SGi
CHARTERED ACCOUNTANTS (SA)
REGISTERED AUDITORS & BUSINESS ADVISORS
81 SCOTT STREET
NEWCASTLE
2940
RSA
TEL: 034 312 8678
FAX: 034 315 4888
EMAIL: INFO@SGI.ZA.COM
WEBSITE: WWW.SGI.ZA.COM
P. O. BOX 176
NEWCASTLE
2940
RSA

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In this Issue

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Selected for SARS Verification or Audit? Here's What to Expect… and What to Do

"Is there a phrase in the English language more fraught with menace than a tax audit?" (Erica Jong, American novelist)

A number of recent tax developments strongly indicate that taxpayers will face even more intense scrutiny from SARS in this new tax year. Most recently, an additional R3 billion was allocated to SARS in the 2021 Budget Speech "to improve technology, data and machine learning capability and upskill SARS officials to improve the efficiency and effectiveness of SARS". This will include expanding specialised audit and investigation skills and establishing another specialised audit unit for investigations into the tax affairs of high net worth individuals with highly complex financial structures, which will likely lead to in-depth lifestyle audits.

Two ways in which SARS enforces compliance are through verifications and audits, both of which can now be expected to increase.

Being selected for a verification or audit entails significant risk to a taxpayer, whether individual or corporate. In addition to the time, cost and effort to collate the information, documents and clarifications required, a verification or audit can lead to the levying of understatement penalties varying from 0 - 200% where an understatement occurred, and even harsher penalties are reserved for 'obstructive' taxpayers or culpable repeat offenders.

What is SARS verification?

A verification involves the comparison of the information declared on the return to the taxpayer's financial and accounting records and other supporting documents.

The purpose of a verification is to ensure that a declaration or return fairly and accurately represents a taxpayer's tax position.

What is the SARS verification process?

1. SARS sends notification via an official letter.

2. SARS' letter will require you to either submit the requested supporting documents via eFiling or at a SARS branch or submit a Request For Correction (RFC) within 21 business days.

3. If you do not respond within 21 business days, a second letter will be issued. If you still do not respond within 21 business days, a SARS official will telephonically request the relevant material within 5 business days. If you have still not complied, SARS may raise an assessment based on information readily available or obtained from a third party.

4. A letter requesting further relevant material could be issued if the relevant material initially supplied was not sufficient to finalise the verification.

5. SARS will conclude the verification within 21 business days from the date all required relevant material is received.

6. If the tax position declared is found to be incorrect given the relevant tax legislation, an assessment will be raised.

7. Where no further risk(s) were identified, and no finding was made, a Notification of the finalisation of the verification is sent by SARS. Where SARS made a finding, a notice of assessment (i.e. an additional or reduced assessment) will be issued.

8. Where further risk(s) are identified, your return/declaration is then referred for an audit and you will receive a Referral for Audit Letter.

9. You can dispute the assessment by lodging an objection within 30 days.

If you were subject to a verification and the verification process has been completed, your tax affairs could still be referred for audit as part of the SARS compliance process.

What is a SARS audit?

A SARS audit goes further than a verification to examine the financial and accounting records and/or supporting documents of the taxpayer to determine whether the taxpayer's tax position has been correctly declared to SARS. Where the taxpayer made no declaration or did not file a return, the audit is an investigation into the taxpayer's compliance with the provisions of the relevant tax legislation.

By its nature, an audit is more intrusive than a verification and the scope could be extensive.

What is the SARS audit process?

1. A formal Notification of Audit is issued to the taxpayer by a specific auditor, indicating the initial scope of the audit.

2. Relevant material or supporting documents requested in the Notification or in a further Notification will differ depending on the tax type and scope of the audit and must be submitted to SARS within 21 business days.

3. Requested relevant material can be uploaded via eFiling, or can be collected or delivered. Arrangements can also be made for an Electronic Forensic Specialist to download the material from your computer systems or for a field audit. The SARS Auditor will issue an Authorisation Letter for a field audit.

4. SARS can request additional or further relevant material throughout the audit. If not submitted, SARS will raise an assessment based on information readily available or obtained from a third party.

5. Progress reports of the stage of the audit should be issued at intervals of 90 calendar days from the date of the Notification of Audit.

6. While SARS undertakes to conclude an audit within 90 business days after all required relevant material is received, an audit could take anything from 30 business days to 12 months, or longer, depending on the complexity, the volumes of transactions and the taxpayer's co-operation.

7. Where potential adjustments are identified, SARS will issue an Audit Findings Letter indicating the grounds for the proposed assessments. Taxpayers will be given a deadline for response, indicating agreement or disagreement and providing evidence.

8. If SARS believes revised assessment is still required; or where the taxpayer did not respond, the imposition of understatement penalties is considered, whereafter a revised assessment will be raised.

9. If the tax position is found to be incorrect, SARS will provide a Finalisation of Audit Letter detailing the grounds for the assessment (including the amounts) or provide a Finalisation of Audit Letter to conclude the audit where no findings were made.

10. Taxpayers can dispute the assessment by lodging an objection.

Note that if, in your original submitted return, you anticipated that a refund might be due, the refund will not be paid out while the verification is in progress or during the execution of the audit process.

What to do – and what not to do

- **Stay prepared** - Any taxpayer can be selected by SARS, once a declaration or return has been submitted for verification or audit "for the purpose of proper administration of tax", including on a risk basis. Taxpayers may also be selected for audit on a random or cyclical basis. Even tax-compliant companies and individuals are regularly audited despite getting clean audits every year.

- **Keep correct and accurate records** – Speak to a professional to ensure compliance with legislative requirements regarding the type of information that should be retained, bearing in mind that SARS can also obtain relevant material from any third party, and – if relevant material is not supplied by the taxpayer - can raise an assessment based on information readily available or obtained from a third party.

- **Act immediately** – When you receive notification of verification or audit, immediately contact your accountant. Then, as soon as possible, but certainly within the 21 days granted, make contact with SARS.

- **Work with the SARS auditor** to ensure your personal or business and commercial realities are understood and that misunderstandings or flaws in the analysis of the auditor are eliminated. As SARS notes: "Taxpayers found to be obstructive could face higher penalties...".

- **Call in expert assistance early** – The knowledge and assistance of a trusted tax advisor can ensure that verification and audit findings do not progress unnecessarily. The importance of involving a qualified and capable advisor at the earliest stage of the process - rather than when an objection has been rejected or even later in the process – cannot be overstated.

- **The law places obligations on SARS** in terms of procedural compliance and provides protection for taxpayer's rights. Failure by SARS to comply with these obligations may render assessments unlawful and could create grounds for objection in a tax dispute. A tax specialist will be able to advise.

- **Also consider tax risk insurance** designed to protect against the risks associated with an audit from SARS. If a taxpayer is selected for a SARS tax audit, the insurer will appoint and pay for a team of tax professionals to defend the audit.

- At all times, taxpayers can approach the **Voluntary Disclosure Unit** to make a voluntary disclosure. Be certain to obtain expert guidance and to understand all the implications before doing so.

Taxpayers with complicated declarations or returns should ask their accountant to assist them in preparing for the likelihood of verifications and audits, and successfully completing a verification or audit when selected. Similarly, where penalties and interest have already been imposed, taxpayers may need expert assistance to successfully complete the process of objecting, particularly if the objection is submitted after the prescribed due date.

Raising Small Business Finance in 2021: 5 Common Mistakes with a High Impact

> ***“Designing a presentation without an audience in mind is like writing a love letter and addressing it 'to whom it may concern" - Ken Haemer***

In these challenging times, raising finance could very well be a matter of business survival, so knowing how to pitch to potential investors is a critical skill you should not neglect.

When you started your business you probably did so because your life experience allowed you to see a gap in the market or the opportunity to make the most of your skillset in a new way. You almost certainly did not go into it because your skill was presentations and pitching for investment. This is a common scenario in the world of small business and it leads to many great ideas being forgotten, or going without investment, **simply because the new owner did not know where, how and when to sell the idea to those who could help with necessary funding.** Here are five common mistakes that people make when arriving to pitch for investment.

1. Pitching to the wrong investor

One of the first things you should do when seeking finance is your research into just who is invested in the field, and who might be keen to take on a company of that kind. Not all investors are eager to diversify into all industries, and finding someone who understands your industry and further, wants to invest in it, is key if you want to find a business partner.

Once a connection is made or a name is mentioned, it is important to do your research into just who the potential investor is, what they are currently invested in, and what they are interested in. Showing awareness of who the investor is and what they like to invest in, will also help at the pitch level, because it will show them that you are the kind of person who does their due diligence as well as make conversation easier.

2. Not refining your pitch deck

Many entrepreneurs want to get funding as quickly as possible. They construct a pitch and approach the people they think are ideal investors without properly refining the deck and ensuring they can answer all necessary questions. The first step when creating a good pitch is to look at other successful pitches to see what information they included and how you can best present your business.

Once you have constructed a best effort it’s time to start reaching out, but don't head for the office of your favourite investors just yet. Getting a pitch right takes practice and getting in front of a few people who you suspect may not invest will help you to get your pitch just right by revealing the kinds of questions an investor may ask. When turning you down these non-ideal investors may also give you advice on your business, which will help strengthen the pitch for next time.

At the end of the day, you need to be able to provide short, clear answers to every question and getting the pitch and your presentation right will ensure that this happens. You can't simply tell an investor that you will get back to them with answers as this provides a bad impression.

3. Over-valuing your business

Going into a meeting it’s very important that a business owner not over value their business or its position in the market. Investors have been around and they will have a rough idea ahead of the meeting as to just what they think your business may be worth. Overselling it, or promising impossible returns simply makes it look like you don't know what you are doing.

Entrepreneurs should further avoid making projections for growth that are unlikely. Telling an investor you will make 500% profit gains in a year with only 40% expense increases, only serves to tell them you are speaking about pie in the sky.

This is the same for your competitive landscape analysis. This part of your presentation is critical and you should not be going into a meeting saying that you have no competition – all that means to an investor is that you have not researched the field properly. If it's true that your product is unique you need to present the information on how the industry deals with the problem you are solving now, which companies offer the alternative solutions and why yours is better. Do not just say you are unique.

4. Not understanding the risks

Any experienced investor is going to want to understand the risks of investing with you, and will want to see that you see them too and have planned for them. Inevitably any business has risks attached and if you understand yours, you instantly become a more bankable proposition.

Questions you should be able to answer might include: What are the principal risks to the business? Does the business have any legal risks? Do you envisage any technology risks in future? Are there any upcoming regulations which may impact upon your company? And are there any product liability risks attached? Just what are you doing to mitigate all of these risks?

5. Not accurately explaining the benefits of your business

At the end of the day your business's benefits and unique selling points are going to be what makes it successful. But a business is more than just its product or unique idea. It's a wonderful idea to have a video or demo model of your product or your company, but if that's all you have you will not succeed in attracting investors.

To bring an investor on board, a business owner must accurately understand the things that make it a potential success. If you are pitching a new product or idea you will need to be able to explain why users will care about your product or service, what makes it unique, and if it is unique what intellectual property rights you hold over the product. Further you will need to be able to explain why the team you have on board is the right one for making your business a success. Knowing your team's strengths, weaknesses and capabilities and being able to demonstrate them will give a lot of confidence to a potential investor.

Leadership, Ethics and Governance: The Benefits for Your Business

The European (and South African) authorities (refer to ***governance codes*** below) opted for a principles-based approach. However, governance cannot be truly effective without the integrity of purpose and actions which drive the 'tone from the top' leading to a strong moral compass founded on ethically-based values.

The governance imperative

Corporate Governance has been a topic of ongoing conversation and even legislation since the early 1990's. However, in spite of a number of outstanding codes and reports (such as the Cadbury Report, the four King Codes and Reports, the Combined Code and many more around the world), together with the various legislative responses (such as Sarbanes Oxley in the USA), business failures continue.

Where were the directors of these failed businesses and what were they looking at and asking of management when considering their approval of the financial statements year after year?

Ethics and moral duties

Each director is a steward of the company and should demonstrate:

- *Conscience* – intellectual honesty and independence of mind,
- *Inclusivity* - legitimate interests and expectations of stakeholders,
- *Competence* - knowledge and skills
- *Commitment* – diligence, and
- *Courage* - to take the appropriate risks and to act with integrity.

There is evidence that suggests that companies displaying consistent ethical values and behaviours based on solid and sustainable moral values driven throughout the organisation where all are aligned to the 'tone from the top' deliver better and more sustainable returns.

The ethical and moral imperative

Key questions:

- Is it a reasonable presumption that all know and fully understand the meaning and impact of ethical behaviour, moral values and what drives them?
- Do the directors live out their stated ethical and moral values – the tone from the top?
- What are the views of management and the workforce of the leadership's (director's) ethical and moral values and the example set?
- Is it reasonable to assume that management knows how to embed these values throughout the organisation?
- How do directors measure the ethical and moral climate of their organisation?
- Does the ethical and moral climate of the organisation align with those espoused by the directors?

What is understood by ethics and morals – is there a universal standard, a universal moral compass?

In the Glossary of terms in the King IV report the term Ethics is defined as follows:

"Considering what is good and right for the self and the other, and can be expressed in terms of the golden rule, namely to treat others as you would like to be treated yourself.

In the context of organisations, ethics refers to ethical values applied to decision-making, conduct, and the relationship between the organisation, its stakeholders and the broader society".

However, what is understood by ethical values, behaviours and integrity? Can one assert that there is a set of Universal Principles? Consider the following:

Universal Principles

Noted anthropologist Donald E Brown found in his research that the moral codes of all cultures include recognition of responsibility, reciprocity, and ability to empathise. Other studies have confirmed his findings. The major world religions preach common values: commitment to something greater than self, responsibility, respect, and caring for others. Genuine behaviour norms in different cultures may distract us from what we have in common with all people – *a universal moral compass.*

Stephen Covey suggests more evidence of universal principles: "From my experience in working with different people and cultures, I find that if certain conditions are present when people are challenged to develop a value system; they will identify essentially the same values. Each culture may express those values differently, but the underlying moral sense is always the same."

What are these universal moral values?

The authors of Moral Intelligence (Doug Lennick and Fred Kiel, Ph. D) suggest the following from their research:

- *Integrity*
- *Responsibility*
- *Compassion*
- *Forgiveness and reconciliation*

While the first two seem self-explanatory, what about the last two?

Compassion shown to an employee in distress may lead not only to a swifter recovery and return to full operational ability but also to a substantial gain in loyalty from employees – and not just to the employee concerned.

Forgiveness and reconciliation: Is not business the enterprise of risk? If employees and management are too fearful of making mistakes, how much business risk are they likely to take?

Finally, an organisation that demonstrates these 'universal values' from the top through management in alignment with actual behaviour will achieve, through its workforce, greater returns than might otherwise be the case.

So, these 'soft' practices have the potential of leading to hard bottom line results.

Ethics and moral values – are they worth it?

It has been suggested that companies with recognised good governance are valued at a premium over those with poor governance records. The same applies to companies with sound ethical records. **Ethical companies attract and retain talent.**

The Proposition

- Enhanced governance through demonstrated ethical behaviour
  - What are your values and ethics?
  - Does your behaviour reflect them?
  - How do your board colleagues and your first line reports perceive your

values, ethics, and integrity?
    - What is your staff's perception?
    - How do you go about ensuring the values are embedded throughout the organisation to achieve alignment?
- Starts at the top
- Safety for those really tough and necessary conversations
- Ethics led performance
- Behavioural change and feedback
- Strong business case
- Is your top team up for the challenge?

SMME Owners: Your Training and Education Will Boost Your Business

"An investment in knowledge pays the best interest," (American politician and inventor, Benjamin Franklin)

Most SMMEs (Small, Medium and Micro Enterprises) in South Africa fold in the first two years of doing business. Reports suggest that the lack of education and training are some of the primary reasons for the low level of entrepreneurial activities and the high failure rate of SMMEs. To add salt to the wound, the overall quality of entrepreneurship in South Africa is recorded as lower than average.

Here are some of the visible results of the impact of, and lack of, education and training for SMME managers along with some corrective recommendations:

1. Quality of SA's entrepreneurial activity below global average

South Africa's entrepreneurial activity is rated at 5.1%, which is below the Global *Economic* Monitor (GEM) average of 6.4% and the average of 6.7% for efficiency-driven economies. (In 2019, South Africa ranked 49th out of 54 economies on GEM's National Entrepreneurship Context Index, ahead of only Croatia, Guatemala, Paraguay, Puerto Rico and Iran. This index provides a single composite number that can express the average state and quality of the entrepreneurial ecosystem in a country and be compared to those of other economies.)

According to existing research on the subject, "*This and other figures show a lower than average level of entrepreneurial activity in South Africa and present challenges to all role players (government, the private sector and educators) for getting programmes that encourage entrepreneurship off the ground, so that this gap can be decreased"*.

2. Quality education linked to managerial confidence

In 2019, Ahmad Al-Tit, Associate Professor of Business Administration at Qassim University reported aspects such as the "*business owner's age, educational attainment, management skills, training, business size, and general business experience"*, as elements impacting the success of a business.

"*From these factors, the attainment of good quality education, general age, and business experience is believed to result in higher managerial confidence and quickens the procedure of obtaining adequate business finance,*" he further stated.

3. Academic recommendation to solving the problem

Considering the importance of SMMEs to the economy, the responsibility to educate entrepreneurs is spread among several stakeholders.

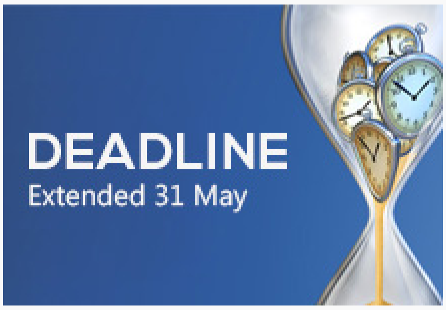
Based on the findings of research published by the University of Fort Hare, the following recommendations are suggested to the stakeholders:

- *Government Agencies:* "It is also suggested that government agencies work hand in hand with the banks to ease access to finance (training programmes) by SMMEs".
- *Government: "*It is recommended that the government explore other strategies to compliment entrepreneurship education that will help create independent entrepreneurs instead of educated beggars."
- *SMME Owners and Managers*: "SMME operators need to take advantage of entrepreneurship education programmes that are offered by institutions of higher learning and government agencies if they really want to improve the performance and survival chances of their businesses".
- *Institutions of Higher Learning:* "They need to play a critical role in providing entrepreneurship education, for they have the expertise and resources to do so".
- *Banks:* "It is recommended that banks provide financial resources to SMME operators who show potential for success".

Consider additional education and training for SMMEs offered by the Institute of Directors South Africa (IoDSA) to improve your understanding of good governance requirements. These will improve your likelihood of success and the attractiveness of your business while reducing the potential of regulatory risk.

Ask your accountant to guide you through the entrepreneurial training and education programmes that could give your business a better chance of succeeding.

Employers: Compensation Fund Return of Earnings Deadline Extended

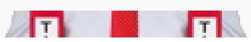


The Compensation for Occupational Injuries and Diseases Act (COIDA) provides a statutory insurance policy for your employees and pays them compensation if they are killed, injured, disabled or contract an occupational disease or illness whilst at work.

As an employer you are required to register and to submit an annual return (RoE or Return of Earnings). The Department of Employment and Labour has announced that the date for submission of the 2020 RoE been extended to 31 May 2021. The portal for submitting the Returns will be opened as of 1 April 2021 to 31 May 2021.

Your Tax Deadlines for April 2021

- 7 April - Monthly Pay-As-You-Earn



(PAYE) submissions and payments

- 23 April - Value-Added Tax (VAT) manual submissions and payments
- 29 April - Excise Duty payments
- 30 April - Value-Added Tax (VAT) electronic submissions and payments
- 30 April - Corporate Income Tax (CIT) Provisional payments where applicable.

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