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From humble beginnings spawn a bright future

DEFERRED TAX
We look at the basics and advanced principles

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Official Journal of the South African Institute of Professional Accountants
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Change and ethics are key to the future

Professional Accountants (SA) have a key role to play in enabling South African and African business to succeed - especially given that Africa stands on the threshold of massive growth. In order to fulfil their role, however, Professional Accountants (SA) needed to focus on two key areas: change and ethics.

Professional Accountants (SA) have another important role to fulfil, and that is to act as catalysts for business growth in South Africa and across the continent as a whole. “We as accountants should seek to influence rather than react to change,” the Minister said.

Accountants with this kind of broad vision of their role would have a role to play in helping government to achieve its goals, and in helping companies to seize the opportunities offered by Africa’s ongoing growth. SAIPA is committed to being a Catalyst for Change, and we would encourage all Professional Accountants (SA) to join us in achieving this goal.

SAIPA is active on the social media platforms and we invite members to become part of the conversation in these social media groups.

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www.linkedin.com/groups/SAIPA-3759392

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Professional Accountants (SA):
From humble beginnings spawn a bright future

Thomas Hoeppli, Research Analyst, SAIPA

A mere three decades ago, the founding fathers of the South African Institute of Professional Accountants (SAIPA) had the vision to establish a dedicated home for accountants, an institute that would rapidly grow to what today is one of the largest accountancy bodies in Africa and increasingly highly recognised internationally.

SAIPA was honoured to play an important role in the establishment of the pan-African Federation of Accountants (PAFA) as the successor to the East Central Southern African Federation of Accountants (ECSAFA). As a member of the PAFA Board, SAIPA is destined to play an increasingly influential role across the African continent where many barren areas in respect of accounting still exist.

Although SAIPA has had to overcome a few obstacles in its 30 years of existence, it has, thankfully, weathered these challenges and is today going from strength to strength. Complacency is, however, a luxury it cannot afford, as much yet remains to be done if the profession is to mirror the diversity of our country, and if the Institute is to fully play its rightful role in serving the South African economy, especially the crucially important SMME sector.

In its formative years, SAIPA was centred on those in small and medium-sized practices, but over the years, the focus has increasingly broadened to include accountants who ply their trade in academia, commerce, industry and the public sector. As its membership across these sectors has increased, this has greatly enhanced its influence, making it a sought after partner to the Government in its quest to create an economy that will bridge the enormous wealth divide that still blights our country and create the millions of jobs we so desperately need.

In a world where confidence in the financial services industry is at an all-time low, the public are looking to institutes such as SAIPA to play a key role in rooting out corruption and mismanagement, and instilling a new sense of fairness that is devoid of greed and irresponsibility.

In a world where confidence in the financial services industry is at an all-time low, the public are looking to institutes such as SAIPA to play a key role in rooting out corruption and mismanagement, and instilling a new sense of fairness that is devoid of greed and irresponsibility.
Accountancy professionals with scarce skills
It is no secret that financial and accountancy skills are in very short supply in many parts of the world, especially in South Africa and across the African continent. Governments and businesses have a growing need for skilled professionals, such as Professional Accountants, who embody these scarce skills. Unfortunately, the demand by far exceeds the local supply of skills.

To foster and sustain a growing economy, and thereby create jobs, it is vital to produce a sufficient supply of skilled professionals. Although the SAIPA National Accountancy Olympiad has done much to focus attention on the accountancy profession, much more remains to be done if the millennial generation are to embrace the profession. A concerted multi-pronged effort involving the Government, academia, commerce, industry and the accountancy profession is essential if the future accountancy needs of our economy are to be served.

In a rapidly changing world where today’s innovations are tomorrow’s commodities, it is a never-ending task to ensure that skills sets remain relevant. Whereas it may in previous times have been prudent to argue that skills sets were timeless, this today is no longer the case. Those who rely on a degree earned many years ago, and have since done very little or nothing to continuously reinvent themselves, are discovering that they are becoming increasingly irrelevant in meeting the ever-changing needs of their clients. We live in the era where lifelong learning is no longer a matter of choice, it is imperative for future relevance. Only those who accept the need to continuously renew their skills sets through formal and informal education will prosper, whereas those who shun this need will dwindle and ‘die’. In this regard, SAIPA has a key role to play by constantly revising its entry requirements and the educational standards to which its members are expected to adhere in order to retain their membership.

For those who embrace change and the need for lifelong learning, the future will bring great opportunities. By proactively identifying and embracing these opportunities, SAIPA members can ensure that they are optimally positioned to meet the product and service offerings their clients will require of them. To meet the demands of the ever-changing accountancy profession, SAIPA develops certificate programmes aimed at equipping its members with the requisite skills in the Independent review, Broad-Based Black Economic Empowerment, IFRS for SMEs, etc.

Financial and business advisors
Many SAIPA members in Practice primarily serve micro, small and medium sized enterprises (SMMEs) by merely providing them with relevant accountancy services. The challenge they now face is to elevate their product and service offerings to a level where they become trusted business ‘partners’ and advisors. From mere overseers and onlookers, they need to transition towards becoming forward lookers together with their clients, identifying and unlocking wealth creating opportunities. In pursuance of this goal they will need to know the business of their clients, inside-out, which puts them in a unique position to know the range of services their clients need. Given the ever-increasing complexity of the business environment, their SMME clients are destined to seek partnerships, alliances and allegiances, elevating their accountants from business advisors to business partners.

The current reality is that a number of SAIPA members operate as sole or small practices with up to five professional staff, thereby making it very difficult to provide a turnkey service that goes beyond compiling financial statements and enabling compliance. Their future challenge is to increasingly move towards delivering interpretational wealth-enhancing services that are tailored to the needs of each client, thereby strengthening client loyalty and simultaneously enhancing the profitability of their practices. Of necessity this will require small and medium-sized practices to specialise in a particular service area, entering into partnerships, alliances or allegiances with other similar sized practices to seamlessly deliver a comprehensive suite of services.
Furthermore, they will need to establish such close relationships with each client that they are able to know and understand their business as well as they do, and, very importantly, also stay abreast of developments in the national and international economy. Confronted with a highly volatile and complex economic environment, clients are destined to increasingly look to Professional Accountants (SA) for guidance on matters as diverse as business strategy, investments, mergers, acquisitions, taxation, human resource management, etc. There is no better time than the present to make this paradigm shift!

SMMEs are seldom in a position to afford a full-time CFO, consequently affording Professional Accountants (SA) the opportunity to fill the void as remote CFOs. Their loyalty and dedication to SMMEs positions them to successfully act as ‘ad hoc’ or de facto CFOs on a part-time basis, guiding these enterprises towards becoming well-established larger companies.

Although many Professional Accountants (SA) primary focus on SMMEs, an increasing number ply their trade successfully in corporate and public service environments. Drawing upon their experience in the SMME sector, which gives them a distinct competitive edge, they occupy financial management positions in business, and in local, provincial and national government, meaningfully contributing to the success of the South African economy.

**Change as an opportunity**

There is one constant in life, and that is change! Anyone who rests on their laurels risks becoming obsolete sooner or later. Successful market leaders often end up with only a small market share, or disappear from the market again after only a few years. The short time frame of success is very obvious in the market of cell phones. These days, phones are hardly ever on the market for more than one year before being replaced by a newer, better product that meets the market needs even more. Similarly, Gillette launches new products in regular intervals, constantly reinventing its products in the sense of Schumpeter’s ‘creative destruction’.

The same principle applies to Professional Accountants (SA). In a changing environment, they need to constantly reinvent themselves in order to remain relevant and thereby also reinvent the profession as a whole. While the thought of constant change may seem frightening to some people, it is a reality that cannot be escaped – a reality, however, that bears a wealth of opportunities for professionals who are equipped with unique qualities and scarce skills - such as SAIPA members - your professional accountant of choice.
Cloud computing: Keeping yourself valuable

Cloud computing is transforming the way organisations are being run, but it is also changing traditional job roles, including that of accountants.

With 50% of South African companies now using cloud technology, according to a 2012 World Wide Worx statistic, accountants are going to have to change the way they work in order to remain relevant!

I am a firm believer in the power of the cloud and of how web-based business applications, such as online accounting, can transform not only the way in which an organisation manages its data and administration, but more importantly, the way it shares data. And I find that once the “penny drops”, the business really begins to take advantage of what cloud computing has to offer.

Many traditional accounting programs are at least 15 years old and were considered good enough if they merely balanced the books and made it easy to file VAT returns. But cloud based systems have given developers the opportunity to re-write their software with new accounting programs providing so much more.

In addition, the benefits of being hosted online – mobility, tax and legislation updates that automatically feed into the system, data that is routinely backed up, and real-time report generation - means that the manner in which many accountants’ traditional services are offered will change. Driving to a client to collect boxes of slips or download systems files in order to balance the books is a thing of the past.

Now, with the cloud it’s easy for the user to access their accounts and manage the books: and user friendly dashboards make it simple to understand the current financial status of the business. Essentially clients are able to become self sufficient at managing their finances through their accounting software.

But rather than spelling the end of the profession, cloud accounting is an opportunity to reinvent the role of the accountant to be that of a trusted advisor and business partner who uses their financial expertise to provide guidance to business owners and managers.

Cloud facilitates this new role because it frees up accountants from the drudge work of manually transferring files back and forth or hauling briefcases bursting with papers around town. This means more time to review changes and spot trends immediately.

Finances can also be accessed by clients at the same time as their accountants; this really allows them to have an interactive relationship with each other and gives accountants the scope to become more involved in their client’s business.

So in the future, business owners and managers will be looking for trusted advisors that they can get along with and with whom they feel comfortable in picking up the phone and asking for advice. This also encourages the sharing of intellectual capital whereby clients are encouraged to impart with information that in turn, becomes valuable to the accountant in making future financial decisions for the company. Essentially accountants are empowered to spend more time doing what they traditionally do: looking at the books with a higher level of financial knowledge to provide sound business advice, which is really where their expertise are most needed.

Cloud computing is transforming the way organisations are being run, but it is also changing traditional job roles, including that of accountants.
Deferred Tax – the Basic Principles

SAIPA Technical & Standards Department

Section 29.2 of IFRS for SMEs requires all entities not only to recognise current tax but, more importantly, deferred tax. This section has created a nightmare for practitioners as the non-compliance of recognising deferred tax in the financial statements is a violation of IFRS for SMEs. The veil of the myth that deferred tax is only applicable to large corporations has been lifted – good or bad for SMEs and practitioners.

FRS for SMEs defines deferred tax as the provision for future tax payable or recoverable in respect of tax profit/loss resulting from past events. Thus, recognition of deferred tax payable/liability is based on the recognition principles of provisions [s21.4 – Provisions and Contingencies]. These include:

- The entity has an obligation resulting from a past event;
- It is probable that the entity will be required to transfer economic benefits in settlement; and
- The amount of the obligation can be estimated reliably.

Basic principles

The primary purpose of providing for deferred tax is to reconcile the tax expense with the profit presented in the statement of financial performance (the income statement). The easiest way to understand deferred tax is to demonstrate the calculation of the entity’s current tax liability.

Illustrative example 1:

<table>
<thead>
<tr>
<th></th>
<th>Accounting profit</th>
<th>Tax profit</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,000,000</td>
<td>1,000,000</td>
<td>0</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>420,000</td>
<td>420,000</td>
<td>0</td>
</tr>
<tr>
<td>Gross profit</td>
<td>580,000</td>
<td>580,000</td>
<td>0</td>
</tr>
<tr>
<td>Depreciation/Wear &amp; tear</td>
<td>120,000</td>
<td>200,000</td>
<td>-80,000</td>
</tr>
<tr>
<td>Provision for bad debts</td>
<td>40,000</td>
<td>10,000</td>
<td>-30,000</td>
</tr>
<tr>
<td>Provision for holiday pay</td>
<td>35,000</td>
<td>0</td>
<td>35,000</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>215,000</td>
<td>215,000</td>
<td>0</td>
</tr>
<tr>
<td>Net profit/Taxable income</td>
<td>170,000</td>
<td>153,000</td>
<td>-17,000</td>
</tr>
<tr>
<td>Current tax liability [28%]</td>
<td>43,400</td>
<td>43,400</td>
<td>0</td>
</tr>
<tr>
<td>Tax on profit</td>
<td>47,600</td>
<td>43,400</td>
<td>-4,200</td>
</tr>
</tbody>
</table>

The difference in the tax amount calculated on the accounting profit and the taxable income is recognised as deferred tax.

Assets and liabilities giving rise to deferred tax

Deferred tax arises as a result of the differences between the carrying amounts (used for accounting/financial reporting purposes) and the tax bases (tax purposes) of the assets and liabilities of the entity [s29.9]. However, deferred tax arises only in respect of the assets and liabilities whose recovery or settlement affects the tax profit [s29.10]. Thus, certain assets and liabilities which have differences between their carrying amounts and tax bases will not give rise to deferred tax, for example Goodwill, Longterm Loans, etc.

The tax base of an asset is defined as the amount that would have been deductible in arriving at the tax profit if the carrying amount were recovered through sale at the reporting date. If the recovery of the carrying amount of the asset does not increase the tax profit, the tax base of the asset is equal to its carrying amount [s29.12(a)]. For example, the recovery of loans granted to staff through the cash received does not affect the tax profit; the tax base of trade receivables is equal to its carrying amount.

The tax base of a liability is equal to its carrying amount, less any amount deductible or plus any amount included in the tax profit, if the carrying amount was settled at the reporting date. In the case of prepaid income, the tax base is equal to the carrying amount less any amount of the income that will not affect future tax profit [29.12(b)].

Illustrative example 2:

<table>
<thead>
<tr>
<th></th>
<th>Carrying amount</th>
<th>Tax base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant &amp; equipment</td>
<td>567,800</td>
<td>Cost less capital allowances or wear &amp; tear – deferred tax</td>
</tr>
<tr>
<td>Goodwill</td>
<td>200,000</td>
<td>Not allowed as deduction for tax purposes, tax base is equal to its carrying amount – no deferred tax</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>178,500</td>
<td>Cash received as recovery does not affect tax profit [result of revenue transaction], tax base equal to its carrying amount – no deferred tax</td>
</tr>
<tr>
<td>Trade creditors</td>
<td>132,600</td>
<td>Settlement does not affect tax profit [result of purchase/expense transactions], tax base is equal to carrying amount – no deferred tax</td>
</tr>
<tr>
<td>Provision for bad debts</td>
<td>8,500</td>
<td>Deduction allowed based on the Income Tax Act – deferred tax</td>
</tr>
<tr>
<td>Tax due</td>
<td>32,800</td>
<td>Cannot provide for deferred on tax – exempted</td>
</tr>
<tr>
<td>Longterm loans</td>
<td>75,000</td>
<td>Settlement does not affect tax profit [financing transaction], tax base is equal to the carrying amount – no deferred tax</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>23,900</td>
<td>If the tax profit is based of cash transactions, the amount would be deducted in the following period, tax base is the zero [liability less amount deducted in future] – deferred tax</td>
</tr>
</tbody>
</table>
Recognition and measurement of deferred tax

The deferred tax liability/asset represents a provision for future taxes payable/recoverable and shall only be recognised if the recognition criteria for provisions are satisfied [s21.4], which are as follows:

- The entity has an obligation at the reporting date as a result of a past event – difference in carrying amount and tax basis of assets and liabilities;
- It is probable that the entity will be required to transfer economic benefits in settlement – increase or decrease tax liability in future periods; and
- The amount of the obligation can be estimated reliability – substantively enacted tax rates and laws at the reporting date.

The deferred tax liability/asset is only recognised based on temporary differences, unused tax losses and tax credits [s29.15]. Temporary differences represent differences between the carrying amount of assets and liabilities which will be cancelled over a period of time and are caused either as a result of [s29.14]:

- Income and expenses being recognised in the statement of comprehensive income in one period but recognised in taxable profit in a different period; and
- The tax basis of the asset/liability changing without the change being recognised in the carrying amount of the asset/liability, e.g. tax basis of property.

Differences resulting from items such as dividends received and written off in respect of goodwill or similar intangible assets do not give rise to deferred tax liabilities/assets as they are not considered to be temporary differences.

The deferred tax liability/asset is measured by applying the tax rates and laws enacted or substantively enacted at the reporting date [s29.18]. The deferred tax liability/asset shall be recognised at the reporting date based on the information known at that date, namely, the tax rates and laws. Tax rates and laws are regarded as being substantively enacted when future events, such as the approval by parliament, required by the enactment process historically, have not affected the outcome and are unlikely to do so. However, the deferred tax liability/asset represents the tax payable/recoverable in future periods. The rate regarded as substantively enacted at the reporting date, even if its implementation date is after the reporting date, shall be used to measure the deferred tax liability/asset at the reporting date. A situation may arise where the current tax is calculated at a rate which differs from that used to measure the deferred tax liability/asset. The current tax liability represents a present obligation relating to the taxable profit for the reporting period while the deferred tax liability represents an obligation for taxes payable in future [provision].

<table>
<thead>
<tr>
<th>Announced</th>
<th>Effective</th>
<th>Reporting date</th>
<th>Current tax rate</th>
<th>Deferred tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 March 2010</td>
<td>31 March 2010</td>
<td>30 June 2010</td>
<td>Rate announced</td>
<td>Rate announced</td>
</tr>
<tr>
<td>31 March 2010</td>
<td>31 March 2010</td>
<td>30 April 2010</td>
<td>Previous rate</td>
<td>Rate announced</td>
</tr>
<tr>
<td>31 March 2010</td>
<td>31 March 2010</td>
<td>28 February 2010</td>
<td>Previous rate</td>
<td>Previous rate</td>
</tr>
</tbody>
</table>

Recording the deferred tax transactions

The deferred tax liability/asset recognised at the reporting date represents the carrying amount of the provision that shall be reported in the statement of financial position. The change in the deferred tax liability/asset amount shall be recognised in the statement of comprehensive income as part of the tax expense for the period [s29.17].

Illustrative example 4:

<table>
<thead>
<tr>
<th>Carrying amount</th>
<th>Tax basis</th>
<th>Temporary difference</th>
<th>Deferred tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 Feb 2011: Net assets</td>
<td>2,340,000</td>
<td>1,980,000</td>
<td>360,000</td>
</tr>
<tr>
<td>28 Feb 2011: Net assets</td>
<td>2,890,000</td>
<td>2,200,000</td>
<td>690,000</td>
</tr>
<tr>
<td>28 Feb 2011: Tax Expense</td>
<td>330,000</td>
<td>92,400</td>
<td>Debit</td>
</tr>
<tr>
<td>Income Tax Expense [P &amp; L]</td>
<td>92,400</td>
<td>[Deferred Tax [SFP]]</td>
<td>92,400</td>
</tr>
</tbody>
</table>

Solution:

<table>
<thead>
<tr>
<th>Carry</th>
<th>Income Tax Expense [P &amp; L]</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 Feb 2011: Net assets</td>
<td>2,340,000</td>
<td>1,980,000</td>
<td>360,000</td>
</tr>
<tr>
<td>28 Feb 2011: Net assets</td>
<td>2,890,000</td>
<td>2,200,000</td>
<td>690,000</td>
</tr>
<tr>
<td>28 Feb 2011: Tax Expense</td>
<td>330,000</td>
<td>92,400</td>
<td>Debit</td>
</tr>
</tbody>
</table>

Tax expense for the reporting period

The tax expenses comprise the current tax, current tax plus plus/minus the under/over provision of prior periods, plus the deferred tax expense for the current period.

Illustrative example 5:

<table>
<thead>
<tr>
<th>Carry</th>
<th>Income Tax Expense [P &amp; L]</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 Feb 2010: Current tax liability/Assessment</td>
<td>395,000</td>
<td>423,000</td>
<td></td>
</tr>
<tr>
<td>28 Feb 2011: Accounting profit/Taxable profit</td>
<td>1,450,000</td>
<td>1,200,000</td>
<td></td>
</tr>
<tr>
<td>28 Feb 2010: Deferred tax liability</td>
<td>456,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>28 Feb 2010: Deferred tax liability</td>
<td>502,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>28 Feb 2010: Company tax rate</td>
<td>28%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Solution:

| Statement of comprehensive income for the reporting period ended 28 Feb 2011 |
|---------------------------------|------------------|
| Profit before taxation          | 1,450,000        |
| Income tax expense              | 410,000          |
| Profit after taxation           | 1,040,000        |

Notes to the financial statements for the reporting period ended 28 Feb 2011

<table>
<thead>
<tr>
<th>Income tax expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current tax: prior periods</td>
</tr>
<tr>
<td>Current period</td>
</tr>
<tr>
<td>Deferred tax: current period</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Disclosure of deferred tax

The deferred tax liability/asset should be disclosed in the statement of financial position as a non-current liability/asset [s20.28]. The entity shall not classify any portion of the deferred tax liability/asset as current liability/asset [s29.28].

The deferred tax liabilities and deferred tax assets can be set off against each other only when the entity has a legally enforceable right to set off the amounts and it intends to settle the amount on a net basis [s29.29].

The entity shall disclose the following details relating to the deferred tax liability/asset in a note to the financial statements:

- Deferred tax liability/asset at the reporting date for each type of temporary difference;
- Movement in the deferred tax liability/asset during the period for each category of temporary differences.

Illustrative example 6:

The following is a summary of the information extracted from the financial statements:

<table>
<thead>
<tr>
<th>PPE</th>
<th>Provisions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>320,000</td>
<td>(56,000)</td>
<td>264,000</td>
</tr>
<tr>
<td>416,000</td>
<td>(75,000)</td>
<td>341,000</td>
</tr>
</tbody>
</table>

Solution:

| Balance at the beginning of the period | 320,000 | (56,000) | 264,000 |
| Change to profit or loss for the period | 96,000 | (19,000) | 77,000 |
| Balance at the end of the period       | 416,000 | (75,000) | 341,000 |

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- Convert CC to private company: CIPC’s MOI $912,00$
- Register new non profit company: CIPC’s MOI $923,00$, Henzel’s MOI $1337,00$
- Replace MOI of private company: CIPC’s MOI $1048,00$, Henzel’s MOI $1504,00$

Terms and conditions apply
**Deferred Tax** – the Advanced Principles

SAIPA Technical & Standards Department

Part two, in this two part feature focuses on specific issues directly affecting the recognition and measurement of deferred tax.

**Measurement of deferred tax resulting from different tax laws**

The deferred tax liability/asset shall reflect the tax consequences that the entity would expect to settle/recover from the carrying amount of the liabilities or assets. For example, if the temporary difference arises from an item of income or expense that will be taxable as a capital gain in future periods, the deferred tax expense is measured using the capital gains tax rate.

**Illustrative example 1:**

<table>
<thead>
<tr>
<th>Date</th>
<th>Carrying amount</th>
<th>Tax basis</th>
<th>Temporary difference</th>
<th>Tax rate</th>
<th>Deferred tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 Feb 2010:</td>
<td>680,000</td>
<td>520,000</td>
<td>160,000</td>
<td>28%</td>
<td>44,800</td>
</tr>
<tr>
<td>Property, plant &amp; equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28 Feb 2011:</td>
<td>450,000</td>
<td>300,000</td>
<td>150,000</td>
<td>14%</td>
<td>21,000</td>
</tr>
<tr>
<td>Investment property</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28 Feb 2011:</td>
<td>310,000</td>
<td></td>
<td></td>
<td></td>
<td>65,800</td>
</tr>
<tr>
<td>Tax Expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28 Feb 2011:</td>
<td>65,800</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Tax Expense (P &amp; L)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[Deferred Tax (SFP)]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[Recognition of deferred tax liability]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Solution:**

<table>
<thead>
<tr>
<th>Date</th>
<th>Carrying amount</th>
<th>Tax basis</th>
<th>Temporary difference</th>
<th>Tax rate</th>
<th>Deferred tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 Feb 2010:</td>
<td>1,800,000</td>
<td>1,400,000</td>
<td>400,000</td>
<td>28%</td>
<td>112,000</td>
</tr>
<tr>
<td>Net assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28 Feb 2011:</td>
<td>1,300,000</td>
<td>1,000,000</td>
<td>300,000</td>
<td>25%</td>
<td>(25,000)</td>
</tr>
<tr>
<td>Net assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted balance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100,000</td>
</tr>
<tr>
<td>Change in tax rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28 Feb 2011:</td>
<td>12,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax (SFP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Tax Expense (P &amp; L)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[Adjusting opening balance of deferred tax due to rate change]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28 Feb 2011:</td>
<td>25,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax (SFP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Tax Expense (P &amp; L)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[Recognition of deferred tax i.e. to temporary difference for the reporting period]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Deferred tax assets**

Deferred tax assets shall be recognised for all temporary differences (tax basis of net assets exceeds its carrying amount) that are expected to reduce taxable profits in future periods as well as carry forward of unused tax losses and tax credits [s29.15 (b) and (c)].
The entity can only recognise a deferred tax asset if it is probable that the entity will have future taxable profit. The deferred tax asset shall be recognised limited to the net carrying amount equal to the highest amount that is more likely than not to be recovered based on the current and future taxable profit [s29.21]. If there is uncertainty about the recoverability of the deferred tax asset, the deferred tax asset recognised shall be limited to an amount which reduces the net carrying amount of the deferred tax to zero. However, if there is certainty about the recoverability of the deferred tax asset, the full amount of the deferred tax asset should be recognised for the reporting period.

Illustrative example 3:

<table>
<thead>
<tr>
<th>Date</th>
<th>Deferred tax liability</th>
<th>Deferred tax asset</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 Feb 2010</td>
<td>35,000</td>
<td>56,000</td>
</tr>
<tr>
<td>28 Feb 2011</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Solution:

The net carrying amount of the deferred tax asset is uncertain. The deferred tax asset recognised is limited to the net carrying amount equal to the highest amount that is more likely than not to be recovered.

Unused tax losses and tax credits

Deferred tax assets shall be recognised for unused tax losses and tax credits [s29.15 (c)]. The deferred tax assets can be set off against the deferred tax liabilities [s29.29], taking into account the limitations of the valuation allowances, unrecognised deferred tax assets, for deferred tax assets [s29.21].

Illustrative example 5:

<table>
<thead>
<tr>
<th>Date</th>
<th>Temporary difference</th>
<th>Assessed loss</th>
<th>Total deferred tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 Feb 2010</td>
<td>750,000</td>
<td>(420,000)</td>
<td>92,400</td>
</tr>
<tr>
<td>28 Feb 2011</td>
<td>680,000</td>
<td>(28,000)</td>
<td>162,400</td>
</tr>
<tr>
<td>Tax expense</td>
<td>70,000</td>
<td>(19,600)</td>
<td>70,000</td>
</tr>
</tbody>
</table>

Solution:

<table>
<thead>
<tr>
<th>Date</th>
<th>Temporary difference</th>
<th>Assessed loss</th>
<th>Total deferred tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 Feb 2010</td>
<td>750,000</td>
<td>(420,000)</td>
<td>92,400</td>
</tr>
<tr>
<td>28 Feb 2011</td>
<td>680,000</td>
<td>(28,000)</td>
<td>162,400</td>
</tr>
<tr>
<td>Tax expense</td>
<td>70,000</td>
<td>(19,600)</td>
<td>70,000</td>
</tr>
</tbody>
</table>

An entity shall review the net carrying amount of the deferred tax asset at each reporting date and shall adjust the valuation allowance, unrecognised deferred tax asset, to reflect the current assessment of future taxable profits [s29.22]. The adjustment of the valuation allowance [unrecognised deferred tax asset] shall be recognised as a change in an accounting estimate [s10.16 – Accounting Policies, Estimates and Errors].

Illustrative example 4:

<table>
<thead>
<tr>
<th>Date</th>
<th>Temporary difference</th>
<th>Assessed loss</th>
<th>Total deferred tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 Feb 2010</td>
<td>750,000</td>
<td>(420,000)</td>
<td>92,400</td>
</tr>
<tr>
<td>28 Feb 2011</td>
<td>680,000</td>
<td>(28,000)</td>
<td>162,400</td>
</tr>
<tr>
<td>Tax expense</td>
<td>70,000</td>
<td>(19,600)</td>
<td>70,000</td>
</tr>
</tbody>
</table>

Solution:

The net carrying amount of the deferred tax asset is uncertain. The deferred tax asset recognised is limited to the net carrying amount equal to the highest amount that is more likely than not to be recovered.

Unused tax losses and tax credits

Deferred tax assets shall be recognised for unused tax losses and tax credits [s29.15 (c)]. The deferred tax assets can be set off against the deferred tax liabilities [s29.29], taking into account the limitations of the valuation allowances, unrecognised deferred tax assets, for deferred tax assets [s29.21].

Illustrative example 5:

<table>
<thead>
<tr>
<th>Date</th>
<th>Temporary difference</th>
<th>Assessed loss</th>
<th>Total deferred tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 Feb 2010</td>
<td>750,000</td>
<td>(420,000)</td>
<td>92,400</td>
</tr>
<tr>
<td>28 Feb 2011</td>
<td>680,000</td>
<td>(28,000)</td>
<td>162,400</td>
</tr>
<tr>
<td>Tax expense</td>
<td>70,000</td>
<td>(19,600)</td>
<td>70,000</td>
</tr>
</tbody>
</table>

Solution:

The net carrying amount of the deferred tax asset is uncertain. The deferred tax asset recognised is limited to the net carrying amount equal to the highest amount that is more likely than not to be recovered.
The deferred tax asset relating to an unused tax credit (STC) shall be treated in
the same manner as that for the assessed loss.

Disclosure of deferred tax
The entity shall separate the recognition of the tax expenses, including both
current and deferred tax, in relation to the transactions or events which result
in the tax expense [s29.27]. The deferred tax expense shall be separated in
the statement of comprehensive income between the amounts attributable to
profit or loss and other comprehensive income or equity.

Illustrative example 6:

<table>
<thead>
<tr>
<th>Profit from continuing operations</th>
<th>Profit</th>
<th>Current tax expense</th>
<th>Deferred tax expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit from discontinued operation</td>
<td>160,000</td>
<td>38,000</td>
<td>(6,000)</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>40,000</td>
<td>0</td>
<td>12,000</td>
</tr>
</tbody>
</table>

Solution:
Statement of comprehensive income for the period ended
28 Feb 2010

| Profit before tax from continuing operations | 990,000 |
| Profit before tax from continuing operations | 276,000 |
| Profit after tax from continuing operations | 714,000 |
| Profit from discontinued operations          | 128,000 |
| Profit from discontinued operations          | 160,000 |
| Income tax expense [98,000 - 6,000]           | 32,000  |
| Profit for the period                         | 842,000 |
| Other comprehensive income                   | 28,000  |
| Cash flow hedge - foreign exchange gain       | 40,000  |
| Income tax expense                           | 12,000  |
| Total comprehensive income for the period    | 870,000 |

Tax reconciliation note
Although not specifically required, it is recommended that a tax reconciliation
note be included as part of the disclosure in respect of the income tax
expense. The note reconciles the tax expense included in the statement of
comprehensive income (profit or loss) and the income tax expense based on
the standard tax rate and the accounting profit reported.
Determining a Depreciation Policy

Faith Ngwenya, Technical and Standards Executive, SAIPA

IFRS for SMEs defines depreciation as the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation is often described as the amount by which the economic value embedded in the asset diminishes through its use, namely, the estimated cost of using the asset in the process of generating income or carrying out the operating activities of the entity.

Many practising accountants apply the depreciation based on the wear and tear allowance granted as a deduction for tax purposes. The question that needs to be addressed is whether this practice is in compliance with IFRS for SMEs or whether it results in fair presentation of the financial statements.

In order to address these questions it is important to understand the impact a depreciation policy has on the financial statements and the effect it has on the reliability and usefulness of the information to users of financial statements. The depreciation policy adopted by the entity directly affects the profit for the period, namely, the depreciation expense charged to profit or loss, and the carrying amount of the assets in the statement of financial position. The depreciation policy adopted by an entity impacts on the two main areas on which a practitioner expresses an opinion, namely: the fair presentation of (i) the financial position of the entity, and (ii) the financial performance of the entity.

The risks of applying an inappropriate depreciation policy are:

- Non-compliance to the provision of IFRS for SMEs (s17.16 – s17.23) – this is a significant risk to the practitioner and the opinion expressed on the financial statements;
- Fair presentation of the financial position and financial performance of the entity – impacting on the qualitative characteristics of the financial statements;
- Impacting on the solvency and financial risks of the entity – directly affected by measuring the carrying amount of the depreciable assets; and
- Impacting on the profitability and performance of the entity – directly affected by the depreciation expense and the useful lives of the depreciable assets.

Illustrative example:
On 01 January 2006 an entity acquired machinery at a cost of R800,000. Management estimates that the machinery will be used for an estimated period of eight years, after which it will be replaced. However, in terms of the Income Tax Act a wear and tear allowance of 20% on cost is allowed as a deduction per annum.

If the entity adopts a depreciation policy based on the wear and tear allowance, depreciation of R160,000 will be recognised as a depreciation expense for five years to reduce the machinery to a nil carrying amount. However, for the remaining three years to the end of its useful life, no depreciation expense will be recognised, thereby increasing the profit for the last three years by approximately R160,000 per annum. This distorts the profit trend of the entity and may result in investors making the incorrect investment decision based on the reported profit.

S17.22 states that the entity should select a depreciation policy and method that reflects the pattern in which it expects to consume the economic benefits embedded in the asset through its use. This requires judgement from management of the entity but, more importantly, the practitioner should assess the appropriateness of the depreciation policy adopted that will enhance the fair presentation of the financial statements.

The following factors should be considered when determining the appropriateness of the depreciation policy adopted by the entity (refer to s17.21):

- The expected usage of the asset – this is assessed with reference to the expected capacity, physical output and production plans of the entity;
- Expected physical wear and tear – this is assessed by reviewing the operational factors for which the asset is used...
(standard hours, continuous usage or shifts), and the repairs and maintenance plans of the entity;
• Changes in technology – this is assessed by reviewing the technical obsolescence caused by changes in the industry, production processes, technology, etc.;
• Changes in commercial obsolescence – this is assessed by reviewing market conditions for the products and outputs of the asset;
• Legal limitations – this is assessed by reviewing legal and other regulations that may restrict the period for which the asset may be used; and
• Replacement policy of the entity – this is assessed by reviewing the replacement strategy and capital expenditure budgets of the entity.

S17.23 states that the entity and the practitioner should review the depreciation policy including the useful life and residual value at each reporting date. If there are indications that there are significant changes in the pattern in which the entity expects to consume the future economic benefits embodied in the asset, the depreciation method/policy shall be changed to reflect the new pattern of consumption.

The question needs to be asked why many practitioners allow the entity to adopt a depreciation policy based on the allowances granted in terms of the Income Tax Act. A possible answer could be one of the following:
(a) Practitioners are of the opinion that the financial statements are prepared primarily for tax purposes;
(b) It facilitates the completion and submission of income tax returns; and
(c) It avoids the implications of deferred tax.

In conclusion, the primary purpose of preparing and presenting financial statements is the fair presentation of the financial position and financial performance of the entity which is enhanced by reflecting the economic substance of the transactions rather than adherence to the legal requirements and form. Furthermore, financial statements are prepared to provide users of the financial statements with useful, relevant and reliable information for economic decision-making.

Thus, in the interest and protection of the practitioner it is important that the determination and adoption of a depreciation policy for, and by, an entity be reconsidered with an added responsibility.
We unpack the recognition of finance leases in the records of the lessee with specific emphasis on the treatment of interest accrued in the financial statements, and seek to address the question of whether the finance costs, in particular the accrued finance costs, at the reporting date should be included as part of the finance lease creditor or as a separate liability (part of accrued expenses).

IAS 17.20 states that the finance lease liability shall be recognised at the present value of the minimum lease payments discounted at the interest rate implicit in the lease agreement. This implies that the lease liability shall be recognised in the financial statements measured at its amortised cost (see IAS 32 and 39), namely, the carrying amount of the capital portion outstanding, excluding the interest component.

IAS 17.25 states that the minimum lease payments shall be apportioned between the finance lease charges (finance costs) and the reduction in the outstanding liability (capital repayment). Furthermore, IAS 17.25 states that the finance charges shall be allocated to each period during the lease term to produce a constant periodic rate of interest on the remaining balance outstanding. This implies that the effective interest rate method shall be used to recognise the finance charges for the reporting period.

When the lease period does not coincide with the end of the reporting period, the application of the accrual basis of accounting shall be applied in compliance with IAS 1.27 to recognise the finance charges for the reporting period.

Illustrative example: ABC LTD entered into a 4-year finance lease for machinery with a fair value of R250,000 at the lease commencement date (01 April 2009). The effective interest rate is 12% per annum. Rental payments of R37 980 are payable half-yearly in advance. The reporting period ended is 31 December 2009.

The rental payments for the period ended 31 December 2009 amounting to R75 960 shall be separated between finance charges of R12 721 and a capital repayment of R63 239. The finance charges of R12 721 relate to the period 01 April – 30 September 2009. Thus finance charges for the period 01 October – 31 December 2009 amounting to R5 603 shall be accrued for to ensure that the correct expense is recognised for the period.
The carrying amount of the finance lease liability at the reporting date (31 December 2009) shall be measured at the amortised cost which includes the finance charges accrued for at the reporting date, namely, the carrying amount of the liability amounts to R192 364 which consists of the balance of R186 761 plus the accrued finance charges of R5 603. The balance of R192 364 is in compliance with IAS 17.20 as well as IAS 32 and IAS 39; namely, the discounted value of the minimum lease payments at the reporting date. This implies that the finance charges accrued shall be included in measuring the carrying amount of the finance lease liability in order to reflect the liability at its fair value at the reporting date (IAS 32 and IS 39).

When the lease period does not coincide with the end of the reporting period, the application of the accrual basis of accounting shall be applied in compliance with IAS 1.27 to recognise the finance charges for the reporting period.

However, if the accrued finance charges are recognised as part of the accrued expenses rather than the finance lease liability, then the carrying amount of the finance lease liability will not reflect the amortised cost at the reporting date. The finance lease liability of R186 761 represents the amortised cost at 01 October 2009 and not the amount at the reporting date (31 December 2009). Treating the accrued finance charges separately is contrary to the measurement provisions of IFRS (IAS 17.20 and IAS 39), as the carrying amount is understated, resulting from the exclusion of the accrued finance charges up to the reporting date.

IAS 1.60 requires that all liabilities shall be separated between non-current and current liabilities in the statement of financial position for the purposes of reflecting the true liquidity of the entity. IAS 1.69 defines a current liability as the obligation that the entity shall fulfil in the following financial period or twelve months from the reporting date. When separating the financial lease liability between the carrying amounts to be reported under non-current and current liabilities, the allocation is based on the capital repayments as per the amortisation schedule and, thus, excludes the finance charges. Thus, the total finance lease liability of R192 364 is allocated between non-current and current liabilities as R137 209 and R55 155 respectively.

By applying this principle of separating the finance lease liability between noncurrent and current liabilities there is a misallocation for the reason that the finance charges accrued is included with the carrying amount of the non-current liability component of the lease liability even though it represents an obligation which should be settled during the following reporting period. The accrued finance charges shall be included as a current liability in terms of the definition in compliance with IAS 1.69.

However, if the accrued finance charges are included with the current portion of the finance lease liability, the reconciliation note of the future lease commitment is distorted and will not reflect the amount of the current liability reflected in the note for the finance lease liability.

Based on the above, it can be concluded that the accrued finance charges shall be recognised as a current liability. Whether it shall be included as part of the carrying amount of the current portion of the finance lease liability or as part of accrued expenses is the question. My opinion is that as the accrued interest is directly associated with the finance lease, it shall be aggregated to reflect the net obligation in respect of the lease agreement.

Workings:

<table>
<thead>
<tr>
<th></th>
<th>Balance</th>
<th>Interest</th>
<th>Rental</th>
<th>Capital</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-Apr-09</td>
<td>250,000</td>
<td>37,980</td>
<td>37,980</td>
<td>212,020</td>
<td></td>
</tr>
<tr>
<td>1-Oct-09</td>
<td>212,020</td>
<td>12,721</td>
<td>37,980</td>
<td>25,259</td>
<td>186,761</td>
</tr>
<tr>
<td>1-Apr-10</td>
<td>186,761</td>
<td>11,206</td>
<td>37,980</td>
<td>30,086</td>
<td>131,606</td>
</tr>
<tr>
<td>1-Oct-10</td>
<td>131,606</td>
<td>8,599</td>
<td>37,980</td>
<td>31,889</td>
<td>99,634</td>
</tr>
<tr>
<td>1-Apr-12</td>
<td>69,634</td>
<td>4,178</td>
<td>37,980</td>
<td>33,802</td>
<td>35,832</td>
</tr>
<tr>
<td>1-Oct-12</td>
<td>35,832</td>
<td>89,600</td>
<td>37,980</td>
<td>35,830</td>
<td>2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-Apr-09</td>
<td>lease asset</td>
<td>250,000</td>
</tr>
<tr>
<td></td>
<td>Bank</td>
<td>37,980</td>
</tr>
<tr>
<td>1-Oct-09</td>
<td>Finance lease liability</td>
<td>212,020</td>
</tr>
<tr>
<td></td>
<td>Finance charges</td>
<td>12,721</td>
</tr>
<tr>
<td></td>
<td>Bank</td>
<td>37,980</td>
</tr>
<tr>
<td>31-Dec-09</td>
<td>Finance charges</td>
<td>5,603</td>
</tr>
<tr>
<td></td>
<td>Finance lease liability</td>
<td>5,603</td>
</tr>
<tr>
<td>31-Dec-09</td>
<td>Finance lease liability (NCL)</td>
<td>60,758</td>
</tr>
<tr>
<td></td>
<td>Finance lease liability (CL)</td>
<td>60,758</td>
</tr>
<tr>
<td></td>
<td>Exclusive</td>
<td>Inclusive</td>
</tr>
<tr>
<td>31-Dec-09</td>
<td>Non-current liability</td>
<td>137,209</td>
</tr>
<tr>
<td></td>
<td>Current liability</td>
<td>131,606</td>
</tr>
</tbody>
</table>
Different people use social media in different ways. Some choose to only use Facebook; it makes sense to them and they don’t see the value in using another network to manage their lives. Twitter users may have a Facebook account that is inactive but choose to tweet all day long.

The growing trend now is to separate your business and personal life online. This has meant that people are managing their careers on LinkedIn and their personal lives on Facebook. These different uses of social media platforms make it more difficult to decide which platforms to choose to market our business from. There are three platforms that I think accountants could make use of to improve their marketing effectiveness.

**LinkedIn**

You are only six degrees away from every person on the planet. This means that you are possibly less than three degrees away from the people you need to achieve business success.

Social media allows your network to find you in a faster and more direct fashion. Communicating your message on social media platforms enables your peers to easily share your message with their peers. It is this ‘sharing’ that often brings interested parties to the table; especially when this networking takes place within a business network like LinkedIn.

This is why LinkedIn is so powerful. You can see the network that your peers in business have. Being able to see your “extended network” you can make strategic decisions about how to leverage your network to meet the right people to grow your business. What’s even better is that you can then ask for a recommendation referral over LinkedIn. In essence, you can take control over who your network promotes your business to.

What is the number one reason business professional need LinkedIn? It helps you take control of the growth and strength of your business networks!

**Twitter**

Twitter is an information network. Its primary aim is to provide the most current information on the planet. Looking at Twitter with a business mindset shows us that Twitter becomes a promotional tool. A way to promote the way we think, what and who we find interesting, our blog and our services. Essentially, we have an opportunity through Twitter to become thought leaders in our industry.
The offline equivalent to this would be writing an article for a newspaper or magazine. People who buy the magazine are promoted to through your article.

In the same way, your followers on Twitter are the equivalent of magazine subscribers. Posting tweets then allows you to profile yourself as a professional in your industry by posting original articles, links to interesting websites/articles, service offerings and anything else you may choose.

Facebook
People who are on Facebook don’t want to leave Facebook. This simple truth has created a massive need to shift our thinking when it comes to Facebook marketing and communication.

When you ask a person to leave Facebook by providing them a link to your website special offer most people are not interested. This is because Facebook has created an online arena that most Facebook users don’t see as the internet. In an interview a few months ago we asked the respondent how much time they spend online. The answer was a few hours a day. When asked how much time they spent on Facebook, the answer was all day.

There is a clear separation in most people’s mind that when I am using Facebook I am not using the internet. In fact, it seems like a lot more effort to leave Facebook and go onto the internet.

Business needs to learn how to live inside the Facebook arena. To stop expecting customers to join us on our website and to rather spend time building on your Facebook platform to find ways to engage customers and turn those engagements into sales and future business.

How do I decide which network is right for my business?
I would like to present an idea that is sometimes difficult to understand. Doing business on social media platforms is about adding value to people’s lives, in order to build trust, which turns into sales and customer loyalty. It’s not about broadcasting your message. So, it then becomes feasible to say that we should only use social networks that help us in delivering that value to our current and potential customers.

In deciding to use social media I would suggest asking the following questions:

Who is my customer?
Is your customer a business person or an end-user consumer? Are they technologically inclined? What do they value? Where do you usually meet your customer? How do they normally buy from you?

By understanding our customer and building a profile of their values and purchasing habits, we are able to match the right social network to the business. In addition, we will know how to speak to people over that network.

What does my customer need to buy from me?
What would they need to understand your business and your product better? Is your product simple or complex to understand? Do you need to offer support when customers use this product?

Sometimes a simple reminder at the right time can drive sales. An accountant updating their Facebook page around tax deadlines could open a door to an increase in clientele. However some products are more complex and we need to look at using social media channels to educate our future customers on the value and benefits of buying from us. Taking time to understand what the purchaser’s needs are will again help us to understand which social media channels to use.

The key is to understand our customer and what they are looking for from our business.

Once we have this information we can start making the right decision about the social media channels we engage with. Here are a few examples:

- A simple product for end user consumer at home: These products are ones that appeal to the social, individual or family needs of a consumer; products that people would talk about over the dinner table or at a braai. Weddings are a great example; another would be photography and religion. In this case your focus would be on Facebook and Twitter. These are very consumer orientated channels. However, remember that Twitter is a very information hungry network so you will need to be ready to tweet often.

- A complex product in a business service industry: In this example we are talking about software products, consulting services and recruitment specialists. In this case I often advise businesses to approach LinkedIn and Twitter because of the ability to network directly with business people. However these networks can be used well alongside a blogging strategy that builds the company’s reputation, expert profile and prominence. The great aspect to a strategy that blends blogging and social media channels is that your social media will start to impact your rankings on your search engine marketing.

Take the time to understand your customer, identify their needs and path to purchase; approach social media channels that help you meet the right people in the right environment. This leads to better response rates to your campaigns and marketing.

Acknowledged by his peers as one of the Top 20 South Africans to follow on Twitter, Mike Saunders has won the respect of business by his determined approach to helping business navigate a diverse and complicated world of people and technology. He blogs at www.mikesaunders.com and can be found on Facebook, Twitter and LinkedIn. As an entrepreneur and businessman, Mike has built DigitLab into one of South Africa’s premier digital marketing companies.
At the Annual General Meeting held in May 2012, the South African Institute of Professional Accountants (SAIPA) elected Shirley Olsen as its chairperson. Olsen, who succeeded Rina Hattingh in the top position, is the youngest chair of the organisation, which this year celebrated its 30th anniversary.

Olsen started her own accounting practice MBS Services when she was 20, and it now services in excess of 400 clients. She now focuses much of her time on her passion which is training, and her work for the profession through SAIPA.

Speaking after her election, Olsen said that Professional Accountants have a large and growing role to play in the South African economy. Much of the focus of her tenure as chairperson would accordingly be on improving SAIPA’s ability to educate and support members as Professional Accountants operating within the economy and professional industry.

“The legislative and regulatory environment is already complex and I think we can expect it to get still more complex,” she says. “South African businesspeople more than ever need a skilled guide to help them remain compliant without sacrificing their competitive edge—and that’s just the area in which Professional Accountants excel.”

Olsen says that the implementation of the new Companies Act last year is a case in point. The implications of the new Act are only now beginning to be felt as companies start to publish their first financials under the new framework. For example, there remain certain grey areas, such as whether companies require reviews, compilations or audits, while old Memorandums of Agreement need to be converted into the new format stipulated by the Act.

“South African businesspeople more than ever need a skilled guide to help them remain compliant without sacrificing their competitive edge—and that’s just the area in which Professional Accountants excel.”

Delays in registering the new memorandums at the Companies and Intellectual Property Commission (CIPC) are not helping the process, Olsen notes.

During her term of office, Olsen will be focusing on key projects that will equip SAIPA to support its members better as they grapple with these and other issues. Among these projects are the opening of five regional offices to service members better, and the establishment of learner forums around the country.

“Continuous Professional Development is the keystone of the SAIPA ethos, and what makes the Professional Accountant designation so sought-after, particularly in an environment characterised by so much change,” Olsen says. She also aims to complete the process for accrediting Professional Accountants to do Independent Reviews and Black Economic Empowerment audits.

Other projects include making sure the organisation itself is fully representative of the country’s demographics and representing South Africa’s Professional accountants on International Federation of Accountants (IFAC) sub-committees.
“While Seta benefits such as the Mandatory Grant are legislated, Fasset has always added value to its stakeholders by additionally offering Discretionary Grants, lifelong learning interventions, and access to work-ready diplomas and graduates,” says Fasset CEO, Cheryl James.

Fasset Discretionary Grants include the Strategic Cash Grant (SCG), the Learnership Cash Grant (LCG) and the SMME Grant. “While the SCG is a special skills initiative grant enabling employers to claim back a maximum of 20% of their Skills Development Levy for undertaking education and training interventions in certain strategic skills priority areas, the LCG has devised to fast track transformation within the Finance, Accounting, Management Consulting and Other Financial Services sector. The grant supports employees, who employ African learners and African learners with a disability onto learnerships. There is both an entry-level and an exit level grant. The SMME Grant, on the other hand, has been devised to support Small Medium and Micro Enterprises (SMMEs), who do not traditionally participate in learnerships, which are predominately focussed on finance and accounting,” James explains.

She urges Fasset stakeholders to download the Fasset Benefits 1 April 2012 to 31 March 2013 document from the Fasset website: www.fasset.org.za for detailed information.

Turing to lifelong learning, James describes these events as a “flagship initiative”. “Relevant, delivered by experts in the field, this training is offered at no cost whatsoever to employers, and would otherwise be unaffordable for many SMME stakeholders,” James observes.

During the course of the next few months Fasset stakeholders can look forward to some very interesting topics, including: Business Writing; Ethics, Risk and Fraud, a one day SDF training event, Compliance in Legislation 2012, Management and Leadership, Survive and Thrive in the New World of Work 2013 and Budget & Tax Update 2013. More information is available on the Fasset website: www.fasset.org.za

James cites access to work-ready graduates as another benefit, which Fasset stakeholders truly value: “Fasset-funded Work Readiness programmes create a win-win situation for unemployed graduates, unemployed diplomats and employers. Not only have candidates gone through a very rigorous screening process, ensuring that they are truly the ‘cream of the crop’, and amongst the best talent available, because they are have been equipped with the requisite work-readiness skills, they are able ‘hit the ground running,’ from day one. This makes them a very attractive employee proposition.”

Candidates from Fasset-funded Work Readiness Programmes, have been recruited by the “big four accounting firms,” South African Revenue Services (SARS) and many small and medium-sized practices. James urges Fasset stakeholders to monitor Fasset’s website for information pertaining to Work Readiness Programme graduations. “This will enable employers to recruit some of the best learner-talent in the country,” James contends.

Fasset is very proud of the fact that the Seta is able to demonstrate to Minister of Higher Education and Training, Dr Blade Nzimande and Fasset stakeholders, that Fasset is able to add considerable value to its stakeholders, through value-adding additional Seta benefits,” James concludes.
MEMBER PROFILE

Jo-Maree Booysen
Partner, Orange Accounting cc

Q: Why and how did you get into the accounting industry?
A: I have always had a passion for numbers, accountancy and mathematics. In 2003 I enrolled at the University of Stellenbosch to study BCom (Financial Accounting). Due to unforeseen circumstances I couldn’t continue my studies after my first year. During that year, I had the opportunity to get involved in community activities and see the talent that exists in our communities. It was then that I came to the realisation that “I want to be the change I want to see in the world”. So, I went back and finished my degree. I started working at Orange Accounting during the holidays and today I am a partner of Orange Accounting.

Q: What is best part of your job?
A: I like to reconcile accounting data to give the client a set of useful and complete financial statements which adds value to their business. I enjoy fulfilling the client’s need for accurate accounting data and to provide them with above-average service. The most rewarding part for me is when the client is happy.

Q: What are the most challenging aspects of your job?
A: I am a woman, and I am a woman of colour – this is the most challenging aspect working in an industry previously dominated by men. As accountants, we have to deal with constant changes within the accounting industry, keeping abreast with technology and remaining up-to-date with different legislative changes applicable to accountants. Keeping up with and being adaptable to these changes is very challenging. It is difficult to thrive under pressure in our efforts to provide excellent service to our clients.

Q: Any career highlights worth mentioning?
A: I am very thankful for the opportunity given to me by Alta De Wet, my employer, after I graduated. With her support and guidance I have grown and developed as an accountant. For me, highlights worth mentioning include getting my qualification and becoming a member of Orange Accounting.

Q: What are your thoughts on the accounting industry as a whole?
A: Accounting is a very exciting field to study from which you can obtain extensive knowledge. The industry offers a number of diverse working opportunities, as it is an indispensable part of most, if not all, sectors. The fact remains, however, that taking Mathematics as a subject is not encouraged at school level. Since Mathematics is one of the main requirements for studying accounting at Tertiary level, I consider this to be a threat in the development of new and up-and-coming accountants in the long term.

Q: What do you do for fun, or when you’re not ‘crunching the numbers’?
A: I love spending time with my family and friends. I love the outdoors and taking road trips to explore our beautiful country. I am also very much involved at the local high school, helping kids that also want to study further after school, by providing them with as much information and support as possible.
MEMBER PROFILE

Lucille Vice Singh
Regional Finance Manager,
Bytes Systems Integration (Pty) Ltd

Q: Why and how did you get into the accounting industry?
A: I come from a pedigree of strong women. My mom is always championing a cause at the forefront while my dad is the prayer force driving it. My parents suggested a career in Accounting. Accountancy was one of those subjects at school that just made sense to me; like using precise measurements to bake a cake. I was discouraged initially by the image assigned to accountants of being boring and unexciting, as this is not how I see myself. I continue to challenge and disprove that stereotype.

Q: What is best part of your job?
A: Seeing a non-financial person understand and appreciate the value of a report is priceless. As Regional Finance Manager for Bytes Systems Integration (Pty) Ltd I get to be part of a Group that adds value to people’s lives on a daily basis. We deliver IT products, systems, solutions and services to large enterprises and government bodies via specialised and focused business units. That’s awesome! I work with a fantastic team of people committed to doing great work.

Q: What are the most challenging aspects of your job?
A: Balancing the expectations of sales and service delivery with the expectations of management is always a challenge. Finance and admin are, by nature, non-profit generating departments and are therefore targeted when the market is tough and cuts need to be made. You can’t underestimate the value of these departments to any organisation. I think that in this space, Professional Accountants can influence and change perceptions. We are no longer just policing the budget and recording transactions. It’s about interpreting the information and value added transactions.

Q: Any career highlights worth mentioning?
A: As a student doing my diploma in accounting, I was fortunate enough to join Deloitte as part of the SAIPA, formerly known as CFA (SA), trainee program, which really set the tone for my career. It was intense, specialised, focused training. At times I felt our training portfolio was more intense than the articled CA (SA) clerks. Back then we worked twice as hard for half the recognition. Fast forward 17 years and SAIPA has evolved into an Institution to be reckoned with, providing professional, innovative, accounting solutions through its members. We’ve passed the stage of having to prove our worth and value to the accounting profession. It’s established and recognised.

Q: What are your thoughts on the accounting industry as a whole?
A: The explosion of technology and social media networks increases the demand for good ethical practice and a greater level of accountability. We can no longer claim ignorance of law or standards. Information is as easily attainable as clicking on your mobile. Professional Accountants have a unique opportunity to influence their clients in areas of good Governance and Accounting Practice to ensure they are armed and ready to meet the demands of an ever-changing environment. New technology and markets emerge, governments and economies rise and fall, but the fundamental principle of balancing the scales with honesty, integrity and excellence will always prevail!

Q: What do you do for fun, or when you’re not ‘crunching the numbers’?
A: I work to very stringent deadlines so time-out is spent with family. I love reading and so too does my 3-year old. We laze around and after exhausting Thomas the Train and other fairytale favourites; I get to unwind with a good novel. I also enjoy walking and have entered a few races with my sister.

Professional Accountants have a unique opportunity to influence their clients in areas of good Governance and Accounting Practice to ensure they are armed and ready to meet the demands of an ever-changing environment.

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What SAIPA members need to know about Tax Compliance

Tax compliance has become somewhat of a dirty phrase for both taxpayers and tax practitioners. Ettiene Retief, SAIPA’s Head of Tax Committee offers some interesting insights and statistics on the subject.

During the recent months media has been littered with articles regarding tax compliance and the ‘big bad tax practitioner’ that’s helping taxpayers evade tax. It’s my personal experience that taxpayers have generally become more compliant and less insistent on engaging in tax avoidance or evasion schemes. I remember the going joke some 15 years ago was that you rate your tax practitioner on how many tax loopholes he/she had named after him/her. Now, generally a tax practitioner doesn’t want any association to a tax evasion scheme. Just as accountants, auditors, and bankers get blamed for corporate failures and economic collapse, the tax practitioner is blamed for tax non-compliance. It’s all too familiar a sight for SARS when a taxpayer approaches them and blames the tax practitioner for all failures in tax administration.

During May this year SARS released the Tax Statistics for 2011, which suggested that tax revenue generally correlated with shifts in gross domestic product and economic activity. It was presented that the impact of the global recession on the South African fiscus was estimated at R255 billion in reduced tax revenue. Tax revenues, exempt for corporate income tax, have made a strong rebound. Despite amendments to the Income Tax Act which was intended to boost second provisional tax payments, an appreciable increase in second provisional tax collections was not achieved. Further, the third voluntary payment significantly declined. Why this is a surprise still eludes me, as corporate income tax will decline in the wake of the global financial crisis which has not yet recovered to pre-crisis levels. Also, companies, at least the companies that survived, will first utilise assessed tax losses before it will pay corporate taxes on profits. South Africa has a very concentrated corporate sector, with an estimated 1% of companies paying about 60% of corporate taxes. In fact, even individual tax is very disproportionate with an estimated 3.5% of individuals paying 38% of the tax.

South Africa has a very concentrated corporate sector, with an estimated 1% of companies paying about 60% of corporate taxes. In fact, even individual tax is very disproportionate with an estimated 3.5% of individuals paying 38% of the tax.

It was reported that Value-Added Tax collections declined sharply during 2009/10, but has recovered to an all-time high during 2010/11. This all-time high in VAT collections is despite the decline of about 80 000 registered vendors between 2008 and 2011. The decline in registered vendors was credited to SARS modernization and cleaning up of the register. However, we should include the impact that the introduction of Micro-Business, change in registration threshold, and changes in registration process, may have had. Many have been frustrated by the difficulty to register as a vendor since SARS introduced the modernisation and additional testing with regards to VAT registration.
The tax register for individuals has significantly grown, and was reported to have about 13 million registered taxpayers. However, this number is most likely understated as it does not include all the additional registrations from the last employer reconciliation (EMP501), and it is now required that all employees be registered, irrespective of the R60 000 tax threshold. SARS is expecting about 4.2 million personal income tax returns to be filing during the current filing season.

SARS reported that 80.7% individuals filed on time for the 2010/11 season, as opposed to 58% filed on time for the 2008/09 season. It is no surprise considering the modernisation of the filing season and the introduction of the administrative penalty. I’m still confounded by the continuous statements that attack tax practitioners, while no recognition is given for the role that tax practitioners played in the significant increase in on-time submissions. It was recently informed that 99% of individual tax returns filed by practitioners were done by means of electronic filing.

It was reported that administrative penalties against individuals generated some R1.6 billion in additional revenue. SARS has been very efficient in collecting these penalties by using the employer as an agent.

Corporate income tax compliance came under fire as only 28% of assessment for companies regarded as being liable to file was issued on time for 2010 (compared with prior years, the percentage of assessment was 54.6% for 2007, 44.5% for 2008, and 37.5% for 2009). It was conceded that these numbers are not accurate as the tax register does not account for all dormant or inactive companies. SARS is currently busy developing a new IT14 return and other modernization that will ensure that all registered companies are also registered for tax, and that all companies will, in future, file an annual return, even if dormant or non-trading.

Tax Clearance Certificates still remain a thorn in SARS’ side, dealing with corruption and the many taxpayers finding ways to defeat the system and intended result. In fact, the tax clearance certificate is not proof of tax compliance, only that the taxpayer at that point in time had no outstanding amounts or returns. SARS is considering alternatives and further development of the system to reduce risks and test and address ongoing tax compliance.

More recently, SARS introduced the VAT reviews and greater risk management and testing systems. SARS and the Minister of Finance have previously reported positive results. I’m still a little sceptical of the reported results as the review added additional administrative burden on the vendor and many incorrect additional assessments that is now subject to objection and appeal process.
to remedy. However, I do not doubt that the review notices and more rigorous verification process for registration has had a positive impact on fraud and false refund claims.

The new IT14SD has added another step in tax administration and compliance. The IT14SD supplementary declaration for companies has resulted in a shortage in headache and anti-anxiety medication. Beside the complexity of the declaration, the comparative testing is not easy. This new declaration has yielded many incorrect and hyper-inflated additional assessments, which now require the objection and appeal process to resolve.

The Commissioner for SARS released the SARS Strategic Plan for the next five years. It’s clear that SARS will drive tax compliance as a key component of meeting the growing demand on revenue collections.

It was revealed that SARS will be focusing on improved risk management, administrative penalties (which will be extended to companies and close corporations soon), debt and cash-flow management, outreach programmes, and the implementation of the new Tax Administration Act. Further, it was revealed that SARS has identified high-risk areas, which includes large multinational corporations (targeting cross-border structuring and transfer pricing manipulations), informal businesses, high-net-worth individuals and their use of trusts, and non-compliant tax practitioners and those who assist taxpayers in tax evasion.

Some of the non-compliance statistics received from SARS with regards to SAIPA members are:
- SAIPA members are indebted to SARS to the tune of R30 million, of which almost R17 million is outstanding between 1 to 5 years, and R5.5 million outstanding for greater than 5 years;
- Some R3 million has been referred to appointment of agent, litigation to proceed, civil judgement to be issued, or was unresolved;
- 253 SAIPA members applied to have their debt waived via the application for a Section 91 write-off; and
- 2839 outstanding tax returns across all tax types.

The Minister of Finance during his February 2012 budget speech announced that 34 000 tax practitioners owed in excess of R260 million in tax, and that they had 18 000 outstanding tax returns in their personal capacity. Again the Minister attacked tax practitioners in a media statement (April 2012) expressing that ‘SARS will develop a rigorous risk-profiling system to identify high-risk practitioners’. The tax practitioner was not spared when the Commissioner of SARS made his keynote address at SAIPA’s 30th anniversary gala evening, presenting non-compliance statistics with reference to tax practitioners that are SAIPA members.

The regular addressing of tax practitioner compliance is a springboard for the impending amendments to the Tax Administration Act that will introduce regulation of tax practitioners, and not merely registration as currently imposed. The aim is to create a regulatory framework that allows SARS and taxpayers to pursue tax practitioners for a variety of reasons, one such being when a tax practitioner fails to perform the task required or to file a return when due. Also, the recently promulgated Tax Administration Act contains many important provisions: one such provision is that when a tax practitioner files any return or document with SARS without the required authority, it is a criminal offence. It will be critical for tax practitioners to have clear engagement letters and administration systems in place to manage the relationship and authority with clients.

Tax practitioners will be required to belong to a regulated body, such as SAIPA. Also, tax practitioners must clean up house before it’s too late.
The Tax Clearance Certificate ("TCC") is an essential part of certain businesses and a requirement when bidding for a tender. A taxpayer can apply for different TCC that is for purposes of emigration, foreign investment allowances, and good standing and tenders.

The emigration and foreign investment allowance TCC is linked with exchange control and is an integral part of the Reserve Bank approval to shift funds offshore.

The TCC in respect of good standing and tenders has a wide application in commerce. The TCC in no way should be regarded as proof of tax compliance, but merely identifies that the taxpayer has no outstanding returns or amounts as at that date. The taxpayer's compliance level can only be expressed once an in-depth audit of the taxpayer's various tax types has been conducted.

One of the problems that SARS faces is that the TCC is valid for a year, and many taxpayers fail to maintain their good standing status after the TCC has been issued. Also, it has been identified that many have overcome the hurdles of TCC by frequently setting up new companies for tendering, not to mention the fraud that SARS must manage with regards to their own staff that have been accused of overriding the system and issuing the TCC for a cash amount slipped to the SARS official under the table.

SARS, at a recent meeting, indicated that more than a million TCCs are issued annually, despite the lack of any legal provision in the Income Tax Act and other related laws. Until recently, SARS has issued the TCC in terms of an internal policy. The new Tax Administration Act will in future take this role.

Since TCCs are not issued in terms of any specific section of provision contained in the Income Tax Act or other legislation administered by SARS, it’s uncertain whether the refusal or cancellation of a TCC constitutes ‘administrative action’ as envisaged in the Promotion of Administrative Justice Act, and, consequently, would be subject to judicial review.

In Zikhulise Cleaning Maintenance and Transport CC v CSARS [2012], a significant decision was handed down by the North Gauteng High Court during May 2012, in motion proceedings brought by the taxpayer whose TCC was revoked by SARS following allegations of tax fraud involving the taxpayer and a member of the close corporation.

The judgement has not provided clarity on whether the refusal or cancellation of a TCC is ‘administrative action’. Nonetheless, the judgement did express that, ‘The applicant was entitled to reasonable notice of SARS’ intention to call the certificate into question and an opportunity to put its case to SARS’. No authority is cited for this in the judgement. SARS had apparently furnished the taxpayer with reasons for the cancellation of the TCC after the fact. That, in the view of the court, was insufficient as SARS should have given the taxpayer prior notice and the opportunity of responding and providing grounds on which the TCC ought not to be withdrawn. The TCC was ‘deemed to be valid and current’ pending the taxpayer’s application to court for relief in terms of the Promotion of Administrative Justice Act and ‘permitting the applicant to rely on the Tax Certificate’ pending the outcome of that application for relief.

The withholding or revoking of a TCC has significant impact on a taxpayer’s business. This judgement highlights the need for SARS to give advance notice and the opportunity to make representation, which could be applied more widely than just on a TCC.
Recently, the input tax claims of a large number of vendors were disallowed. Tax practitioners and vendors alike responded with considerable displeasure. This is understandable because the volume of disallowed input tax claims is huge.

A calm approach in some of these situations is, however, more appropriate. It has become apparent that many tax practitioners and vendors are submitting ‘tax invoices’ with the incorrect VAT registration numbers. In other words, the VAT registration numbers on the ‘tax invoice’ do not reflect the VAT registration numbers of the vendor applying for this input tax claim. In the first, SAIPA officials did not believe such allegations until tangible and irrefutable evidence became available to the Institute. Of the six invoices inspected by SAIPA, in four cases, incorrect VAT registration numbers were attached and in the case of the two ‘tax invoices’, no VAT registration numbers were recorded. It is quite apparent that the administrative staff at accounting firms processes these claims without paying careful attention to the correctness of the details of the invoices.

These are not good reasons for refund delays because such elementary ‘mistakes’ are avoidable.

Another reason for the possible delay of a VAT refund is the claiming of input tax when fixed property is purchased and used for the purpose of producing taxable supplies. The VAT Act is explicit that claims for input tax in such situations can only be processed if the claimant of the input tax deduction is also the owner of the property.

The VAT Act is explicit that claims for input tax in such situations can only be processed if the claimant of the input tax deduction is also the owner of the property.

This implies that the property must already have been transferred to the name of the claimant before the input tax deduction can be claimed, and that evidence is available that the property will be
used in making taxable supplies. If the sequence for claiming the input tax deduction is not observed, this implies that the claimant of input tax deduction is not the owner of the property. This is clearly not legal and allegation of fraud could be instituted.

It would be appropriate to briefly explain why vendors fail VAT audits. Some the reasons are as follows:

- Employers fail to pay over VAT on company car fringe benefits. This mistake can be easily detected with the introduction of the compulsory completion of IT14SD, or a review of the IRP5 certificates for the relevant period.
- Vendors must account for output tax on the short-term insurance compensation received (including third-party claims), especially if the vendors have claimed the input tax on the premiums paid for the cost of the short-term insurance.
- Vendors must not claim input tax for non-qualifying items such as motor cars and entertainment (which includes meals and refreshments), as such was not used, consumed, or on-supplied for the purpose of making taxable supplies.

These are some of the major reasons for unsuccessful audits and the list has not been exhausted. In view of our many and various experiences at SAIPA’s Tax Help Desk, we will share more information with our members. It is, therefore, essential that our members become more acquainted with the Act. Although the VAT Act has been with us for some time, regular briefings on this Act are compulsory since many of the provisions of the Act are complex and, consequently, require regular discussions.

SAIPA members should take note that domestic air tickets are subject to VAT. A vendor can claim the input tax on these tickets provided that such expenses have incurred in pursuance of making taxable supplies. Be cautious with domestic air-travel tickets, as it includes airport taxes and VAT is not levied on the full consideration paid.

Cut the paperwork with CQS software solutions

Piles of paper punishing productivity? With a suite of CQS software, the paperless accounting office is now a reality. That’s the experience of Cobus Hancke and Philip Potgieter, directors of accounting and auditing firm Hancke-Potgieter. With their use of CQS solutions including CaseWare Working Papers, CaseWare Time, SecWare and TaxWare, they have managed to eliminate dependence on paper when providing professional services.

Like most accounting firms, this Pretoria-based company once did everything completely manually. “Everything was paper-driven and we stored every document in filing cabinets. That, of course, took up a lot of space,” relates Hancke.

Paper-driven processes are also error-prone and time consuming, since searching for physical documents is more difficult than accessing digital ones. “Then we discovered CaseWare and decided to go electronic.”

While he has practiced since 1989, Hancke says it was at the point of opening Hancke-Potgieter in 2006 that the partners decided to go paperless with Caseware.

Potgieter says the difference is remarkable and permeates the entire service delivery process. “We prepare financials, conduct audits, capture time and expenses, do tax and secretarial work for clients and it is entirely computerised,” he says.

Going completely electronic has substantially increased productivity and performance; for those who don’t believe the paperless office is possible, Hancke-Potgieter has successfully operated on this basis from ‘day one’ of starting their firm. “Over four years have now passed. With the data stored over this time, we have just purchased our first terabyte server,” they say.

And not only is their business more profitable, but costs are reduced since storage space is reduced and money is saved on paper and ink. There is a simultaneous environmental advantage, too – using far less paper means a reduction in waste and lowered carbon emissions.
ARS has limited resources to audit and enforce a large tax base. For the last few years SARS has been engaging comparative testing and shifting the burden of reconciling these comparatives on to taxpayers. For some years now SARS has had great success with regards to the EMP501 reconciliation, and comparing individual taxpayer’s third party and employer documentation. SARS introduced a new supplementary declaration (known as the ‘IT14SD’), in which the company is expected to reconcile its annual financial statements and IT14 return to other documentation previously filed with SARS with regards to VAT, customs, and employees’ tax. This may sound simple, but this is not an easy request for so complex a reconciliation.

The expectation with regards to the introduction of the IT14SD was that this was intended to identify risks, allowing taxpayers to identify and remedy variances, and allow SARS to better focus enforcement and audit resources. It was not expected that SARS would issue additional assessments for non-submission denying legitimate deductions that were not the focus of the reconciliation.

The IT14SD was not freely available to taxpayers and tax practitioners in advance. The IT14SD is a new process, and sufficient time was not available to develop the systems and reporting required to efficiently and effectively track and respond timeously. The IT14SD is currently applied with regards to historic years of assessment, prior to the introduction of the IT14SD, and not only required with regards to future years of assessment.

Considering the complexity, the other deadlines, and normal business operations, it is difficult for the taxpayer and tax practitioner to submit the IT14SD timeously. The taxpayer will, in most cases, require the significant engagement of its resources, and because of the complexities and additional testing required, the taxpayer will generally engage the assistance of a tax practitioner. Very few taxpayers will embark on this solo, and tax practitioners already have their hands full. The taxpayer has little hope of obtaining an extension from SARS.

The taxpayer is given notice to submit the required IT14SD within 21 days, followed by a final notice to submit within 21 days. Failing to submit the required IT14SD yields an additional assessment as
a result of non-compliance. The additional assessment effectively denies all the deductions and allowances claimed against income tax. This is counterproductive with regards to efficient and effective tax administration, and surely could impacts on taxpayer morality. However, SARS motivates their actions by expressing that there is currently insufficient penalty for non-submission. Still, this action fails legal support, considering that SARS is bound by the provisions of the tax legislation. SARS has made it clear that the IT14SD is here to stay, and may even be integrated into the IT14 return in future.

When a taxpayer files the IT14SD with a difference greater than R100 an assessment is pursued. It is our understanding that the assessment will be based on the higher amount, whether VAT or income tax. Where the taxpayer has not submitted the requested IT14SD, SARS issues an additional assessment rejecting all income tax deductions and allowances, triggering a chain reaction with regards to underestimation penalty with regards to provisional tax.

The implementation of IT14SD and the aggressive issuing of additional assessments without audit engagement and limited access to SARS persons who could be engaged to discuss differences, or request for additional time to comply, appears to be in conflict with the SARS Service Charter. Published commentary on the SARS Service Charter expresses that “[t]he significance of the Charter should not be underestimated. It articulates both a symbolic and a substantive break with the secretive and authoritarian mindset that characterised the South African revenue authority in the era predating the democratic Constitution.”

While we accept the need for SARS to apply effective and efficient risk and audit strategies, including reconciliation of comparative information, the additional reconciliation and disclosure should not be substantially demanding on the taxpayer’s resources. We should consider the collective of the tax administration and compliance requirements and changes over the past few years. Also, all the information, except for the substantiation of variances, which is required from the taxpayer with regards to the IT14SD, is already available to SARS, from the NAT 75 and 61 and the VAT201, EMP201, EMP501, and IT14 submitted to SARS.

The purpose of comparing the IT14 and annual financial statements to the previously filed VAT, employees’ tax and customs documentation/returns is to identify VAT, income tax, and employees’ tax risks. Even if the taxpayer failed to file the requested IT14SD, SARS can still apply the same risk testing from the information previously submitted. It’s our opinion that it is not reasonable to revise an income tax assessment and income tax liability which is not related to the information requested in terms of the IT14SD, when in fact the requested information is already available to SARS. SARS could issue an assessment for the difference identified (which triggered the notice to file a IT14SD), and an administrative penalty could be imposed in terms of the new Tax Administration Act.

While the use of IT14SD appears to cast the net far wider than was previously possible with limited audit and enforcement resources, the question to be addressed is - should this burden merely be passed on to the taxpayer, without a transitional and educational period?
Generally the additional assessments issued by SARS result in a substantially distorted tax liability, and, in some cases, the tax liability is just outrageous! As SARS applies the ‘pay now, argue later’ provisions, taxpayers could be pursued for the outstanding assessed tax value that is based on an assessment that is deliberately and knowingly incorrect and not substantiated in law. Taxpayers will also be refused tax clearance certificates that will have a substantial impact on business.

We have received comments from tax practitioners and taxpayers, in which it was identified that tax practitioners did not receive email notification that an IT14SD must be submitted for a specific client, and similarly did not receive notification of additional assessment. Generally the tax practitioners will not be navigating their e-filing profile on a daily basis searching for any new items for any one of their many clients. In some cases, the notice and IT14SD was sent by post to the taxpayer, and the taxpayer only became aware of this process on receiving a second notice or a phone call from SARS. This was further exacerbated by notices being sent during December 2011 when most companies are shut down for the festive season, or have limited staff resources available, not to mention the delay in postal delivery.

Section 33 of the Constitution confers a right to just administrative action on the taxpayer, which is lawful, reasonable, and procedurally fair. Also, the taxpayer should be provided reasons for an assessment or decision made by the Commissioner. The additional assessment issued merely express that the additional assessment is based on the IT14 return filed by the taxpayer. It is clear that the additional assessment is not based on the IT14 return! An original assessment was, in fact, issued as a result of the IT14 return, and the additional assessment as a result of non-submission of the IT14SD.

Section 3 of PAJA prescribes that administrative action which materially and adversely affects the rights or legitimate expectations of any person must be procedurally fair.

Surely it cannot be said that SARS estimated the taxable income of the taxpayer in the absence of SARS conducting a review or audit of the deduction and allowances claimed, as it has been held in various case law that the burden of proof shifts to the Commissioner when an estimated assessment is issued, and the Commissioner is required to apply his mind in arriving at an estimated assessment which must be based on findings of fact. As no audit was conducted, nor inquiry with regards to the deductions or allowances claimed, the automatic disallowance of legitimate deductions does not constitute an assessment where the Commissioner has applied his mind.

Section 79 of the Income Tax Act, with regards to additional assessment, requires that the Commissioner is satisfied that such amount should be assessed to tax. However, as no review or audit of the deductions or allowances was engaged, it surely could not be said that the Commissioner could reasonably be satisfied that the deductions and allowances claimed should not have been allowed.

Let’s not forget, the burden of proof requirements of section 82 of the Income Tax Act is not applicable in these circumstances as SARS has not requested any proof or justification of income or expenses.

The notice to submit the IT14SD and the guides available on SARS website failed to communicate the true consequences of non-compliance. The notice merely stipulates that it’s an offence not to comply. So, why is an additional assessment issued?

Where goods are imported, often the effective rate of VAT exceeds 14% due to the valuation rules with regards to imported goods.

The guide ‘How to complete the Supplementary Declaration (IT14SD) form for Companies and Close Corporations’ express that the IT14SD form (not return) is intended to reconcile VAT, PAYE, and customs declarations. The SARS issued ‘External Frequently Asked Questions Supplementary Declaration for Companies or Close Corporations (IT14SD)’ clearly expresses that ‘SARS will give the Company/Close Corporation an option to submit either revised IT14 or IT14SD. However, if the revised IT14 declaration did not resolve the risk, SARS will request the Company/Close Corporation to submit the IT14SD’, also ‘SARS will not allow the Company/Close Corporation to submit the revised IT14 after submitting IT14SD’. It has come to my attention that SARS, in some cases, has issued additional assessment for non-submission of IT14SD even though the taxpayer had filed revised VAT or IT14 return(s).

The SARS-issued guide How to complete the IT14 Return expresses that the balance sheet information should be ‘[t]he figures to be used are the figures reflected in the annual financial
statements’, the income statement information should be ‘[t]he figures to be used are the figures reflected in the annual financial statements’, and that ‘[w]hen completing the relevant part of the return, the normal accounting meaning attached to the terms reflected in the tax return must be followed’. The tax computation portion of the tax return recognises that the annual financial statement information is not the tax base and ‘where the accounting and tax treatment of items are different, the full accounting amount must be reversed and similarly the full tax treatment amount disclosed’ in order to correctly assess the tax liability. Equally, the annual financial statement information may, in many cases, not be comparative to VAT disclose due to differences in accounting and financial reporting treatment. In fact, the accounting and financial reporting treatment will vary dependent on the industry sector in which the taxpayer operates and the application and interpretation of relevant financial reporting standards. Many companies will report the income statement and balance sheet information to the nearest R1 000, while it required that variances greater than R100 must be reconciled and motivated.

In many industries, such as construction and manufacturing, the direct labour costs is attributed to cost of sales and not separately disclosed in the annual financial statements. In other industry sectors, not all amounts that are subject to output tax are regarded as revenue for purposes of its financial reports.

It is required to reconcile the cost of sales (excluding inventory adjustments) per the IT14 and annual financial statements to the VAT declarations, when, in fact, the VAT201 return never required the discloser of cost of sales. Also, not all expenses incurred would have supported an input tax deduction.

Where goods are imported, often the effective rate of VAT exceeds 14% due to the valuation rules with regards to imported goods.

If an additional assessment has been issued due to non-submission, it is important that the taxpayer lodges an objection and request to suspend payment pending outcome of the dispute without delay. The notice to submit an IT14SD should not be ignored.

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South Africans working abroad and exempted foreign employment income

Facts given:
The taxpayer manufactures products, which are sold to wholesalers and retailers, and intends launching an Incentives Rewards Programme as a marketing initiative in order to increase the sales of its products. The taxpayer is employed and paid by a South African company; The taxpayer works outside South Africa for 3 consecutive years and spends 20 days per year in South Africa; The taxpayer receives rental income and interest from a South African source.

Questions:
Will the taxpayer be taxed in South Africa or will the taxpayer be taxed in the host country?
If the foreign employment income is exempted in South Africa, how will the South African employer treat this income in the IRP5 certificate?
How must this income be disclosed in the annual return?

Answer:
The tax practitioner, on behalf of the taxpayer, would have to determine whether Section 10(1)(o)(ii) of the Income Tax Act is applicable to the taxpayer. This Section exempts any remuneration received by or accrued to a person if it is in respect of services rendered outside of South Africa for, or on behalf of, any employer, provided that person was outside South Africa for the following periods:

- For a period or periods exceeding 183 full days in aggregate during any twelve-month period; and
- For a continuous period exceeding 60 full days during that twelve-month period.
- The services were rendered during a period or periods of absence from South Africa – payment must relate to work done outside South Africa.

‘Remuneration’ for this section of the Act includes salary, leave pay, wage, overtime pay, bonus, gratuity, commission, fee, emolument or allowance, including fringe benefits and any gain made from the disposal of equity shares acquired in terms of a broad-based employee share plan.

The payment must relate to employment – independent contractors and self-employed person do not benefit from this exemption. In other words, the taxpayer must render services abroad in terms of an employment contract. Further clarification is required with reference to CC and companies. If an entrepreneur established a CC or company, of which he/she is a member/director, the use of a separate entity creates the required employer-employee relationship. The restriction would more likely affect partnerships and sole proprietors.

Government employees cannot benefit from this exemption. Section 10(1)(o)(ii) of the Income Tax Act exempts remuneration received under the aforementioned circumstances. However, it is likely that the taxpayer will still pay tax in the host country as per the host’s domestic tax legislation, as the source of that income would generally be determined with reference to where the person was when providing services or engaged in employment activities.

If the taxpayer incurred medical cost (contribution to medical aid) in the host country during this period, it is likely that such cost incurred during this period will be deducted as per the taxpayer host domestic tax policy.

The tax practitioner and the taxpayer are further reminded that tax payments to the host country during the aforementioned period cannot be claimed as a deduction from the South African Tax Authority. The local tax authorities have declared such income as ‘exempt’ – expenses incurred to earn ‘exempt’ income cannot be claimed as deduction from the South African Tax Authority.

It is important that the employer, satisfied that section 10(1)(o)(ii) is applicable, elects not to deduct employees’ tax. If subsequent
The remuneration from the foreign employment must be reflected under the relevant code on the IRP 5 certificate of the taxpayer. No directives are issued with regards to this exemption. It must be declared in the relevant section of the taxpayer’s income tax return that deals with income considered not to be taxable. Proof, such as a passport and an employment contract, may be requested from the taxpayer in support of the exemption. The IRP 5 code for this non-taxable income is 3651. If the IRP 5 code is incorrect, taxpayers would experience a difficulty in claiming this exempted income. The reason code for the non-deductibility of tax in the case of exempt foreign employment income is 4105. The employer should distinguish between qualifying foreign source income, using code 3651, and remuneration received for services performed while in the Republic that does not qualify for the exemption, and code 3601 should be used for this portion of local source income. The exemption is not a blanket exemption from all remuneration, but only applies with regards to the employment income received or accrued while outside of the Republic.

The exemption does not apply to rental income, interest earned, or other income from South African sources, and will be taxed in South Africa.

The income tax exemption available for foreign employment income does not extend to resolving liability under the Unemployment Insurance Contributions Act 4 of 2002 or the Skills Development Levy Act 9 of 1999 for the taxpayer/employee. These Acts do not provide for the same exemption.
Incentives rewards paid to independent sales persons

Facts given: The taxpayer manufactures products, which are sold to wholesalers and retailers, and intends launching an Incentives Rewards Programme as a marketing initiative in order to increase the sales of its products.

Question: What are the tax implications of incentives rewards paid to independent sales persons?

The proposed transaction

The Incentives Programme will be directed to the independent sales persons who sell the taxpayer’s products to the customers of the wholesalers or to the customers of the retailers. The wholesalers and retailers do have a choice of allowing their staff to participate or not to participate in the Programme.

It is given that the taxpayer will not be supervising or exercising control over the sales personnel and no services will be rendered by them on the premises of the taxpayer. It is also given that the incentive cash rewards will be paid by the taxpayer to independent sales persons not in the employment of the company.

Moreover, the independent sales personnel will be required to register for the programme with the taxpayer, after which the registered sales personnel will be issued with a recognised prepaid card. The reward to be earned by sales personnel will be paid by the taxpayer to independent sales persons not in the employment of the company.

The prepaid accounts will be controlled by the taxpayer and administered by an independent third party. The physical cash to be used to credit these accounts will be held in a separate bank account in the name of the taxpayer. The prepaid card account will be credited to a maximum value of R5 000, which will be supplemented as and when a portion, or all of the maximum value, has been utilised and further reward credits are available.

Answer:

The conclusions of this transaction have been released in the form of a Binding Private Ruling (BPR 115) as follows:

- The amounts payable into the prepaid card accounts for the benefit of the independent sales personnel will not constitute ‘remuneration’ as defined for employee’s tax – this releases the taxpayer (the manufacturer of products) from the obligation to withhold employees tax from these amounts; and
- The incentive cash rewards received by the independent sales personnel constitute ‘gross income’ and will, therefore, be subject to income tax in their records (when submitting their annual returns – IT12).
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Commercial Crime: How does it affect SAIPA and its Members?

Heide van der Westhuizen, Legal and Ethics Division, SAIPA

Commercial crime can be divided into many different categories, but broadly speaking it refers to so-called ‘white-collar’ crime. Initially it was said that only individuals in higher socio-economic positions commit this crime – the point of the author, Edwin Sutherland writing in 1939, had been to show that individuals in this group also commit crime. This was later criticised, that most white-collar offenders were, in fact, middle-class people and that there is a further distinction to be made between crimes committed for personal gain and those committed on behalf of an organisation. Sutherland’s work did, however, lead to various debates and classification of commercial crimes.

One need only open the day’s newspaper to find a disturbingly long list of articles about, specifically, commercial crime. These crimes are non-violent but result in the loss of or damage to any asset, financial consideration, or other corporeal (physical) thing.

In terms of the United Nations Declaration of Basic Principles of Justice for Victims of Crime and Abuse of Power (A/res/40/34 adopted by the General Assembly in 1985) a person may be considered a victim regardless of whether the perpetrator is identified, apprehended, prosecuted or convicted, and regardless of the familial relationship between perpetrator and the victim.

In the Annual Report of the South African Police Service of 2010/2011, as it relates to commercial crime, it is reported that a total of 88 388 cases were received for investigation which is a 58.2% increase since 2003/2004. Many of these crimes had a direct financial impact for the victims, while the effects of other crimes were less perceptible.

Investigating these crimes is a complex matter. In many cases, the victim and perpetrator are removed and, in some cases, the victim may not even be aware of the fact that he or she is a victim (e.g. where a crime is committed against a company). These losses are often written off and the prices of products and services adjusted in order to compensate. The victims may be consumers, employees and shareholders. If the losses are large enough, the company may be liquidated, which results in an almost incalculable loss of jobs and income [including future and reputational losses].

When examining victims, one must also consider how accessible a victim is to be victimised. For example, a person who is financially illiterate (and who might well be highly educated otherwise) is less likely to detect an element of criminality in the perpetrator. It may be an unscrupulous financial advisor supposedly acting in the client’s best interest whilst the reality is quite different, or a large corporate offering insurance on its merchandise without a FAIS mandated ‘free-choice’ (i.e. to unfairly downplay one product in favour of another or not explaining the policy wording in plain and understandable language, etc.). A whole host of other, seemingly minor abuses of power and knowledge quickly add up and come to mind.

Investigating these crimes is a complex matter. In many cases, the victim and perpetrator are removed and, in some cases, the victim may not even be aware of the fact that he or she is a victim.

In SAIPA’s Legal and Ethics division we are confronted on a regular basis with alleged fraudulent activity and/or forgery and uttering that
has allegedly been perpetrated by our members. Very recently we had a case the merits of which were that annual financial statements were supposedly signed by an accountant. The accountant in question, however, denies that he signed the particular financial statements. If this was proven to be correct, in a criminal court the perpetrator would be convicted of forgery and uttering. Of course, the state would have to prove that actual loss was suffered by the victim or at least that there was a potential loss. In this case the complainant’s application for grants (the company in question being an Non Profit Organisation and therefore largely dependent on grants) was turned down due to the forged signature that was appended to the financial statements. The alleged forgery was uncovered in the process of a grant application.

Fighting back

In the work of Sangweni and Balia (1999:3) the authors suggest five approaches which can be followed to prevent white-collar crimes:

- **The Hard Option:** adopting a zero-tolerance attitude and harsher sentences for offenders. The Prevention and Combating of Corrupt Activities Act (12 of 2004), in section 34, places a duty on any person in authority to report specified commercial crimes to the police. This creates a situation where victims can fight back against persons who are aware of crime taking place and don’t do anything about it.

- **The Unitary Option:** this option involves establishing a single, independent anti-corruption agency with sweeping powers to track down and prosecute any citizen guilty of involvement in such crimes. In South Africa the structures currently in place are regarded by some as too fragmented to be effective. These agencies include: The National Prosecuting Authority, the Asset Forfeiture Unit, the South African Revenue Services, the National Anti-Corruption Forum, the Independent Complaints Directorate, the South African Police Service Commercial Crime Unit, the Office of the Public Protector, the National Intelligence Agency and the Office of the Auditor General.

- **The Auditorial Option:** implementing stringent and strict financial management and is designed to work as a medium- to long-term solution.

- **The Managerial Option:** or the engineering of management to deal with instances of corruption by designing and implementing control measures that increase the risk of detection and decrease the opportunities to commit commercial crime.

- **The Soft Option:** establishing strong ethical behaviour in the workplace coupled with an enforceable code of conduct that is designed to create a framework for excellence and to make the corrupt feel uncomfortable.

Proactive Measures

Ramaitse (in Sangweni and Balia, 1999:170) is of the opinion that good governance is the antidote to corruption. Indoctrinating officials, employees, judicial officers and other role-players with the importance of good governance will sensitise them to and maximise the quality of good governance or administration of both public and private affairs.

Other proactive measures may include information sharing (e.g. a company who discovers and successfully eradicates corruption within its ranks could empower other companies to do the same, if the knowledge is shared. It will also restore the credibility of the company in the view of the public.) and training of role-players (e.g. employees) to deal with corruption and mitigate risks within the scope of their employment and within the scope of the business as a whole.

Reactive measures

To prevent any crime is always of upmost importance. However, once it takes place there must be a strategy in place to deal with the repercussions. Employees should be made aware of the consequences of their misconduct, and employment contracts (as well as disciplinary codes) should make provision for the suspension or dismissal of persons involved in crime. However, an individual’s rights must not be disregarded and, therefore, an effective balance must be struck.

Adopting and pursuing a zero-tolerance approach should be vigorously pursued. To be frank, take no prisoners and have no mercy. Offenders should be prosecuted civilly and criminally.

In terms of section 300 of the Criminal Procedure Act (51 of 1977), any victim of an offence involving the loss of money or property is entitled to apply to the court, through the prosecutor, for an order to compensation against the convicted person. This amount will differ depending on the jurisdiction of the court.

Conclusion

We are all victims of commercial crime; the distinction is merely a matter of degree. Most, if not all, of these crimes are committed by combinations of deception, abuse of power and greed.

South Africa at large is affected by ‘white collar’ crime as anywhere else. Good Corporate Governance should prevail in all sectors of business be it a multinational or an SMME. Every individual and business must do their bit in preventing and exposing ‘white collar’ crime. It is the right thing to do.

“Will you join in our crusade? Who will be strong and stand with me? Beyond the barricade is there a world you long to see?” - Les Misérables

Acknowledgments: Roberre van Zyl, SAIPA
In the future, SMPs may no longer be able to rely solely on traditional accountancy-based services as their main source of revenue and growth, as demand for these services declines. In many countries, fewer small- and medium-sized entities (SMEs)—the typical clients of SMPs—are being audited, as thresholds are introduced or increased and governments move toward self-assessment of tax to reduce compliance costs for SMEs. In addition, technology is commoditizing many of the day-to-day compliance services traditionally supplied by SMPs, reducing the need for a professional accountant and driving down price.

The good news is SMEs are increasingly demanding a broader range of professional services, in particular, value-added business advisory services, which SMPs are well positioned to provide. As small businesses themselves, SMPs share similar aspirations, concerns, and attributes with their clients and are in an ideal position to become trusted advisors.

Why SMEs Look to SMPs for Business Advice

SMPs should leverage the following unique qualities when building their practices:

- **Competency:** SMEs often lack a full range of managerial expertise in-house and outsource some managerial functions, such as CFO, to SMPs that have the required technical competencies and expertise.

- **Integrity and Trust:** As members of a regulated profession with codes of ethics, accountants enjoy “institutional” trust. Their provision of compliance services wins them “competence” trust. This is a time-proven formula. Unfortunately, there can also be a reluctance to utilize advisory services until the expert has already provided a specific demonstration of their competency.

- **Responsiveness/proximity:** SMEs rate highly SMPs’ responsiveness to their demands. The proximity of SMPs to their SME clients is also important as many owner-managers appreciate personal attention from their advisers and value ease of access.

A Full Menu of Business Advisory Services

SMEs are demanding the following services, which SMPs can provide. These services can help ensure the efficiency, transparency, and sustainability of SMEs, improving their financial performance and boosting client satisfaction (and possibly demand!):
7 Things to Consider When Building a Business Advisory Practice

The following considerations can help SMPs succeed when building or laying the groundwork for a business advisory practice.

1. Modify your mission statement, vision, and plan: When expanding or changing the direction of your practice, set out a clear vision for the future and a roadmap for how to get there. You should also revisit your mission statement and adjust it as needed to reflect your practice’s modified or expanded service offerings, such as “We are dedicated to adding and sustaining value for families and their businesses.”

2. Educate and train your people: Providing high-quality business advisory services demands a different skills base than that to provide traditional accountancy-based services. You can develop the capacity for business advisory by expanding both the technical and soft skills of existing staff. Some accountants can make the transition to business adviser through experience and self-development, while others may need training or coaching.

3. Focus on a specific industry sector or specialization: Few SMPs will be able to gain and maintain the knowledge and skills necessary to be competent in all areas of business advisory. Therefore, SMPs should consider carving out a niche and participating in a referral network of SMPs that can provide the other services. A common model is to focus on a specific industry sector, such as hospitality, or to develop a specialization, such as sustainable business practices, in order to differentiate your practice from the competition.

4. Develop relationships with other firms: Referral networks offer many potential advantages, such as helping your practice increase its client base. Participating in a network is an effective way to satisfy the increasing breadth of demands from SME clients and can help demonstrate to new clients that you have the capability of a larger practice. Referral networks can extend beyond accountancy to areas such as legal, HR, and IT.

5. Promote the practice to existing and new clients: Promoting and marketing your practice, and the value of your services, will be crucial to success. There are a number of reasons why SMEs choose SMPs to provide business advisory services (see above). SMPs should leverage these qualities by promoting them to potential clients, who are often unaware that their professional accountant can provide these services. As accountants often have little or no expertise or experience in promotion or marketing, you may want to hire a marketing consultant or train an existing employee to do this. Your marketing expert can help you determine if you need to change the way your services are marketed and help you explore new channels, such as social media.

6. Change your business model: Business advisory services may require a different business model from that of traditional accountancy-based services. For example, business advisory services may be better suited to a business model based on selling intellectual capital rather than time. This lends itself to value pricing. To supplement this, you might wish to emulate the airline industry model, which divides their client base into premium and economy and offers a different value proposition to each—for the premium clients, a high-end service, at a correspondingly high price, and for the economy clients, a basic “no frills” service that frees up time to devote to the premium clients.

7. Embrace technology: Advances in technology present a significant opportunity for SMPs to operate more efficiently, reduce costs, and offer additional value-added services. Cloud computing, for example, allows SMPs to more actively engage with their SME clients on a day-to-day basis and offer services such as virtual CFO cost effectively.

Putting Ideas into Action

To help you build a business advisory practice, we encourage you to download the IFAC Guide to Practice Management for Use by Small- and Medium-Sized Practices (PM Guide). This free guide comprises eight stand-alone modules on topics ranging from planning and building your firm to managing people and client relationships. It features case studies, checklists and forms, and an office procedures manual.

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With effect from September 2012 SAIPA will undertake a CPD compliance review of all its members. The three-year rolling cycle that will be under review is 2009 to 2011, both years inclusive. Exempt from complying with this policy are Trainee Accountants and Retired members who do not render professional services. All other members are subject to this requirement and monitoring. CPD compliance is a requirement of continued membership with the Institute.

Record your hours!
Members should record their CPD activities over the last cycle on our website. To be able to update your CPD hours you must have registered your member profile on the SAIPA website; for assistance with this please contact Thomas@saipa.co.za. When a record is drawn for monitoring purposes, the following will be considered: whether or not the member concerned complied with the required 60 structured and 60 unstructured hours as required by the institute, the hours that have been recorded will be compared with the standard that has been set out in the CPD policy.

What does SAIPA’s CPD policy say?
Over the course of a three-year rolling cycle, a member must complete a minimum total of 120 hours of CPD. Sixty of those hours must be ‘structured’ (formal learning activities) and the balance ‘unstructured’ (informal learning activities).

The Institute has further indicated that the attendance of a half-day seminar (at least 4 hours each) on an Accounting update and the Taxation update is compulsory. A member may, therefore, accumulate the minimum number of hours in a cycle, but may be found to be non-compliant with respect to attendance of these compulsory seminars.
Consequences of Non-Compliance

If a member is found not to be compliant with the minimum requirements for CPD, such a member is in breach of their conditions of membership and may be referred to the Investigations Committee and, notwithstanding any other provision in the Constitution, Bylaws and Code of Conduct, a member risks to ipso facto have his or her membership suspended and, ultimately, be struck from the roll of members. Neglect of keeping your skills up to date is tantamount to professional negligence.

Exemption and Deferment

Members may apply for deferment of the CPD requirement for a specified period. The CPD Committee will review such applications on an individual basis and consider the merits of each. The application should be strongly motivated. Deferment may be granted in the case of extended illness, extended hospitalisation or other special circumstances.

How to apply:
1. Write a request and motivation for the deferment/exemption.
2. Attach all supporting evidence to substantiate your request. Such evidence must be certified (e.g. report from a medical practitioner).
3. Forward the complete set of documents marked for the attention of the CPD Coordinator to rvanzyl@saipa.co.za or by fax to 086 743 1706.
4. Requests received via email will be provisionally considered pending receipt of original documents.

Other activities that accrue CPD Hours

<table>
<thead>
<tr>
<th>Activity</th>
<th>Structured Hours</th>
<th>Unstructured Hours</th>
<th>Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Successful completion of academic studies (including honours)</td>
<td>Per subject: 1 year qualification: 4 hours; 2 year qualification: 8 hours; 3 year qualification: 18 hours</td>
<td>6 hours 12 hours 18 hours</td>
<td>Official results transcript</td>
</tr>
<tr>
<td>Completion of a dissertation</td>
<td>Masters: 10 hours Doctoral: 16 hours</td>
<td>20 hours 32 hours</td>
<td>Official results transcript</td>
</tr>
<tr>
<td>Independent Review eLearning Course</td>
<td>Module hours as per the certificate</td>
<td>Successful completion of the entire certificate: maximum of 35 hours</td>
<td>Printed certificates SAIPA IR certificate</td>
</tr>
<tr>
<td>UNISA B-BBEEE Management Development Program</td>
<td>Per module: 2 hours Maximum: 10 hours</td>
<td>2.5 hours per module Maximum 12.5 hours</td>
<td>Proof of successful completion</td>
</tr>
<tr>
<td>One year post-graduate certificate course</td>
<td>4 hours per subject</td>
<td>6 hours per subject</td>
<td>Proof of successful completion</td>
</tr>
</tbody>
</table>

Upcoming Seminars – join us!

July/August: Practice Management by Shirley Olsen (4 ½ hrs)
A practical seminar which will help you plan and achieve your dreams of a bigger, more efficient and cost-effective practice, by understanding basic principles and strategies to help you cope and identify ideas, opportunities and implement them within your practice. This CPD seminar will cover the following:
- Growing your practice
- Determining a growth and marketing strategy
- Coping with problems which face all SMMEs
- Opportunities and ideas for other services
- Risk management
- How to identify, evaluate and understand risk within a practice
- How to safeguard or reduce risks within a practice

September: IFRS by Faith Ngwenya & Navin Lalsab (4 ½ hrs)
- Part two of the seminar presented in May this year, culminating in the Certificate in IFRS for SMEs. Part two will cover the following aspects:
  - Statement of Cash Flows
  - Income tax
  - Inventories
  - Investment property
  - Intangible assets
  - Impairment
  - Leases
  - Full set of financial statements

October: Business Rescue by Stefan Steyn (4.5hrs)
- Brief outline
- Legal requirements of Business Rescue
- Who may be appointed a business rescue practitioner
- The business rescue plan
- Dealing with creditors
- Reporting on business rescue
- Guidelines on the turnaround strategy

November: Tax updates by Ettiene Retief and Di Seccomber
- Implication of the Tax Administration Act that was promulgated into law on 4 July 2012.
- Tax Legislation amendment bill 2012 (issued early July 2012)
- VAT legislation
Business ethics - Is there really such a thing?

The concept of ethics, particularly in business, is always a grey area. Cynthia Schoeman of Ethics Monitoring & Management Services seeks to shed some light on the subject.

Unethical business practices are a very visible feature of the corporate landscape, with ethical scandals regularly making news headlines. These ethical failures illustrate a range of costs and adverse consequences - among others, financial losses, fines, executives losing their positions, eroded reputations and, in extreme cases, business closure. An example of the latter which still looms large after 10 years is the accounting scandal which saw the demise of Enron and Arthur Andersen.

Yet a discussion of business ethics tends to elicit a range of perceptions and opinions beyond it just being considered ‘the right thing to do’. A common response is that business ethics is an oxymoron, reflecting not only that business and ethics are contradictory, but also that business is generally not ethical. Another view is that ethics differs for different people.

These points of view warrant being addressed because they can be harmful. Instead of leading to meaningful debate and a deeper understanding of business ethics, they can undermine the pursuit of an ethical culture and deflect the effective implementation of workplace ethics initiatives.

Ethics and a strong ethical culture help to reduce unethical behaviour and support compliance with applicable laws, rules and regulations. This minimises the probability of ethical failure and decreases the risk of consequent loss and damage.

Stakeholder management is another reason why ethics makes good business sense. This is because all the company’s stakeholders - employees, customers, investors, unions, etc. - constantly assess the ethical status of the organisation based on factors such as how stakeholders are treated, whether values and rules apply differently for different stakeholders and press reports. Their conclusions about the ethical status of the organisation may rest on perception - but those perceptions represent the reality that will be acted upon. A positive view lends itself to many benefits, while a negative view can be very

Does Ethics Make Good Business Sense?

The view that business and ethics are a contradiction in terms is apparently supported by the many examples of unethical conduct. Exacerbating this perspective is the tendency to infer these behaviours to all businesses. Countering this view, there are a number of reasons why ethics makes good business sense.

A primary rationale is that it promotes ethical behaviour and creates a more trustworthy workplace. The many advantages of this include faster and more consistent decision making, greater confidence in top management action, and more individual accountability with less need for policing.
A common response is that business ethics is an oxymoron, reflecting not only that business and ethics are contradictory, but also that business is generally not ethical.

Competitive advantage is a further reason why workplace ethics makes good business sense. Although competitive advantage is critical for almost all companies, it is frequently limited because of the ease and speed with which many sources of competitive advantage can be copied. A unique source of competitive advantage, which cannot be easily copied, therefore has far greater value.

Workplace ethics offers just such a source: Ethics is not easy to copy, it cannot be bought or sold, it cannot be owned, but must be lived every day. It is one of the company’s most valuable intangible assets.

For these reasons, amongst others, the view that ethics makes great business sense continues to gain ground.

Are Ethics and Values Different for Different People?

People and groups can hold divergent views on ethics, and personal values can differ widely as they are affected by a variety of factors including upbringing and education. This can fragment an organisation’s focus on ethics and values, compromising the ideal of aligned personal and organisational values.

However, although there may be differences, it is not only appropriate but essential that in the workplace the organisation espouses a set of values that reflects what is acceptable in that environment. An employee may have grown up in circumstances that condoned dishonesty, or in which it was acceptable to be rude to others. However, such a background does not make this sort of behaviour acceptable at work. The values in the workplace are not a means for accommodating the full spectrum of values – from impeccable to appalling – amongst employees and stakeholders. They serve, instead, to define the criteria and standards by which an organisation strives to operate.

What can differ is the way the values manifest themselves in practice, a good example being the value of respect. While respect would undoubtedly enjoy overwhelming support from most organisations and individuals, people differ in the way they express it. For instance, is it respectful to look at one’s superior directly when being addressed or should one lower one’s eyes? The answer depends on factors that include the prevailing culture. The key issue is to expose and explore the differences as a route to achieving agreement on what is appropriate within the context, goals, and environment of the organisation.

The alignment of personal and organisational values raises another consideration, namely the influence of divergent personal ethics on the organisation. In theory everyone enjoys the right to their personal values and to respect for their privacy. But, consider a couple of examples. Tiger Woods’ extra-marital affairs were, theoretically, his own business, but his conduct resulted in the loss of numerous sponsors, including Accenture, who chose no longer to associate with him. After the allegations that Dominique Strauss-Kahn sexually assaulted a hotel maid in New York, did he have an option to stay on as Managing Director of the IMF? Could the IMF afford to be linked to such behaviour?

In practice, the behaviour of high-profile business figures (as well as politicians, celebrities and sports stars) is often very visible, and misconduct can (and does) impact on their organisations unfavourably. Their seniority makes them role models who are often held to a higher standard – and, in reality, that standard is not limited to office hours. Responsible leadership thus warrants that they conduct themselves ethically at all times.

The answer to the question of whether there really is such a thing as business ethics is, therefore, ‘yes’. The benefits above should be viewed as the returns that can be gained from an investment in ethics and an ethical culture. But reaping these rewards is not automatic. It will rest on leadership commitment and the proactive, effective management of workplace ethics.

Cynthia Schoeman is managing director of Ethics Monitoring & Management Services, which provides support for the proactive management of workplace ethics. This includes the Ethics Monitor, a web-based ethics survey, which enables organisations to measure, monitor and report on their ethical status.
What is time management? You might say that time doesn’t need to be managed; it goes along just fine on its own. ‘Self-management’ would be a more appropriate term. People need to manage themselves to more effectively use the time available to them.

Try not to think of time management as a set of complicated procedures or difficult skills to be mastered. Instead, think of it as a series of behaviours which are consciously practised until they become natural and routine habits. Practising and using the following techniques will help you in your job and at home.

1. Plan your activities
Planning saves time, gets better results in the long run, and ensures that your efforts will be in the right direction. You should consider both short-term and long-range goals in your plans. They should be flexible enough to allow for unexpected obstacles and opportunities. Put your plans in brief, written form and routinely check them to ensure that you’re on the right track.

2. Establish your priorities
There will never be enough time to accomplish all your tasks and goals. Therefore, rank them according to their importance and urgency to you. An activity is important if it’s something you really want to do, such as improving your communication and leadership skills. An activity is urgent if you have to do it immediately, such as submitting your tax returns before an impending deadline. If you spend more time on urgent activities than on important ones, you need to practise better time management.

3. Eliminate unnecessary tasks
Carefully analyse your routine to see if it’s efficient. There’s a good chance it’s loaded with time-consuming non-essentials. Get rid of them if they hinder you in achieving your primary goals.

4. Get organised
Organisation takes less time than is wasted working in a disorganised environment. Avoid wasting time searching for things by establishing specific locations for all your tools, materials and paperwork. Frequently used items should be kept close to where you work. Organisation applies not only to objects, but to people as well. A major responsibility of company officers is to organise the efforts of members so as to obtain maximum desirable results with minimum investment of time. Lack of company organisation results in failure to attain goals, and thus wastes time.

5. Combine or consolidate tasks
Whenever possible, do two or more tasks simultaneously. If you spend too much time on trips to the bank, visiting your professional advisers and the post office, you could combine all those stops in one trip.

6. Improve your skills
When you increase your skills efficiency, you save time. The time spent improving your typing skills saves you time in the long run.

7. Avoid unnecessary interruptions
Going back and forth between different activities is an
inefficient use of time. Once you’ve begun a task — unless it’s exceptionally lengthy or complex — try to finish it before beginning another. Gather all needed tools and materials before beginning a task. Try to keep interruptions to a minimum. If someone phones you at an inconvenient time, ask if you can call back later. Another possibility is to use a hands-free telephone so you can work while talking.

8. Be decisive and don’t procrastinate
When you have something that needs to be done, do it. Don’t needlessly postpone making decisions, or stew over them once they are made. Organisations sometimes waste time by leaving a decision to a committee. Committees have their purpose, but it isn’t to postpone making a decision only to have the issue brought up again at further meetings.

9. Do an adequate job, but don’t overdo it
Perfectionism can prevent you from accomplishing many tasks. Parkinson’s law states, ‘Work expands to fill the time available in which to do the work’. If you have all day to clean your house, you’ll spend all day on the job. If you have only two hours, you’ll do an adequate job in that time. Meetings will also expand to fill the available time. Keep that in mind next time you draw up a schedule for a meeting.

10. Hold effective meetings
Schedule, plan and organise your meetings for maximum efficiency and effectiveness. Meetings should be held only when necessary, and with specific purposes. Begin and end on time. Stick to the agenda. Control both internal and external interruptions; don’t let meetings get bogged down by personalities and differences of opinion. Ineffective communication wastes time. Bulletins help people stay informed of activities and remind them of their assignments. Don’t assume people are aware of this information; make sure of it. Follow-up calls are important. Keep memos and notes short and to the point. Minutes should indicate actions agreed upon, and who’s to be responsible for what action.

11. Be an effective manager
As a company officer, you are a manager. You must be organised to successfully manage others. Effective managers concentrate their efforts on understanding key management techniques, duties and responsibilities; planning and organising activities, and increasing personal productivity.

12. Delegate
Don’t try to do everything. Not only do you place excessive demands on your time when you fail to delegate, but others don’t gain the experience and involvement to which they’re entitled. If the demands are overwhelming, you probably aren’t delegating enough.

13. Make effective use of waiting time
Waiting for meetings to begin; transportation; appointments and performances are some of our greatest wasters of time. While you may not be able to completely eliminate the waiting, you can make use of it. Take along reading materials. Doctor’s offices may not have your favourite magazine — that’s why you should take one with you. Write notes and letters, or do some planning. Tidy your desk while you wait for someone to give you a lift to your meeting. Some of your waiting time can be eliminated by doing errands during hours when queues are shorter and traffic is lighter.

14. Use labour-saving devices
Take advantage of modern technology and processes.

15. Take a break
Your efficiency decreases as you become tired. When planning, allow for personal time to take a break and relax. Breaks are important at meetings and conferences – ‘The mind can learn no more than the seat can endure’.

Time management is highly personalised – what works for someone else may not work for you; experiment to find out what practices work best for you. To be effective, time management skills must be incorporated into the daily routine. At first, determination and self-discipline will be required, but eventually they will become habits. The efforts definitely are worth the results. You will accomplish more and have more time for other activities. Time management works. Let it work for you too.

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How a Tax Accountant gave it all up for cats

Jeremy Maggs

Samuel Jellico was the consummate tax accountant. He was discreet. He had good contacts in the revenue service; knew what could be deducted and what couldn’t and, mostly, understood that returns were a delicate perpetual dance between a rapacious suitor and a reluctant but willing virgin. It was all about a little give and a little take, but at some point consummation was needed.

Both parties needed satisfaction with the implicit understanding that it would all happen again and again with everyone being a little wiser each time. Just by way of a credentials reference he had a holiday home in the Cayman Islands but had never been there, and was the only man in accounting history who had managed to write off his ogre-like mother-in-law as a legitimate business expense. Prescribed anger management, he told a gullible tribunal hearing, necessitated someone to shout at. Case closed.

Then one day he met Don Queen who headed what was euphemistically described as a logistics and supply company with multiple offshore network interests. Queen owed a king’s ransom to the receiver and needed much room and lots of wiggling. Jellico was his man. Or so he thought.

Their first meeting was held onboard a yacht that - while named Queen of the Sea, and was sailed by Queen himself with a picture of Queen in the main stateroom - was actually owned by a Bahamian dummy corporation that operated from a postbox in Luxembourg. The vessel was worth of millions of dollars and, while business meetings were often held in the on-board jacuzzi, if you know what I mean, it had become a tax-write-off-thorn in the commissioner’s side.

Why, he railed to his minions at his weekly top offenders meeting, did the over-burdened taxpayer have to pay for Queen’s recreational pursuits? But the vessel was only the half of it. His palatial home was in the name of a charitable trust for indigent cats. So tightly built was this little tax-shelter that he’d even contrived to have the national lottery fund part of its operating expenses. Petrol for his lawnmower was even a deductible expense, and his estranged wife’s weekly skin-peels were listed as head office landscaping and improvement.

The list went on and on, and drove the commissioner demented with rage to the point where he had developed a mouth-frothing problem and had taken to sitting in front of a large picture of Queen in the foyer of Inland Revenue and rocking back and forth. So, things came to a head. He ordered his special investigative unit The Vultures (named as such because they slowly pecked their victims to death) to - in his exact words – ‘raid and destroy’.

And it was at that point that Queen got wind of what was happening and called in Jellico. And so we find them on the yacht sipping duty free champagne, and Queen asks the tax savant if it would be possible to transfer all his assets through a dummy corporation on the Jersey Islands and reconstitute them in Liberia with his pet ferret, Mr Snappy, as CEO.

And as he blew smoke from an illegally imported Cuban into Jellico’s face, something inside our tax maven snapped. He saw the evil web that he himself had helped build. “Enough,” he cried, “no longer will I aid abatement or assist in accrual. I shall never again be part of a bilateral advance-pricing arrangement, or promote a net-operating-loss to improve supplemental assessment.” And with that he ripped off his suit and dived overboard.

Post fact facts:
Queen was probed endlessly by the Vultures and fled to Darfur before he was arrested.
Jellico ended up marrying Queen’s ugly mother-in-law and they both run that home for indigent cats. Pro bono.