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In this Issue

November 2020

Leaving a Legacy: Ensure Your Business Survival with a Succession Plan

"A leader's lasting value is measured by succession." (John C. Maxwell)

Succession planning is preparing for the

The Five Most Common Tax Pitfalls That Small Business Owners Should Avoid

Your Tax Deadlines for November 2020

future of your business, ensuring the people and resources are available for its ongoing success beyond the lifetime of the current key players. It is especially critical in small businesses where the loss of a key person can bring the business to a sudden halt.

A formal succession plan details exactly what happens if the owner or a partner or another key individual in the business is no longer there, for both expected and unexpected reasons. These reasons range from the sudden or unexpected death or disablement to a planned and expected exit, for example, due to retirement.

Some of the options for succession include grooming the owners' children and heirs to take over the reins; training loyal employees to take over key roles; bringing in high level expertise from outside the company; or selling the stake in the business to family, to the other partners, to a loyal employee or a group of employees, or to an outside buyer.

Why is succession planning so important?

Succession planning is crucial to ensure the viability of the company over the long term, and to unlock many benefits in the short term.

A good succession plan can secure a business owner's legacy, and their retirement or their family's well-being, **instead of the business simply becoming one of the estimated 70% of inherited businesses that don't survive.**

It also ensures that what happens after the loss of a key person is planned and structured, rather than forced on the business by circumstance or by the courts.

A clear and fair succession plan can also:

- Prevent confusion and uncertainty after a sudden and unexpected loss
- Avoid family disharmony and conflict between heirs and employees
- Allow for continuity and a smoother transition, reducing the impact on the business and its stakeholders
- Ensure that successors, whether a promoted employee, a newly appointed manager, or a son or daughter or another family member, or a buyer, are qualified, skilled, and groomed to take over
- Provide opportunities for employee career growth internally
- Ensure you can get fair value if selling the business or a stake in it
- Prevent the forced sale of assets to settle the estate.

How to plan

Succession planning involves a combination of financial planning, estate planning and wealth planning and therefore requires the expertise of qualified advisors including your accountant.

The details of a succession plan depend on a range of issues, such as the ownership structure of the business, whether succession involves handing over to the next generation or an employee or an outside buyer, and the unique financial and legal aspects of the business.

As just one example, many businesses are sold to family or staff who may not have cash up front, and this requires special planning, for example, staggered payments over time and a slower transition.

However, here are a few common characteristics of a successful succession plan:

- All stakeholders are included in the planning and decision-making process
- Suitable, practical and gives the best outcome from a family and business perspective

- Documents and puts in place formal mechanisms and clear procedures for governance, conflict, and dispute resolution
- Contains a short-term emergency plan for each key position
- Details a full long-term succession plan for each key position
- Considers the financial, estate duty and tax implications of the decisions
- Takes into account legal compliance and commercial and practical considerations
- Ensures continuity by providing essential liquidity through, for example, key man insurance, life insurance for the partners and contingency policies
- Creates a viable and sustainable business operation now and for the future through modernised business systems, clearly documented and automated processes, fully trained people, and accurate up-to-date financial data – all of which will add immense value to the business now and in future.

If you consider for a moment what your death or retirement could do to the business' success and to your family's livelihood, you will realise how important it is to put in place a well-structured succession plan.

It will ensure that your time, effort and investment to grow a business in South Africa is not lost in a statistic, but rather that your legacy lives on, surviving beyond the current key players into the next generation.

Six Tips for More Effective Online Meetings

"Meetings should be like salt - a spice sprinkled carefully to enhance a dish, not poured recklessly over every forkful. Too much salt destroys a dish. Too many meetings destroy morale and motivation" (Entrepreneur and author of "Rework", Jason Fried)

While the capacity for digital meetings and interviews has been around for some time, they have only truly gained popularity this year. Covid-19 lock downs around the world have forced companies to make alternatives to their usual systems and digital meetings have become an everyday occurrence for most in the workplace. The question is, do they work as well as regular, face-to-face meetings and when it comes to interviewing for new appointees is there something being lost in the system?

In April, one of the world's leading research and advisory companies Gartner conducted an in-depth analysis of hiring in the digital world and found that while the capacity for digital meetings and interviews to be as effective as real world arrangements does exist, they often are not as effective, because simple errors are made which decrease their efficiency.

Consequently, meetings that eat up time without achieving much are more common online. Participants can experience connectivity problems and communication delays. They can also face problems in holding the discussion in a structured manner, and multiple people can start speaking at the same time.

When it comes to interviewing potential employees, these problems can exacerbate an already tense scenario for the candidate thereby resulting in a less than ideal interview.

"There are several important strategies HR functions must use to effectively conduct virtual interviews so as to ensure a positive candidate experience and effective assessment by the hiring manager or other interviewers," says Lauren Smith, vice president in the Gartner HR practice.

So just what can be done to make your online meetings and interviews more effective?

1. **Invite as few people as possible**

   Researchers at one of Europe's largest independent research organisations SINTEF stress that it is important to keep meetings as small as possible. Their work has led them to conclude that when meetings have more than twelve participants, most will be unable to speak, may disengage and will leave the meeting unsatisfied. Remember, the more participants, the shorter the time available for each to be an active part of the conversation.

2. **Use video chat when possible**

   While our primary method of communication is our voice, one should never underestimate just how much is “said” non-verbally. Being able to see one another goes a long way to gaining trust and rapport with interviewees and meeting attendants and is also an important part of getting good data. According to research scientist Nils Brede Moe, it’s much easier to feel a human connection when you can see someone’s face, and it helps both of you read the situation and each other’s feelings better.

   The person conducting the meeting is also better able to control the flow, and time issues if people can see these non-verbal cues.

3. **Have a clear agenda and defined goals**

   Holding meetings with vague agendas is never a good idea, but this is even more true online. Structure is vitally important online so be sure to prepare a formal agenda with all the key issues to be discussed in the meeting and sort them according to your business needs. Also clearly mention what role you expect from each participant in the meeting and just how long the meeting will take. This agenda should be sent to each participant well in advance, so they are able to accurately prepare.

   Setting a time limit for each agenda point will help to extract a lot more value in the limited time you have. If participants know a point only has ten minutes for discussion, they will stay focused and the meeting will not go off track.

4. **Open the meeting room early**

   Most meetings begin punctually at the appointed time, but SINTEF suggests that the meeting room should rather be opened 15 minutes before the indicated start time so that participants are able to test their audio and video before the meeting starts. Participants who log on after the meeting commences quickly disrupt the flow and interaction of the meeting and everyone should be in place and ready to go at the appointed time.

5. **Share notes and record the meetings**

   Given that employees are now conducting meetings from home and may therefore be distracted, or have sound or connection problems, it's a great idea to simply record every meeting and send people links to the recording at the end. Some online meeting services have a record function built in, whereas others may require you to download an extra app such as Pio Smart Recorder or GoToMeeting.

   Another good trick for the end of the meeting is to send each person a list of the action points identified for each agenda item along with the name of the person responsible for its delivery. This way everyone knows exactly where they stand and can look up the relevant areas that apply to them if necessary, on the recording.

6. **Appoint a moderator**

   Whether conducting a panel interview or a meeting, chairing the discussion can be much harder online, particularly if not all participants have their video on. It is therefore a good idea to appoint a meeting moderator who will give people permission to speak and keep the conversation on topic.

   The moderator should also be aware of the words they are using and attempt to be as clear and concise as possible. They should use people's names when addressing them as it is not always clear who is being spoken to directly, and instructions should be repeated at the end of each agenda point to ensure everyone is on the same page.

SMMEs: Preparing for the Second Wave

> ***"Forewarned is forearmed" (Samuel Shellabarger, Prince of Foxes)***

The daily Covid-19 infection rate has decreased considerably over the last month or so. South Africans have found a way to live with the risk of infections and have in the recent past become generally more active. This has increased the fear that there might be a second wave of high Covid-19 infection and mortality rate. Western Cape government, for example, has warned a resurgence is highly probable considering the second wave of mass infections sweeping across internationally.

Explaining why it is still important to be cautious against Covid-19 for the next few months, the National Institute for Communicable Diseases (NICD) warns that "Coronavirus is not going away any time soon".

"We are seeing second waves in European countries three to four months after their first wave. We don't know if this will happen in South Africa, but it is possible, and even likely. Also, we know that once you get Coronavirus you are not immune from it for life, and you could become re-infected in the future," it says in a statement on its website.
SMMEs, like the citizens, have to protect themselves from the possible re-emergence of high numbers of infections, which have crippled a considerable number of them earlier this year.

Based on advice from a collective of experts, here are some tips for SMMEs looking to prepare for the possible second wave of high Covid-19 infection rates:

1. **General working conditions and workplace policies have to be reviewed**

   According to the Centres of Disease Control and Prevention in the US, the working conditions and policies must be reviewed in order to best assist companies in protecting themselves against the full blow of the virus. Companies are advised to "examine" working conditions and policies in order to protect employees, and ultimately themselves.

   "When possible, use flexible worksites (e.g. telework) and flexible work hours (e.g. staggered shifts) to help establish policies and practices for social distancing (maintaining distance of approximately 6 feet or 2 meters) between employees and others, especially if social distancing is recommended by state and local health authorities," said the organisation.

2. **Consider remote working more as an option than a forced situation.**

   On the local front, Accelerate CEO, Ryan Ravens, recently spoke on a survey conducted on remote working due to Covid-19.

   He told radio station Cape Talk, that "increasingly, it (remote working) works better for companies as well as employees. I think there has always been a resistance by our very traditional corporates because they felt employees would not be as efficient and/or wouldn't deliver more, but I think that notation has been turned on its head. Employees have actually showed up and shown that they can work far better when working from home."

3. **Inventory and stock**

   Consider stocking up on supplies and raw material reasonably, knowing that replenishing them can't be guaranteed ahead should the stricter lockdown regulations be reimplemented by government. The stockpiling process should be ideal to each business, considering aspects like expiration dates in certain goods, for example, and access to market. Careful management of the inventory is necessary.

4. **Insurance**

   The importance of having quality insurance in general can never be overstated, and the same thinking prevails in business. Policyholders are encouraged to relook at the fine print of their business insurance policies to refresh their memories and for better understanding, bearing in mind the unusual circumstances the world is operating in. Insurers on the other hand are encouraged to "pick-up the pace". However, the global scourge is seen as a challenge that should motivate insurers to put customer-care first.

   A jointly authored blog by Price Waterhouse Cooper's global insurance advisory leader, Abhijit Mukhopadhyay, and leading practitioner in "customer experience", John Jones, expounds on this narrative. The two expert authors express that "*Policyholders will want to know their claims will be paid. But it doesn't always work out that way — especially with a pandemic, which is not generally covered by insurance (except possibly through costly business continuity insurance). Customers are bound to be confused and anxious, and they need to feel that their questions and concerns are addressed with honesty and empathy."*

5. **Understand the seasonal cycle of business**

   Businesses prepare and operate with attention to their annual business cycles. They are advised to prepare knowing that the unidentified length of the possible viral resurgence might overlap their business season, i.e. quarters and other periodic demarcations of business.

6. **Minimise spending**

   SMMEs are advised to minimise spending in order to have as much in the piggy bank as possible. Reserves will be critical in a period where there is minimal income. Careful budgeting could be the possible rabbit out of a hat for successful businesses during the dreaded possible re-emergence of stricter lockdown restrictions.

7. **Get familiar with the government's Covid-19 Relief Fund for SMMEs**

   This could be critical for SMMEs. Understanding the qualification process and benefits described by the Department of Small Business Development (DBSD) can be the determining factor between relief aided continuity and capitulation.

The current amount given to businesses that qualified for the Covid-19 Relief has eclipsed R500 000, according to the department.

The department supposedly updates information related to the relief fund on its website for entrepreneurs to peruse, according to the set business classifications of the SMMEs.

The Five Most Common Tax Pitfalls That Small Business Owners Should Avoid

There are five common tax pitfalls that owners of small businesses should look out for and avoid.

These hazards include three value added tax (VAT) issues, one provisional tax matter, and the fifth item deals with the tax implications for owners of small businesses when they draw money from their company.

Failing to avoid these pitfalls can cost small businesses dearly in terms of time, stress, and money, including fines. The cost of sorting out these hazards can even destroy small businesses.

1. ***Failure to register for VAT***

   The first issue is that many owners of small businesses fail to realise that the VAT Act requires that they register for VAT. This requirement becomes necessary once a business has made taxable supplies exceeding R1 million during twelve consecutive months.

   Once a small business reaches this threshold, then they need to charge their clients VAT for the goods or services sold. “When small businesses manage their tax affairs, they often neglect to do this because they are not aware of this requirement,” Jean du Toit, head of tax technical for Tax Consulting South Africa.

   If it comes to light that a company failed to register for VAT, then SARS could impose penalties, including understatement charges and late payment fines and interest. These penalties will be back dated to when a small company should have been accounting for VAT.

   Small businesses can register for VAT with SARS by applying online, and the process is reasonably straightforward and quick but ask for professional help in any doubt.

   For micro businesses, it may not initially be viable to register for VAT, as they may be mainly dealing with suppliers and clients of a similar size.

   However, the larger a business grows, the more it would lose out on the opportunity to deduct input VAT that they pay over to VAT vendors that supply them with goods and services and so miss out on lower costs. Input VAT is the tax that a VAT vendor can claim back as a deduction from SARS. The output VAT is the tax that a VAT vendor levies on the supply of goods and services and then pays over this tax to SARS.

   The advantage of registering for VAT is that it gives a company greater access to business opportunities, including tenders and contract, which usually require a company to have a VAT number.

The only way to rectify the lack of the required VAT registration was to apply for SARS' Voluntary Disclosure Programme (VDP), Du Toit said. Such a VDP application could see SARS waive any penalties, but it would require the company to pay over the VAT due and interest on late payment of this tax. Ask your accountant to help with any VDP application.

A business can voluntarily register for VAT if over twelve months its income exceeded R50,000. Tertius Troost, a Mazars senior tax consultant, said it might benefit a small business to register voluntarily for VAT if they have many suppliers. But companies must know that there was a cost that went with complying with the VAT Act, he added.

2. ***Failure to obtain valid tax invoices***

The second pitfall relating to VAT was that small business owners often fail to secure valid tax invoices for their VAT input claims, Troost said. Input VAT should have a neutral impact on a company, but if SARS disallows specific claims, then the input VAT becomes a cost, and that will reduce a company's profitability.

When a small company claimed input VAT from SARS, it was required to keep records, including specific invoices from their suppliers. "If a company's administration is not up to scratch, they might not have these documents, or these documents may not meet SARS' requirements as prescribed in the VAT Act. At that point, SARS won't allow you to claim back your input VAT," Du Toit added.

Ettiene Retief, FTR Tax and Corporate Administration partner, said that SARS usually focussed on the invoices a company received from its suppliers when reviewing VAT input claims.

The VAT Act specifies that the following details should appear on an invoice for any amount greater than R5000:

a. The word "tax invoice" or "VAT invoice" or "invoice",

b. The name, address, and VAT registration number of the supplier,

c. The name, address and, where the recipient is a registered vendor, the VAT registration number of the recipient,

d. The unique number of the invoice, and

e. An accurate description of the goods or services supplied, and the volume or quantity of goods or services provided.

For invoices of less than R5000, only the supplier's information needs to be included on the invoice and not the recipient's details. Here the supplier need not specify the quantity of goods or services supplied.

3. ***Trying to claim input VAT for the wrong items***

The third issue regarding VAT is that small companies often try to claim input VAT on entertainment, petrol, and rental of motor vehicles. But the VAT Act makes it clear that companies cannot claim these expenses for VAT purposes.

If a company bought milk, coffee, and sugar to offer to its clients when they visited, the company could not claim VAT on these items because SARS viewed these as entertainment costs, Retief said. "When I'm in my boardroom, I'm selling my time and the coffee is not part of what I'm selling," he added. "However, if I own a coffee shop, then I can claim VAT on the coffee beans that I buy," he added.

If SARS finds that a person or company claimed goods ineligible for VAT purposes, it will reject these claims. In addition, if SARS finds that a person or company has overstated their input VAT, then that means understatement penalties and interest would apply.

4. ***Misunderstanding about income received in advance***

The fourth common issue was that small businesses often forgot that income received in advance was taxable, Du Toit said.

A common area where companies required deposits was for major construction contracts, he added. An advance payment like this was immediately taxable in the hands of the recipient of that money. Retief said that an exception to this rule was when a company was paid a deposit as security.

This knowledge is vital for small businesses when they need to make their provisional tax submissions. SARS requires taxpayers to make these submissions twice a year in February and August.

Small companies had to include income received in advance in their provisional tax disclosure to SARS or face penalties.

5. ***Implications of drawing money from the business***

The fifth prevalent tax issue of which small businesses are often unaware is the tax implications of drawing money from their company through interest-free loans or withdrawals that SARS would deem to be dividends or remuneration. This situation arises with small companies which have a sole director or owner, and he or she makes loans from the company to themselves.

Another problem is that small companies rarely establish a formal loan agreement between the company and the director.

If a company director takes a loan from the company without charging interest, then SARS would view that interest as a dividend in specie paid by the company to the director and the company would have to pay dividends tax on that amount.

Another way that directors of small companies try to avoid paying tax on their remuneration is to have their company issue them with a loan, instead of being paid a salary. “The company should classify the loan as a salary. What often happens is that the director never pays back the loan, or they pay it back slowly over many years to avoid paying income tax,” Du Toit said. “If SARS does a full audit of a company’s books and they see that in substance that loan is not a real loan but a salary, then the agency can reclassify that item, and there will be tax consequences such as penalties and interest,” he added.

Troost said that usually, the most tax-efficient way for a director or owner of a small company to withdraw money from their company was to receive a salary rather than to withdraw money as a dividend or to receive an interest-free loan.

Retief said that owners of small businesses often make withdrawals from their business by paying for personal items. But the problem was that the owner and the company are separate legal entities. Directors of small companies often used this means of withdrawing money from the business to avoid paying tax, he added. “With small businesses, the temptation is not to show a big salary because of the tax is payable on that money,” Retief said.

At the end of the financial year, the company puts payments for personal items through the director’s loan accounts. But it is often difficult to untangle all the transactions and split the personal items from the company transactions, Retief said.

Keep this list of common pitfalls in mind and ask your accountant for advice on your specific circumstances in any doubt.

Your Tax Deadlines for November 2020

- 6 November - Monthly PAYE submissions and payments
- 16 November - D-date for taxpayers filing online
- 25 November – VAT manual submissions and payments
- 27 November – Excise Duty payments
- 30 November – VAT electronic submissions and payments
- 30 November - Company Provisional Tax Payments where applicable.