



We care about your business

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Selling Your Business – Plan Well, with a Tax Benefit When You Retire

“A diligent buyer will want up to five years’ worth of profit and loss statements, bank statements, tax returns, leases, supplier and vendor contracts, and customer data.” (Barbara Findlay Schenck – Author “Selling Your Business for Dummies”)



The reasons why a business owner might decide to sell their business are many – perhaps to pursue a new or more exciting business opportunity, relocation, health reasons or retirement. Selling a business to family, to the other partners, to a loyal employee or a group of employees could also be part of a succession plan; or the business owner’s exit strategy may involve selling to an outside buyer, perhaps a competitor, a supplier, or a customer, or even an investor.

Whatever the reason for selling, a smooth transition requires:

- Planning well and in advance,
- Determining a fair value for the business,

- Getting books, accounting records and financial reports in order,
- Collating the required paperwork,
- Managing stakeholder relations, and
- Exercising a legal duty of care.

The outcome of this approach is a business sale to the right buyer at the right price, with little to no disruption to business operations and no negative impact on staff morale or other stakeholder relationships.

Plan well and far ahead, and beware the tax implications

Planning well and ahead provides more control over the process, as well as time and opportunity to strategically enhance the business to ensure its full value is realised when you sell, and also ensures financial and tax implications are well understood.

As just one example, the disposal or deemed disposal of assets, including the sale of a business, will attract capital gains tax (CGT), levied at a stiff 18% for individuals.

Planning to Retire? Do you know about this CGT relief?

There is fortunately some CGT relief – little-known but very advantageous - if you are older than 55 (or in situations where the disposal is “in consequence of ill-health, other infirmity, superannuation or death”) of up to R1.8 million on the disposal of an interest in a small business; or of active business assets of a small business; or the sale of a small business. Of course, many conditions apply, including that the total active business assets of the taxpayer do not exceed R10 million and that the R1.8 million exclusion is cumulative over the taxpayer’s lifetime.

Such a single tax implication can make all the difference between a profitable sale and one that is not. For example, let’s say you bought shares in a company 7 years ago for R2 million, and have since been actively involved in running the business. You decide to sell your share for R4 million, triggering a capital gain of R2 million. At 18%, the CGT liability would be R360,000. If you are over 55 years of age and meet all the other conditions, applying the R1.8-million exclusion would mean only the remaining R200,000 is taxed at 18%, reducing the tax liability to R36,000.

Seek professional advice

Consult with your accountant to ensure that you understand all the potential financial and tax implications of selling your business and ensure that the necessary legal documents are in place, such as non-disclosure agreements for potential buyers and a legal sales agreement. Ask your accountant whether you should consider employing a business broker.

Finding fair value

As the seller, you want to ensure that you get the best possible return for the money, time and effort invested in your business. Similarly, all potential buyers want a business that is financially stable and profitable and that will deliver a good return on their investment.

To set a fair price, you will need to determine the value of the business, and the expertise of an accountant or a professional valuer is highly recommended. This is because there are different ways of valuing a company, as well as many factors – mostly intangible – that affect the valuation beyond simply the financial reports.

This means choosing the right method for valuing your business is important because it will influence the price you can ask for it. The three common methods used to evaluate a business are asset-based valuations (difference between assets and liabilities, also called the book value, net asset value or equity); market-based valuations (considers comparable sale prices for businesses sold in the industry); and income-based valuation (average profit year-on-year for at least the last three years), together with a profit forecast for three or more years ahead.

All of these valuations will be influenced by factors such as location, the condition and age of equipment and fittings, new competitors in the market, branding and goodwill, reputation and customer loyalty.

Get your financials in order

To determine a fair value for your company, you will need a comprehensive picture of the company's financial situation. Potential buyers, too, will want to see full financial records.

- A minimum of 3 years – but preferably 5 years - of financial statements, audited where necessary
- Monthly management accounts covering the period since the most recent financials
- Profit and loss statements
- Balance sheets
- Tax returns and assessments
- Tax clearance certificate
- A complete detailed list of plant and machinery, furniture and fittings, and equipment
- Complete inventory if the company holds stock
- Three-year financial plan.

Paperwork required

In addition to the above, prospective buyers will likely request records to assist them in conducting a due diligence, which is an investigation or review of factors that influence value or market price, some of which are listed below.

- Formal contracts with suppliers and clients
- Organisational charts and employee records
- Material agreements such as property lease agreements, credit agreements, and joint venture agreements
- Details of crucial advisors, such as accountants, attorneys and insurance brokers
- An up-to-date business plan, with growth projections, overheads and working capital
- Marketing and sales strategies, profit margins and sales targets
- SWOT analysis evaluating the business in the current market environment and identifying areas to increase the company's value
- Statutory documents such as memorandum of incorporation (MOI), shareholder agreements and regulatory authorisations.

Managing stakeholders

Selling a business can take months – if not years – and during this time, business owners should maintain 'business as usual,' while also making the business more attractive to potential buyers by establishing a clean and friendly working environment, keeping equipment well-maintained, and improving processes.

It will also be important to manage relationships with stakeholders when it becomes known that the company is up for sale. Employee morale may be impacted if they are fearful of losing their jobs or of a change in working conditions or status. Clients may feel uncertain about receiving the same level of service, while suppliers and creditors may be concerned that the business will continue to honour its commitments. It is advisable to be upfront and honest with everyone concerned before announcing the sale or engaging with prospective buyers.

Duty of care

Among the responsibilities of business owners is the duty of care - a legal duty to take reasonable care not to cause harm when it could be reasonably foreseen.

This duty is certainly relevant when selling a business and creates a legal responsibility or obligation not to omit any information, procedure or activity when it can cause harm to others or the business, including physical harm or financial ruin, and intangible damages such as reputational damage.

In line with this, if you are thinking of selling your business, you are well advised to enlist professional assistance from your accountant to ensure the best possible outcome for all concerned.

Business Loan or a Credit Facility - Which Is Right for Your Business?

***“I would borrow money all day long, if the cost of borrowing is less than the expected return.”
(Brad Schneider, American congressman)***



At some point it's more likely than not that your small business will require a business loan. A 2021 study done by Fundera (a US financial resource business that sources financing for small businesses) suggested that 56% of all small businesses will need a loan to expand operations, pursue new business or acquire business assets. The same study found that 29% of small businesses fail simply because they run out of capital.

Knowing that you need additional funding is not the same as acquiring it though. Other than angel investors there are two principal ways in which a company gains the financing it needs when cash flow is in short supply: a small business loan or a line of credit. But what are these? What are the differences? And how do you decide which you need for your business?

An overview

Essentially, small business loans and lines of credit are similar. They are both ways that businesses can borrow money from lenders and approval is determined based on past financial behaviour, the borrower's credit history and their established relationship with that lender.

A traditional loan is a non-revolving credit limit, which means the borrower will be paid out funds once and will then be required to pay the money back, with interest, at a set rate and over a set period. A loan can be granted either “secured” or “unsecured”, meaning it is either backed by collateral or not, and the interest rate charged will depend on the risk to the lending institution, with lower rates available to those with collateral. With a loan, interest accrues immediately upon pay out either in cash to the company, or through payments to other firms where assets are purchased. Examples of loans that may impact a business include car loans, property financing, debt consolidation and commercial loans, which allow companies to hire extra staff, or continue day-to-day operations.

A line of credit is different in that it offers the borrower a maximum amount that they can withdraw at any given stage and payments are made back based on the amount withdrawn and the interest accrued. Provided the borrower keeps up with the terms of the arrangement, this amount is available indefinitely and can be topped up and withdrawn at will. Generally, the interest rates on a line of credit are higher, and the amounts smaller than those offered for a small business loan. Interest only accrues when the line of credit is being used. Should it be fully paid up, then nothing is owed.

Which is right for your business?

Determining which of these loan types is best for your business will require you to look at a few factors.

- **How much money do you need?**

If the cash injection needed is large or you need to make significant equipment, vehicle or property purchases then a loan will almost always be the correct solution. With lower interest rates and set monthly fees that are easier to account for in a monthly budget, a loan will help you secure what you need, while also keeping costs as low as possible.

Credit lines are better when the amounts needed may be smaller, but more frequent. It is therefore vital for you to know exactly what money you need, and what you intend to use it for before you approach the lender.

- **How do you plan to use that money?**

As one-off payments or cash injections, loans don't allow a lot of space for adjustment after they are issued and rarely offer any form of protection in difficult conditions.

A line of credit can, however, give you access to extra working capital with no restrictions. Having a line of credit ready to go when needed is a good way to ensure small, unforeseen problems can be negotiated. Late payment by a critical client shouldn't mean you can't pay your bills on time.

- **What kind of flexibility do you need?**

Lines of credit offer a great deal of flexibility for you assuming you're not sure how much money you will need, or if you expect your expenses to be spread out over an extended period. A line of credit also offers options when it comes to monthly payments, as, provided you meet the minimum payment, you can pay back as much or as little as you can afford.

Loans, however, provide the better option when flexibility is not an issue, and your main aim is to limit the amount of debt you take on.

Before applying for any business credit, it's advisable to speak to your accountant to evaluate just what needs to be accounted for in the financing and what you can reasonably expect to pay back each month. Knowing exactly which potential costs are going to be vital to assist your company's growth, and which are nice-to-haves, will enable you to make the right decisions when it comes time to choose what kind of financing you are looking for.

SARS Can Take Money from Your Account! Here's How to Prevent It...

“[Taxpayers] should give at least the same priority to tax obligations as their other responsibilities.” (SARS’ Short Guide to the Tax Administration Act)

SARS has wide powers when it comes to the collection of tax debts and just one of these is the power to collect money owed by taxpayers from third parties who hold money for those taxpayers, such as a bank. This means that SARS can indeed take outstanding tax amounts from a personal or business bank account without your consent, by instructing the bank to pay the amount outstanding over to SARS through a process called Third Party Appointment (TPA). The same instruction can be issued by SARS to other third parties that hold money on behalf of a taxpayer, such as an employer, a customer, an insurance company, or an attorney.

Given the significant negative implications this could have for a taxpayer, whether an individual or a company, there are certain procedures SARS must follow before it can collect tax debt via a third party appointment or another collection method, and individual and business taxpayers are well advised to understand how a tax debt can arise without their knowledge, and how to prevent SARS from collecting such tax debt from their bank accounts without their consent.



What is a tax debt?

While filing correct returns and making payments on time will protect taxpayers from tax debts, penalties and interest, taxpayers may not be able to meet these requirements on time for a range of reasons.

As such, administrative penalties on late or non-submission of tax returns, failure to submit tax returns, the submission of returns without payment, or partial payment of a tax liability can all result in a tax debt, which can also arise from a SARS assessment, or from an audit.

How can a tax debt be collected?

SARS' powers to collect tax debt are extensive, and include:

- Recovering tax debt through third parties who hold money on taxpayers' behalf, such as banks, employers, customers, insurance companies or attorneys. If such a third party fails to adhere to the appointment, the third party can be held personally liable to SARS and may be convicted of a criminal offence.
- Issuing a judgement and having a taxpayer blacklisted.
- Obtaining a preservation order in respect of taxpayer assets.
- Attaching and selling taxpayer assets.
- Bringing sequestration or liquidation proceedings against a taxpayer.
- Holding directors, members or related parties liable for the company's tax debt.

When can SARS collect tax debt?

If you cannot pay a tax debt to SARS and do not follow the correct procedures, SARS is legally allowed to exercise its powers of collection as detailed above, even if you are disputing the debt!

Fortunately, SARS must also follow the correct procedures. These include that the taxpayer must have received an assessment from SARS detailing how much is due and by when, as well as a final demand for payment that states available debt relief mechanisms contained in the Tax Administration Act (TAA); and recovery steps that SARS may take if the tax debt is not paid.

Only 10 business days after delivery of the final demand, if no response has been received from the taxpayer, can a senior SARS official authorise a third party to collect the tax debt.

If SARS does not follow these steps detailed in the TAA, collection proceedings may be regarded as illegal and in contravention of the TAA and the taxpayer will have recourse against SARS via its Complaint Management Office (CMO), the Tax Ombud or legal action.

But, of course, prevention is far better than cure.

How to prevent SARS from taking money from your account

- **Keep tax affairs up to date** - SARS says that when deciding the most appropriate way to deal with outstanding tax obligations, it will give considerable weight to the tax debtors' individual circumstances and compliance history of, for example, lodging correct returns and documents, and paying taxes on time.
- **Update your details with SARS** - SARS is required to inform taxpayers of assessments, notifications or communications issued by also sending a message to a taxpayer's last known number or email address. This makes it crucial to keep your contact details updated at SARS to ensure you receive these communications timeously. Many taxpayers miss pertinent notifications and letters of demand because they did not receive notifications or discovered

these too late in an unattended mailbox.

- **Proactively monitor for unexpected tax liabilities** – A tax debt can arise for many reasons as explained earlier and can also be due to errors or omissions made by the taxpayer, a tax practitioner, or even SARS itself, or could be caused by missed communications or incorrect payment allocations. For this reason, individuals and businesses should check their compliance status with SARS and obtain a statement of account on the various taxes payable from their accountant, both proactively and on a regular basis, and certainly every time an email or SMS is received from SARS.
- **React professionally and swiftly to communications** - All communications from SARS should be prioritised for immediate action, particularly those informing a taxpayer of a tax liability or demanding payment, even in the case of an obvious mistake. Whether the tax debt is disputed or not, SARS must be engaged legally, and it is crucial that the correct procedures are followed.
- **Understand the options** - There are, fortunately, ways to make arrangements with SARS to settle a tax debt and to avoid the debt collection process that can include money being taken from your bank account.

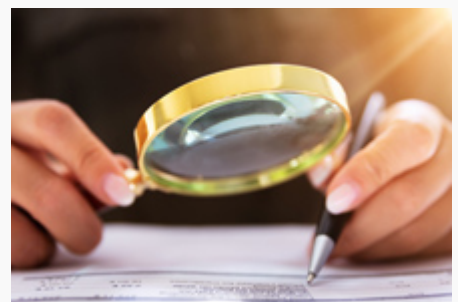
For example, taxpayers who can prove serious financial hardship can apply to SARS for a reduction of the amount within 5 business days of receiving the final demand or extend the period over which the amount must be paid. If the debt is to be disputed, taxpayers can apply for a suspension of payment. Where the tax debt is not disputed, but cannot be settled immediately, taxpayers can either apply for a payment arrangement over time; or can request a debt compromise.

- **Beware the “pay-now-argue-later” principle** - Objecting to a tax debt does not suspend the obligation to pay it. The only way to prevent SARS’ collection process from continuing when formally lodging an objection is to also formally request a suspension of payment. SARS collection procedures are suspended between the dates that SARS receives the request until 10 business days after SARS’s decision to grant the Suspension of Payment request. However, interest will accrue on the unpaid debt. If SARS denies the Suspension of Payment request, the taxpayer can apply to SARS for a payment plan.

In all these instances, professional assistance is strongly recommended.

Don't Let Fraud Infect and Damage Your Company

“In a way, fraud in business is no different from infidelity in marriage or plagiarism in scholarly work. Even people committed to high moral standards succumb” (Miroslav Volf, Director of the Yale Center for Faith and Culture)



Fraud (in this context) is the act wherein an employee or trusted partner makes a financial gain through criminal behaviour or deception within an organisation and it is extremely common. **Recent studies suggest that as much as 46% of all companies will succumb at some stage or another.** Given this, much thought has been put into how to prevent fraud and lower the impact that it can have on a business. Unsurprisingly, the issue is extremely complex and there is a lot that you as a business owner will need to do if you want to avoid the financial loss and reputation damage that fraud can cause to your business.

What is fraud?

Business fraud has many aspects, and generally comes in three defined categories:

- **Asset Misappropriation**

This is the most common type of fraud. Some numbers suggest that 90% of all fraud is this kind, in which employees will either steal or exploit their company's resources. Examples include where employees make false expense claims, help themselves to cash or even non-cash items, the creation of ghost employees, "buddy clocking" systems or under recording of the cash that is received for goods.

- **Financial Statement Fraud**

Significantly less common than asset misappropriation these schemes are, however, significantly more damaging to the company itself. This is the deliberate manipulation of financial statements to mislead those who would use those statements for legitimate purposes. Usually, this is done to make a company appear more profitable than it is, or to avoid tax payments.

- **Corruption**

Corruption occurs when employees use their influence or positions in a company to benefit themselves to the cost of the company or agency for whom they work. An example of this would be when someone agrees to hire a less than ideal candidate because they are being paid a kickback to do so.

Tips for detecting and preventing fraud

- **Know your employee**

According to the Association of Certified Fraud Examiners **the average fraudster will operate their scheme for 18 months before getting caught.** The reason for this according to employers' reports is that quite often it was the employee they least suspected

It is therefore vital to have regular feedback sessions with employees, even those who have been with the company for a long time, to discuss their personal circumstances and be aware of any significant changes in their lives. Someone who has been a model employee for years, may, due to changes in their life's circumstances, feel they have no choice but to steal to make ends meet.

Look for those employees whose habits have suddenly changed or who exhibit a change in attitude. These habits can point to problems in their personal lives, or potential bitterness at their employer resulting from perceived slights they may have received, such as a poor raise, or lack of promotion.

- **Fraud policy**

Set up a fraud policy and communicate this to all staff. Staff should be aware that management is fully clued up on all the types of fraud, knows what to look out for, is actively searching for it and that the punishments for being caught will be severe.

In doing this you also trigger honest employees who are not tempted by fraud to become aware of the signs and symptoms of fraud and empower them to report suspicious behaviours to you. Refer also to 'Be Available' below.

- **Internal Controls**

This is potentially the most important step as it is not subjective. It is extremely important to set up systems within your company which safeguard the company's assets and ensure the integrity of record keeping. The first step is to make it abundantly clear to whom responsibility lies in each situation. Do not, for instance, leave the key to the petty cash in a cupboard, but rather assign one staff member to take full control and sign for all expenses and payments into the cash box.

Use a paper trail and have those responsible for each transaction or sale personally sign for each element of their part of the process. If the preparation of bank deposits is personally signed for in a ledger that is then passed to a manager, then it becomes much harder for either of those parties to deny their role in the process.

Make sure all payments are authorised, that purchase orders and invoices are numbered consecutively and cross referenced to prevent the passing of false invoices. Require new vendors and employees to be personally vetted and authorised by a senior manager to stop ghost accounts from being set up. Require two signatures on any payment above a minimum amount.

Internal controls need to be re-examined regularly and any discrepancies with the procedure followed up with rigorously. Don't be afraid to bring in an external team to set up these procedures for you should you not have the means to do so yourself.

- **Watch those who take no leave**

This may sound strange to anyone who has never dealt with fraud, but one of the surest signs that something suspicious is going on is if an employee never goes on holiday. On the surface, these employees may appear to be diligent hard workers, but the truth is much more likely that they are afraid of having their schemes uncovered should they allow someone else to do their jobs when they are on leave.

- **Be available**

Your best line of defence is your other employees. Being the kind of business owner who has an open door, is approachable and who listens is the best way to ensure that honest employees come to you if they have any suspicions. They should know that you are trustworthy, and that their names will never come up in any discussions you have with the people they have pinpointed. At the end of the day, having everyone looking out for you, is much better than trying to do it all yourself.

- **Work with reputable partners**

Companies do not operate in a vacuum. Many of the services you use may need to be brought in from the outside and when it comes to your finances it's vitally important that these companies are reputable. Good bookkeeping services will be at the frontline of defending your company from fraud and will be able to quickly pick up discrepancies in the books. Therefore, when hiring any professional who will have access to your accounts and books it is vital that they be registered with the relevant professional bodies and that they come with a reputation for integrity and providing top-class service. Ask your accountant's opinion in any doubt.

- **Do spot checks**

Once a month pick random employees and go through their expense accounts, travel allowances and claims for cell phone usage to make sure that these are on par with what is expected and do not ring any alarm bells. If they have signing powers take a close look at what they are signing and the reasons and flag any unusual signatures for a follow up. Even if you only do this for one employee a month it will be known that you are checking, and that any

fraudulent activity will ultimately be caught.

- **Reconcile**

Reconcile your bank accounts at the end of every month. Ideally, this should be done by an independent person who does not have bookkeeping or cheque signing powers within the company. This person should also check invoices and payments (EFT or Credit card) to make sure they are cross referenced.

They should then sign off on the reconciliation personally.

It is impossible to close all the gaps that fraudsters may use to take advantage of your company, but if you implement the above changes and controls you will either deter them from trying or find them quickly once they have started. The best tip is vigilance, both by you and your honest employees. Building an honest and open company culture that fosters communication will ensure your employees are both aware of what needs to be done and open to telling you when it isn't.

Your Tax Deadlines for November 2022

- 7 November – Monthly PAYE submissions and payments
- 25 November - VAT manual submissions and payments
- 29 November - Excise Duty payments
- 30 November - Value-Added Tax (VAT) electronic submissions and payments & CIT Provisional payments.



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