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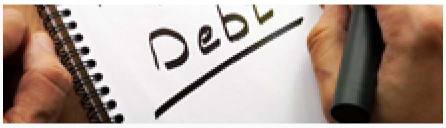
In this Issue

October 2019

A Tip for Anyone with Too Much Debt – Try the ‘Snowball Method’

Note: Even if you yourself are financially secure, please consider passing this article on to someone else who may be struggling with a debt burden – an employee perhaps, or a friend or relative.



Owing high amounts of debt and not being able to pay it off is one of the most demoralising things a person can experience. You feel you are dangling out of control as you watch your debt grow month on month. You know it's unsustainable but what do you do?

Try the "snowball method"

In the United States people with various types of debt like a mortgage, motor vehicle instalments, some credit cards and, say, an unpaid hospital bill have started to pay off the smaller debts first. These smaller debts are usually credit cards where the interest rate is the highest. They pay off these credit debts one by one and then move to the next highest interest rate debt which is probably the medical bill which they systematically pay off - until just the motor car and mortgage bond are left.

This makes financial sense paying off the higher interest rate amounts first.

It is called the "snowball method" as by paying off the credit card debt, then moving to the medical owing, you start to build up a momentum of paying debt off. As you keep paying debt, so the reduction in your debt is likened to a snowball rolling down a hill and getting bigger as it speeds up. **Paying off debt thus becomes a habit and the feeling of helplessness progressively eases off.**

Be careful, as not all indebted people are suited to the "snowball" concept. For example, if your credit card debt exceeds your mortgage, it doesn't follow that you should pay the mortgage off first – remember the credit card interest rate is usually double that of the bond.

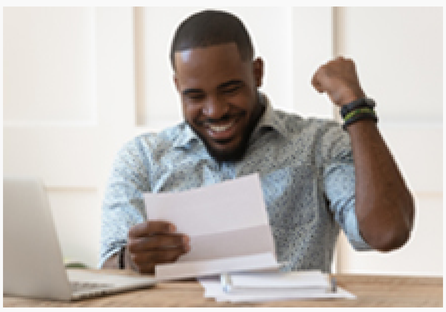
Our South African situation

Consumer debt to disposable income stands at just below 73%. **This means that only 27% of net income (the amount of salary after income tax) is not spent on paying debt.** This is growing over time (the prior year's figure was 72%). This greatly increases the risk that consumers are facing debt restructuring or insolvency – hence the feeling of helplessness alluded to above. The consumer is also more at risk when interest rates rise which is a highly likely outcome if Moodys put South African debt on junk status.

As 60% of the South African economy is dependent on consumer spending, this partly explains the low growth situation the country currently is experiencing.

If you are an employer, why not encourage any staff members who are heavily in debt to look at the "snowball method"? Lifting the cloud under which many South Africans operate will improve their peace of mind and help put the economy back on a growth path. It will assist employees and makes sound business sense all round. Your accountant can help facilitate in need.

A Break for Taxpayers on Interest Received From SARS



Until last year taxpayers had to accrue interest owed to them by SARS. This proved difficult for taxpayers as SARS can take a few years to refund the interest to you. This is exacerbated by the fact that SARS frequently adjusts the interest due to you, which can relate to a prior year.

Thus, taxpayers have found it difficult to correctly account for the interest owed to them.

The accrual concept

This is well established in tax law and frequently we are obliged to show even income still to be paid to us as received because it is legally due to us although not necessarily paid. Property development is a good example – when a developer sells off plan, the income from the sale falls into taxable income even though it may be a year or two before full payment is received.

But SARS have been proactive

To clear up these practical difficulties for taxpayers, the Income Tax Act was amended with effect from 1 March 2018 so that taxpayers only have to show SARS' interest due in the year it is received. This will make it easier to complete your tax return and will also assist with your cash flow as now tax is only due on actual receipt of the interest, not on accrual.

Transitional arrangements

One issue is how do you account for tax accrued in previous years? For example, if you had to include R1,000 in interest due in 2018 but now in 2019 this interest is paid to you. Including it in your 2019 assessment will mean you have paid tax on the interest twice (in 2018 and now again in 2019).

SARS has yet to issue a final Binding General Ruling (BGR) on this but the draft BGR addressed this by stating that interest need not be included in taxable income if it had been accrued in prior years. Hopefully, SARS will soon release this BGR in its final form and resolve this problem.

Businesses: Let's All Practice Corporate Sustainability to Remain Competitive and Successful

> ***"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Gro Harlem Brundtland)***

The word sustainability is seemingly on everyone's lips. What does it mean and what can you and I do about it?

Deconstructing sustainability

The above quote encapsulates what it means. It is a holistic concept and is a mix of many actions and ideas.

If you want your business to be sustainable, then you are thinking long term and planning that your business will still be operating for future generations. This means no short cuts but well thought out plans with a clear vision. In addition to this, you will need to set strong values for your company to stick to, such as always being transparent, fair and ethical. The company needs to have leaders who will live by the vision and values.

These values will be used in dealing with all stakeholders – shareholders, employees, suppliers and customers.

Whilst technology may have a sizeable impact on processes, a strong strategic framework accompanied by the vision and values will put in place strong foundations to allow future generations to continue to remain competitive and successful.

With climate change becoming increasingly real, part of this vision needs to include that your company will minimise its carbon footprint.

No doubt your business is based on strong platforms, so continue to tweak it to make it more sustainable, competitive and resilient.

Our Economic Outlook: Good News or Bad?

"Prediction is very difficult, especially if it's about the future" (Niels Bohr, theoretical physicist and Nobel Prize winner)

After shrinking sharply in the first quarter, the economy rebounded to show "record" 3.1% positive growth in the second quarter. Does this mean that quarter one was an aberration driven by load shedding or is there ongoing bad news awaiting us?

Let the positives speak

Some sectors were very strong in quarter 2, mainly mining which grew by more than 14%. Part of this turnaround was due to the absence of load shedding but there was also a steady rise in the price of key minerals like platinum and gold. Whilst manufacturing also was positive – up more than 2%, it has since come under pressure with the Purchasing Managers' Index (PMI) declining sharply in August. The PMI is a key indicator of manufacturing activity.

Another argument is that the Medium-Term Budget is working on the assumption that all departments of government will cut their budgets by 5, 6 and 7% over the next three years. This will help the government to restore the fiscal discipline that had been ebbing away.

Capital investment grew by 6.1% in the second quarter – this is undoubtedly good news as this will translate into economic growth in the coming months.

Another positive is consumer expenditure held up well in quarter 2, mainly driven by growth in durable goods. However, durable goods are usually one-off purchases, like cars, so one can question just how sustainable this is.

Perhaps the best news came from Moodys who announced they have no immediate plans to downgrade South African debt.

And the bad news…

No one can argue that the last decade has seen a progressive slippage of government's policy to keep fiscal policy within an acceptable framework. Just over a decade ago the government showed a budget surplus. Since then state expenditure on salaries and wages has considerably increased. Not surprisingly this has been accompanied by low growth as spend on salaries of public servants crowds out investment and thus is a drag on economic growth. In turn, this has led to a significant growth in government debt which now has led to a 4% budget deficit which continues to grow. Our borrowing to Gross Domestic Product has more than doubled to more than 50% and the reality is that just paying off South Africa's sovereign debt has risen by 23% and now not only threatens not just infrastructure investment but our ability to continue to finance the growth in social grants.

If you layer the steady decline in State Operated Entities (SOEs) onto this, then one can appreciate why economists and businesses are become increasingly worried about our economic predicament. Eskom, for example, now has debt of R500 billion and its two new power stations, Medupi and Kusile, are struggling to generate electricity. We have already seen the impact Eskom had on the economy in the first quarter and critics are pointing out that little progress has been made in restructuring Eskom. Other SOEs are also non-performing and South African Airways and the Public Broadcaster also need bail outs.

Can our economy be fixed?

With will and sensible policies the economy can be restored onto a growth path. The difficulty is the fact that without some severe cost-cutting, the path to growth will be extremely hard. Economists estimate that with the current cost structures in government and SOEs the economy will need to grow 6.8% just to be able to absorb these cost pressures; this is clearly not feasible, so cost reductions are needed.

A major stumbling block is said to be the unions which grew their power base in the years when Jacob Zuma was president.

Without a credible plan to put the economy on a new growth track, the ratings agencies will almost certainly, over time, further downgrade South Africa's debt.

Muddling through?

For the last decade or so there have been dire warnings about the need to restructure the economy but somehow or other we manage to muddle through. Quite possibly we will continue to do so for a while longer – the most urgent need to fix the economy was driven by the potential of a Moodys downgrade, but this is off the table for the immediate future. It seems quite likely that the economy will remain on a low growth path.

Your Tax Deadlines for October 2019

Deadlines this month are –

- 7 October – Monthly PAYE submissions and payments
- 25 October - VAT manual submissions and payments
- 30 October - Excise Duty payments
- 31 October - VAT electronic submissions and payments
- 31 October - CIT Provisional Tax Payments where applicable
- 31 October – Tax Season 2019 Branch filing closes for Individuals

- 31 October - End of Employer Interim Reconciliation.

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