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**You and Budget 2016**

*"I have a simple message. We are strong enough, resilient enough and creative enough to manage and overcome our economic challenges" (Finance Minister Pravin Gordhan in the Budget Speech)*

*How am I affected? The highlights*

(Note that these are proposals, subject to final legislation. The effect on revenue collections is shown in brackets)

- The good news was **income tax** and **VAT** rates were not increased. Income tax relief was restricted to lower earners (+R7.6 billion)
- **Capital Gains Tax** inclusion rates were increased for both individuals (from 33% to 40%) and companies (from 66% to 80%) – see the table below for the effective rates (what you will actually pay) (+R2 billion)
- **Sin taxes** (alcohol, cigarettes) were raised (+R2.2 billion)
- **Fuel levy** up 30 cents a litre (+R6.8 billion)
- **Green and health taxes:** A new levy on new and retread tyres from October 2016, plus increased levies on plastic bags, light bulbs and motor vehicle emissions, with a new "sugar tax" (only due 2017) aimed at reducing sugar consumption (+R0.5 billion)
- **Transfer duty** is up for top-end property sales with the introduction of a new band of 13% on sales over R10m (see the table below for details) (+R100 million)
- Increased **medical aid tax credits** (see the table below) (-R1 billion)
- A new **Special Voluntary Disclosure Programme** (VDP) will be introduced in October for individuals and companies (but note trusts will be excluded, unless agreed that persons other than the trust effectively hold the assets) to declare undisclosed off-shore assets
- Amendments to **retirement taxation** have been standardised so that individuals can claim 27.5% of taxable



income (up to a limit of R350,000) on pension funds, retirement annuities and provident funds. Employers may continue to contribute to the employee's retirement funds but this will be taxed as a fringe benefit to the employee and will be part of the R350,000 allowable deduction

- **Trusts:** Also proposed (it has to go through the usual approval process and the final legislation may well differ from the proposal) is that assets will, if transferred to a trust via loan account, fall into the founder's deceased estate, and that interest free loans to trusts will be treated as donations.

*The new tax and transfer duty tables*

| <b>NEW TAX TABLES 2016/2017 (INDIVIDUALS AND TRUSTS)</b>            |                             |   |
|---|-----------------------------|---|
| <b>Taxable Income (Individuals and Special Trusts)</b>              |                             | <b>Tax</b>                                  |
| R0 - R188,000   |                             | 18% of taxable income                       |
| R188,001 - R293,600   |                             | R33,840 + 26% of the amount above R188,000  |
| R293,601 - R406,400   |                             | R61,296 + 31% of the amount above R293,600  |
| R406,401 - R550,100   |                             | R96,264 + 36% of the amount above R406,400  |
| R550,101 - R701,300   |                             | R147,996 + 39% of the amount above R550,100 |
| R701,301 and above  |                             | R206,964 + 41% of the amount above R701,300 |
| <b>Trusts other than Special Trusts</b>                             |                             | <b>41% of taxable income</b>                |
| <b>NOTES TO THE NEW TAX TABLES</b>                                  |                             |   |
|   | <b>2016/17</b>              | <b>CHANGES FROM LAST YEAR</b>               |
| <b>Rebates</b>  |                             |   |
| Persons under 65  | R13,500                     | Increased by R243                           |
| Secondary (Age 65 to below 75) - total rebate                       | R20,907                     | Increased by R243                           |
| Tertiary (Age 75 and older) - total rebate                          | R23,373                     | Increased by R243                           |
| <b>Tax Thresholds</b>   |                             |   |
| Persons under 65  | R75,000                     | Increased by R1,350                         |
| Secondary (Persons 65 to below 75)                                  | R116,150                    | Increased by R1,350                         |
| Tertiary (Persons 75 and older)                                     | R129,850                    | Increased by R1,350                         |
| <b>Interest Exemption</b>   |                             |   |
| Persons under 65  | R23,800                     | No change                                   |
| Persons 65 and older  | R34,500                     | No change                                   |
| <b>Dividends</b>  |                             |   |
| Taxed at 15%  | No change                   | No change                                   |
| <b>Medical Aid Tax Credits per beneficiary</b>                      |                             |   |
| First two beneficiaries   | R286 p.m. each              | Increased R16                               |
| Third and more  | R192 p.m. each              | Increased R11                               |
| <b>Business Travel - Tax free</b>                                   |                             |   |
| Up to 8,000 kilometres per annum                                    | R3.29 per km                | Increased by 11 cents per km                |
| <b>Travel Allowance</b>   |                             |   |
| Travel allowance still taxable at 80%                               | No change                   | No change                                   |
|   | <i>(Logbook compulsory)</i> |   |
| <b>Other Taxes</b>  |                             |   |
| Capital Gains Tax - Individuals/Special Trusts*                     | 16.4%                       | Increase of 2.75%                           |
| Capital Gains Tax - Companies                                       | 22.4%                       | Increase of 3.8%                            |
| Capital Gains Tax - Trusts*   | 32.8%                       | Increase of 5.49%                           |
| Fuel Levy   |                             | Increases by 30 cents a litre               |
| Cigarettes  |                             | Increases by 82 cents per packet of 20      |
| Wine (Unfortified)  |                             | Increases by 18 cents a 750 ml bottle       |
| Spirits   |                             | Increases by R3.94 a 750 ml bottle          |
| Beer  |                             | Increases by 11 cents a 340 ml bottle       |
| <i>* Represents the maximum effective rate of Capital Gains Tax</i> |                             |   |

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*(If the tables above do not display correctly, please see the "online version" – link above the compliments slip)*

## Why was this Budget so important?

Since "Nenegate" in December, the country has been fearful of a Rating Agencies' downgrade which would put the nation's debt at junk status. This would force all foreign bond holders to sell their bonds, ushering in another Rand crash and almost certainly a recession. The country was thus looking to Finance Minister Gordhan to resolve this.



In essence, the ratings agencies were looking for two things:

1. An improvement in the nation's budget deficit to GDP and an improvement in the country's borrowings to GDP ratio. These can be summarised as fiscal consolidation.
2. A road map to improving economic growth – the IMF reckons we will only achieve 0.7% growth this year with a risk the country could slip into recession.

## So how did the Minister do and are we headed for junk status?

Overall, quite well. With prudent tax increases and expenditure reductions, he achieved the fiscal consolidation the market was looking for. The budget deficit ratio will be 3.2% in 2016/7, 2.8 % next year and 2.4% in 2018/9. The debt to GDP will be 46.2% in 2019 (anything over 50% would be viewed unfavourably by ratings agencies).

In terms of point 2 above, the Minister has promised to clean up State Owned Companies (SOCs) and to look at bringing equity partners into these entities. He is also looking to amend all laws that discourage investors. The Minister committed the government to spend R870 billion in infrastructural projects in the next three years. This kind of expenditure creates economic growth.

Further, administrative and managerial positions in government are frozen with the aim of reducing 20,000 positions over the next three years. Procurement in government will be standardised. Savings are already evident and R25 billion is forecast to be saved over the next three years. Expenditure such as new motor vehicles for office bearers and travel will be reduced. Drought relief and the university students' fee freeze were provided for.

Whilst the market saw the Rand immediately drop forty cents against the Dollar and bond yields rose during the 2016 Budget Speech, it is a solid budget with the latter probably more attributable to Moody's simultaneous downgrade of Brazil. How credible the budget is and whether we can avoid a rating downgrade will depend on how well the above proposals are implemented.

## How You And Your Employees Can Benefit From B-BBEE

The Codes of Good Practice (CoGP) are now in effect in terms of compiling your Broad Based Black Economic Empowerment (B-BBEE) scorecard. One aspect of the new codes that has caused difficulties is the Enterprise and Supplier Development (ED) category. It is a priority element (if you miss your target scorecard, you drop a level), it carries 40 scorecard points out of 105 (there are also 4 additional bonus points) and it involves substantial changes with the previous codes.



### What is Enterprise and Supplier Development about?

ED has two components:

1. Supplier development or preferential procurement. There are 25 points on offer where 9 points are awarded for purchasing from 51% black owned businesses and 4 points for buying from businesses which are 30% owned

by black women.

2. Empowering suppliers with a total of 15 points. This consists of enterprise development or sector programmes to establish, incubate and mentor black owned small to medium sized businesses (5 points). Once established, there are 10 points for getting these businesses into best practices so they become a viable organisation. The target spend for empowerment suppliers is 3% of profit after tax.

The aim of this is to bring black entities into the economic mainstream.

This requires a considerable investment for a business which needs a B-BBEE rating. Careful strategic consideration is needed.

***For example .....***

You do a review of your business and your IT department is non-core to your organisation. It is mainly staffed by black employees and as your business is struggling to comply with ED, you approach the IT staff and propose they form their own company. You undertake to exclusively use their services, you approach the bank (they get B-BBEE points as well) to finance the business and you begin a mentoring process with the new black owned IT business.

Not only do you score ED points but you take out cost from your business. As you have negotiated a comprehensive service level agreement, you find an improvement in the firm's IT performance.

As this business will presumably be a deemed micro-enterprise (turnover up to R10 million per annum), it will automatically qualify as an empowerment supplier. In addition, B-BBEE scorecard points are increased by 25% when dealing with a micro-enterprise which is 51% or more black owned.

To get scorecard points businesses must deal with empowerment suppliers (value adding in the previous codes) which means, inter alia,

- compliance with all laws,
- 50% of all new jobs go to black employees,
- 25% of all purchases are from local suppliers and
- 85% of labour costs must be paid to South African Citizens (if the business is a service industry).

To be successful in the ED category you need to be identifying (even, as in the example above, initiating) black businesses which you can mentor to a competitive state and then buy from them.

That's a major win-win for everyone – you, your employees, and your BEE scorecard.

**Ask your accountant for help. It is important to use an expert when implementing B-BBEE, the rules are myriad and subject to interpretation.**

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## **Managing Your Business In A Fast-Moving 2016**

In South Africa we face many socio-economic challenges – these are dealt with in the Budget story above.

As important is how we respond to a rapidly changing world where some experts are predicting that two thirds of the top 500 U.S. companies will be out of business in twenty years.



### ***Address these 6 action plan items now***

#### **1. Long term strategy**

It is vital that you have a sound long-term strategy in place. If you don't know what you are aiming for, it is going to be extremely difficult to make successful adjustments.

#### **2. Be outward looking**

Keep close contact with customers and suppliers. Know what your competitors are doing and keep track of overseas trends. The sooner you know of potential threats, the better placed you are to react.

#### **3. Align risk strategy**

In disruptive times, risks increase. A fundamental risk all businesses face is reputational risk – see below under communications. In addition, needing to respond quickly to events inevitably involves heightened risk. Ensure you have appropriate risk parameters – for example, set management incentives based on your appetite for risk.

#### 4. Communications

This is two-fold:

**Internal communications** need to be in place to provide for effective communication down to your staff and from your staff to you. In many instances, staff will pick up potential changes in the business environment and need to communicate this upwards. In turn, you will need a speedy and appropriate response for the business to implement.

**External communications** to shareholders, customers and other important stakeholders are important to get their trust and buy-in to any strategic changes you need to make.

A Social Media strategy is also significant. Reputations can be shredded by Social Media – being able to scan this media and respond quickly could help save your business.

#### 5. Human Resources

It will be difficult to swiftly change strategy without an empowered staff. They need to be confident and motivated so they can communicate effectively and execute any changes to strategy. Key staff positions should be filled with people who have the talent to innovate.

#### 6. Organisational capacity

The business needs to be flexible and agile in its business processes so that changes to strategy can be rapidly rolled out.

2016 and future years are going to be demanding. Make sure your business is equipped to handle this environment. Speak to your external accountant who will be seeing many organisations and will almost certainly be able to help you.

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### Your Tax Deadlines For March

There are only run-of-the-mill tax deadlines for March.



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