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Don't Let a Death or Disablement Destroy Your Business

The greatest need in many small businesses is for cash flow. Picture this scenario:

Three people start a business and after a few years it is beginning to make profit – in a year it will go cash positive. One of the shareholders is killed (or disabled) in an accident, leaving the spouse and children desperate as neither the company nor remaining shareholders can afford to buy the dead shareholder's equity. The family put his or her shares up for sale. The other two shareholders now face the prospect of a new shareholder who may not agree with their strategies. The outlook for the business is suddenly very uncertain.

Buy/sell policies

Had the shareholders put in place a buy/sell policy when they started the company, the death of the one shareholder would not have threatened the business. The policy on the death (or disability) of the shareholder results in the remaining shareholders acquiring the shares and proceeds of the policy going to the family of the dead shareholder.

In this way the shareholders keep control of the business and the family of the shareholder receive a pay out which will help remove the financial uncertainty they face.

Generally, buy/sell policies are governed in terms of a shareholders' agreement.

If the shareholders have loans then make sure they are covered in the agreement – they will need to be dealt with anyway on the death or disability of the shareholder.

Also ensure the agreement is aligned with your Memorandum of Incorporation (MOI) as the MOI has preference over a shareholder agreement.

Key person insurance

If you have shareholders who are active in your company or you have a key manager(s) and the loss of any of these people could have a detrimental impact on the business, then the company can take out insurance on these key people. Proceeds from key person insurance flow into the company.

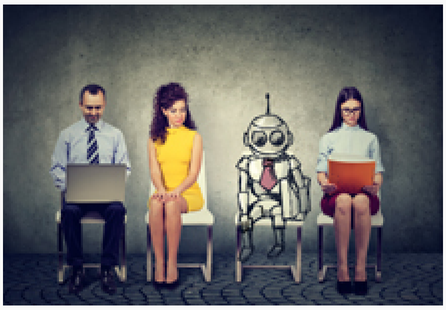
Suppose, for example, that you recruit a marketing executive who substantially grows your business. Should this executive be killed or disabled, it will lead to a material loss in sales. Taking out key person insurance will give your company the financial space to recruit and train a new marketing manager and will give you time to make up the lost sales.

Many companies have failed by not providing for the loss of a shareholder or key manager.

Take expert advice when taking out either of these policies as there are legal, potential tax and or death duty exposures.

If Artificial Intelligence Is Not That Intelligent, Should We Be Worried About Our Jobs?

"Real stupidity beats artificial intelligence every time" (Terry Pratchett)



Artificial Intelligence (AI) is being rolled out in many guises throughout business. One instance of this is voicemail with some amusing results. One person recalls getting a voicemail message which said "I'm a user music to reach an audience" and, another example, " --- working with the Russian" but "I got killed".

As the person said it's hard to feel your career will be threatened by AI when you come across examples such as these.

In another irritating situation, a colleague recently got a call from a cell phone company which asked "will you pay your arrears in three days. Press 1 if this is correct." When the person tried to say "what arrears?", he was told that this is not a valid response. The colleague then phoned the company only to find a robot answered the phone. At this stage you feel you are probably having an Orwellian nightmare.

Will AI get "intelligent"?

There can be little doubt it will rapidly advance and predictions as to where it will go vary widely – some say that by the end of the next decade, robots will be as smart as humans.

Another school of thought maintains that as AI will not be able to learn creativity, real human emotion or have a human personality, so it will never replace humans.

AI relies on mountains of high quality data for it to be able to effectively run its algorithms. There is a relative dearth of this data at present.

Effectively, the sceptics say AI will always just be software and don't be fooled by your robot declaring its love for you. It is software trying to mimic human behaviour.

It must also be remembered that there are many tasks that don't need human intervention.

So, what happens to our jobs?

AI is one of the drivers of the fourth industrial revolution and it is instructive to look at the first three industrial revolutions to understand what we can learn.

The first one came in the late eighteenth century when man began mechanizing factories and agriculture. Urbanisation began to develop rapidly (from displaced farm workers) and there was social unrest as many jobs were lost and professions weakened. This led to substantial inequality of incomes as a few industrialists made fortunes, a middle class began to slowly emerge but the vast majority remained in poverty.

The second industrial revolution came a hundred years later and was led by inventions that made the ordinary person's life much easier – electricity, the aeroplane, the washing machine, the vacuum cleaner and many more that created a surge in living standards. Universal franchise and recognition of unions also came into existence in the developed world. So significant were these changes, such as housewives spending 42 hours less a week on household chores, that they enabled women to enter the jobs market. In turn this rapidly grew the middle class and inequality decreased substantially. Clearly this second revolution grew employment and living standards.

Another important aspect is that the second industrial revolution was a work enabler whilst the first industrial revolution was a job replacer.

The third industrial revolution began in the 1980s with the rise of digitization and it has been similar in some areas to the first industrial revolution – the middle classes have regressed in the developed world whilst the top 1% has become wealthier. However, in developing countries, mainly Asia, hundreds of millions of jobs have been created as industrialization has rapidly rolled out there.

The fourth industrial revolution is expected to automate just under half of the jobs in the United States and thus be similar to the third revolution. How it will fare in places like China and India is difficult to predict. In South Africa business will benefit from the new technologies but the poorer communities will not have the skills to take advantage of opportunities offered by AI. Thus, inequality will continue and may get worse.

Overall, the last two hundred and fifty years has seen a massive upward change in the number of jobs created. The problem lies in the uneven timing of these changes – it took three generations in the nineteenth century for there to be real progress in growing jobs.

Whilst AI may sometimes seem comical at the moment, it is going to reduce and/or eliminate many jobs. But it will also create new employment opportunities. As a business owner, upskill your workers so they can be prepared for the changes that are already happening.

The Big Mac Index Says the Rand is Way Undervalued

> ***"Our results indicate that the Big Mac Index is surprisingly accurate in tracking exchange rates over the long-term, which is consistent with previous PPP research findings" (ScienceDirect)***

For decades the Economist has been publishing its Big Mac Index to give an estimation of how under- or over-valued a currency is. This is done by comparing the price of a MacDonalds Big Mac Burger in a country to the price of the burger in the USA.

Although this began as a lighthearted attempt to establish currency values, it has gained traction and credibility.

Purchasing Power Parity (PPP)

It is a tenet of economic theory that over time currencies will equate to the cost of goods and services in other countries. Thus, if a basket of goods and services costs, say, $20 in the USA and costs R100 in South Africa, then the Rand to US dollar rate should equal R5 to 1 US$.

The Big Mac Index

The cost of a Big Mac is $5.74 in the U.S. whilst the cost in South Africa is R31 which translates into the PPP rate of US$1 = R5.40. As the actual rate at the time the index was measured was R14.18 to the dollar, so the Rand is 61.9% undervalued (14.18-5.5/14.18).

How do we compare worldwide?

The Economist looks at approximately 60 countries in compiling its index and we rank as the third most undervalued currency, ahead only of Malaysia and Russia.

Whilst some will dismiss the Big Mac index, it does underline that South Africa faces many headwinds with a potential downgrade to full junk status (Moodys is expected to announce its decision on South Africa's debt in October after the Medium Term Budget), a stalled economy and uncertainty as to how to re-ignite economic growth. As economic growth is dependent on investment another key issue is how to make South Africa an attractive place to invest.

SARS: Changes to the Employer Statement of Account

This form is designed so that employers can easily reconcile their payroll taxes (PAYE, UIF and SDL). These taxes have proved difficult to reconcile and this redesigned form is intended to simplify this process. It is important to get this right to avoid paying penalties and interest.

A significant step taken by SARS is that employers can now actively manage their payroll taxes. Businesses can now make adjustments to their account and can correct misallocated payments. Omissions and other account mistakes can be corrected (there are misallocations going back a few years) and SARS accept they will have to assist in resolving some of the queries. A case management system has been established so that taxpayers can monitor the progress SARS is making with these queries.

There are other enhancements to the Statement of Account such as grouping of like transactions and a receipt number for payments and journals which will help employers trace these payments to their bank statements.

With employers having the ability to make adjustments to payroll tax submissions comes increased accountability to manage their payroll taxes. It will also help SARS to streamline their workload.

Your Tax Deadlines for August 2019

Individual provisional taxpayers need to submit their first provisional form and payment by or on 30 August.

Companies with year ends in either February or August need to file their first or second provisional returns and payments also by or on 30 August.

Other deadlines this month are –

- 1 August - Tax Season 2019 opens for Individuals
- 7 August - Monthly PAYE submissions and payments
- 23 August - VAT manual submissions and payments
- 29 August - Excise Duty payments
- 30 August - VAT electronic submissions and payments.

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