs, passports, and power of attorney; bank account numbers, card numbers and PIN numbers; and details and passwords for devices, apps and social media accounts.

The executor will also require a file of documents and details, for all assets, all income and all accounts, insurance policies, loans, agreements, business assets and interests, as well as personal documents, along with the required access codes, PINs and passwords.

Business owners will also have to prepare and keep updated documents such as statutory documents; the succession plan; a power of attorney so business affairs can be taken care of by a nominated person; and professionally drafted buy-sell agreements for partnerships or where there is more than one owner.

Taking these six steps without delay will ensure you have structured a full estate plan that will protect those you care about from unnecessary uncertainty, worry and risk, at the time they most need your protection.

How to Prepare for and Manage a Business Crisis

> ***"When written in Chinese, the word 'crisis' is composed of two characters. One represents danger and the other represents opportunity." (John F. Kennedy, 35th U.S. President)***

When people hear the term "crisis management" they immediately picture a PR team in front of the media defending a company from an unpredictable disaster, but crises that close down businesses are seldom unpredictable and even those that come out of the blue don't need to close a company down. Here are 6 things you will need to do if you want to avoid a crisis from closing your business.

Be Prepared! Set up a crisis management plan

The first step to handling any crisis is being prepared to accept that a crisis is possible and having a plan in place for how you will handle it. This plan should attempt to anticipate any future crises and should look at the best possible way to resolve them. Throw the net wide and try to come to terms with all the things that could potentially go wrong and then develop step-by-step plans for overcoming those things.

The plan should include important aspects such as budgeting for costs and employee time should a crisis arise. This will allow you to at least have the resources available to handle the crisis correctly, something which is even more important should your company be small or relatively new.

If for instance you are releasing a new product in the near future, have your accountants run the numbers on recalls vs repairs and the costs of PR and marketing around potential problems. This will help you to make quick decisions should something actually go wrong.

The other important aspect of a crisis management plan is determining which of your employees will make up the crisis management team. The primary role of your crisis management team is to assess the situation and implement your plan. Strategic thinkers are especially useful in this situation, as is an empathetic team leader with a proven ability to communicate effectively. If the budget allows, consider hiring a crisis management leader whose experience can guide the team in times of crisis. If none of this is within your scope, ask your accountant to assist or recommend a consultancy to do so and start to develop a relationship with them, so they are on hand if the worst does happen.

Regularly review your business plans and systems

Many crises, particularly those of a financial nature, arise because companies have become complacent in their business practices and plans. Going back and looking at the way you are doing things is an important part of avoiding future errors. Just because something has worked in the past, doesn't mean it still works.

These reviews should specifically look at where your company stands using simple financial, cashflow and product quality milestones and then compare your company with its competitors. Are you getting ahead or sliding behind? What changes have occurred in the industry or in technology, which may assist you to do things in a more streamlined fashion?

How does your business plan describe your business? Is it still relevant in today's environment or are new products, services or the convergence of technologies threatening to make your operations and products obsolete? Think of Polaroid, telex and then fax machines and so on.

If you find you are stagnating or falling behind your competition then that's a strong sign that your plans or systems may be obsolete and in need a bit of a shakeup. The best way to avoid going bankrupt in a crisis is to stop yourself from having one entirely.

Lean on others

With your plan in place, once a crisis does hit it's important you follow the plan. This will often mean leaving things in the hands of your crisis management team, or the company you have agreed to bring in for the crisis. As CEO or company founder it can be tempting to take control yourself but getting through a crisis will require all hands on deck, working together collaboratively. Your role is then not to do everything yourself, but to rather help co-ordinate the important people and get them working together.

This may be easier than it sounds though. Making sure your team is willing and ready to do whatever is necessary in a crisis begins long before the crisis itself. The crisis is just where you cash in on all the goodwill you have built up with your employees over time. If you have looked after your employees, treated them fairly and built a reputation as a trustworthy and fair leader then there is no doubt they will be ready to help you in your time of crisis.

Communicate clearly

Communication with all stakeholders is going to be one of the most important pillars when it comes to getting you out of your crisis. Being able to clearly define what is happening and the path to fixing it to your employees, customers and other interested parties such as the media is critical if you hope to undo, or at least mitigate, the damage that has been done. The last thing a company needs in a crisis is leadership that goes silent.

If you discover that a crisis is imminent it’s important that you face it head on, and immediately send out communication that acknowledges the crisis and explains that you are working on solutions and workarounds. This will show nervous clients and employees that you are in charge of the situation and are taking care of it, giving everyone a sense of important calm. This gives the public a sense of trust in you and your company, which will be important to weathering this storm.

If you are required to make a statement, keep that statement simple. There is no point flooding the market with information or excuses. Always focus on acknowledging the problem, apologising for it, if appropriate, and then on what is being done to fix it. This gives a sense that the worst is behind you and the problem is being actively addressed.

Be decisive

In times of crisis people look to those in charge for leadership. This will require making hard decisions and doing so quickly. This is partly where your crisis management plan comes in, as it allows you to make these decisions with the most important information on hand. It's far easier to explain where the company will find the money it needs if the money is already set aside and your accountants have analysed exactly which aspects of the business are most likely to survive cutbacks.

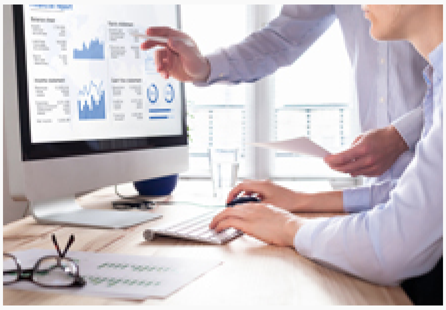
If one particular person was responsible for the crisis (say by slandering clients in the media) decisive action needs to be taken to remove that person from their position. Leaders cannot allow sentiment and emotion to dictate their actions at this stage. This is most important in the early days of the crisis when the public, essentially your customers, clients, financiers and suppliers, may demand to see that you are doing something positive to manage the situation.

Be prepared to change everything

While planning is extremely important, no plan can cover all contingencies. Your plan should identify potential actions, but it should not make those actions prescriptive. Allowing your team to adapt the plan as opportunities and good ideas arise will make the plan fit better to the crisis you are in and strengthen the outcome. At the end of the day, every organisation and every crisis is different, but historically the companies that fare the best are the ones that have a plan and the right people backing it.

Five Financial Reports for Informed Decision-Making

"What gets measured, gets managed." (Peter Drucker)



Financial reports, such as a balance sheet, income statement, cash flow statement, debtors reports and actual spend vs budget reports, provide an understanding of where your business stands financially at a certain point in time. They detail the business's financial performance over a period and also raise red flags, reveal opportunities and highlight changes that need to be made to meet business goals in the future.

Especially in trying and uncertain times like these, keeping a finger on the pulse of the organisation's financial position and regularly reviewing its financial performance provides a range of benefits.

What the right financial reports reveal

- *The financial position of the business* - past and present - provide invaluable insights for informed decisions about the future, for example, forecasting future cash flow requirements or identifying financing needs timeously.

- *Business financial performance* can be assessed and analysed with the right reports, for example, evaluating marketing efforts or projecting inventory needs, which allow for improvements to be implemented and tracked.

- *Important indicators of financial health* - such as liquidity ratios, efficiency ratios, profitability ratios and solvency ratios – can be calculated based on accurate and timeous reports.

- *How to better manage costs* - costs that are unnecessary, duplicated, over budget, or rapidly increasing are often only managed, reduced or eliminated once categorised and identified in the financial reports.

- *Trends* – financial reports provide a means to compare financial trends in the business from one reporting period to another, as well as to benchmark company trends against industry trends.

- *Where the opportunities are* – financial reports reveal opportunities and are essential to review before making big spending decisions or considering ways to grow the business. For example, financial reports may reveal where outsourcing or automation are viable options, or where changes to employment structures, operating systems or processes are required; or where there are opportunities to grow and expand into new locations or product lines.

- *Tax liabilities, challenges and deductions* - reviewing financial reports can help manage ongoing tax liabilities, flag potential tax challenges, and reveal possible tax deductions.

- *Financial irregularities or risks* - regularly reviewing financial reports ensures that potential areas of concern regarding irregularities, risks or even fraud are picked up timeously and can be quickly addressed.

- *Viability for third parties* – financial institutions, creditors and potential investors will request financial reports to consider credit lines, loans or investments in the company.

The 5 financial reports to understand

To enjoy these business benefits, there are five financial reports to understand – and review regularly - at least on a quarterly basis, but ideally on a monthly basis. This will provide a finger on the business's financial pulse and enable more accurate and relevant business decisions.

1. **Profit and loss (P&L) statement**

   The profit and loss statement, also called an income statement, summarises the profit or loss over a certain period by reporting on three components:
   - total income (or the total sales less costs of goods sold);
   - total expenses including operating costs, taxes, utilities, insurance and interest on loans; and
   - net profit or loss, calculated as total income less total expenses.

   This report reveals whether the business made a profit or a loss during the specific period, and also allows the calculation of profit margins, operating profit margins and operating ratios. This allows profitability to be evaluated and enables investors or creditors to assess the level of risk in the business.

   To be profitable, the income in the business should exceed the expenses. However, companies may show a net loss at times, and the reason should be evident in the reports, for example, slow business periods or times when extraordinary expenses are covered. Where the net profit is continuously lower over more than one period or expenses regularly exceed income, these may be red flags of financial trouble.

2. **Balance sheet**

   A balance sheet provides a summary of the company’s financial position at a specific point in time by summarising total assets and total liabilities, as well as shareholders’ equity, or investments and retained earnings.

   The assets, or what the business owns, can include cash and investments, equipment and property, stock and accounts receivable. Liabilities, or what the business owes, include loans, accounts payable, wages, rent, taxes and utilities.

   It is used to calculate factors such as the current ratio of assets to liabilities, a measure of a company's liquidity or ability to pay short-term liabilities. This is a particularly crucial consideration when borrowing money from a financial institution or requesting credit from a supplier. A declining current ratio could also indicate financial problems.

3. **Cash flow statement**

   A steady cash flow is one of the most crucial success factors for business, especially smaller business, and this makes regularly reviewing the business’s cash flow statement vitally important.

   Summarising the expected cash inflows and outflows over a period, the purpose of this statement is to reveal which areas of the business are generating and using the most cash; enable informed budgeting and spending decisions; as well as to allow potential cash flow problems to be identified and managed in time.

   A cash flow statement will also show how readily a company can meet its debt and interest payments; and how much money was distributed to owners or investors as dividends.

4. **Debtors’ reports**

   Cash flow problems are often a result of poor management of debtors. An aged debtor’s report enables current and overdue invoices to be tracked and proactively managed to ensure payment is received on time. Lenders and investors will also look at this report to better understand a company’s creditworthiness.

5. **Budget vs actual income and expense reports**

   Comparing actual revenue/sales against the budgeted figures for a period indicates how well or otherwise the business is trading.

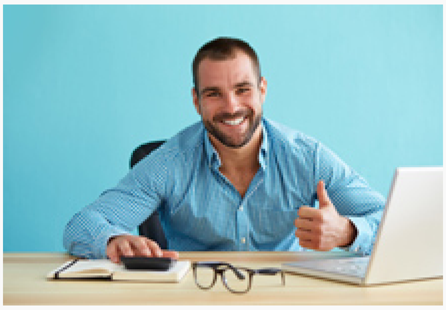
   These reports allow a comparison of actual spending as recorded primarily in the income statement, against the amounts budgeted for the period, to assess how well spending matches financial forecasting projections and where there are areas that are over or under budget.

The percentage of costs of goods sold to sales for a period indicates how sales pricing and control over the costs of goods sold are being managed.

Speak to your accountant about accessing these reports on a regular basis and for professional assistance in understanding what the reports reveal about your business. Regularly reviewing your company's financial reports will unlock many business benefits, provide a finger on the financial pulse of your business and enable more accurate and relevant business decisions.

Tax Freedom Day 2022: The Day We Stopped Working for Government

"Taxpayer: One who doesn't have to pass a civil service exam to work for the government" (Anonymous)



"Tax Freedom Day" is the first day of the year on which we South Africans (we're talking about the "average" taxpayer here) have finally earned enough to pay off SARS and to start working for ourselves.

This year the predicted date was 12 May 2022. That's three days later than last year, and a whole calendar month later than in 1994 when we first started recording this.

That's a depressing trend, but it's a worldwide one and we certainly aren't the worst-off country – Belgians for example only get to celebrate on 6 August! Certainly food for thought for anyone thinking of emigrating. Have a look at Wikipedia **here** for some country-by-country comparisons.

Your Tax Deadlines for June 2022

- 7 June – Monthly Pay-As-You-Earn (PAYE) submissions and payments
- 24 June - Value-Added Tax (VAT) manual submissions and payments
- 29 June - Excise Duty payments
- 30 June - Value-Added Tax (VAT) electronic submissions and payments & CIT Provisional payments where applicable
- 30 June – End of the 1st Financial Quarter