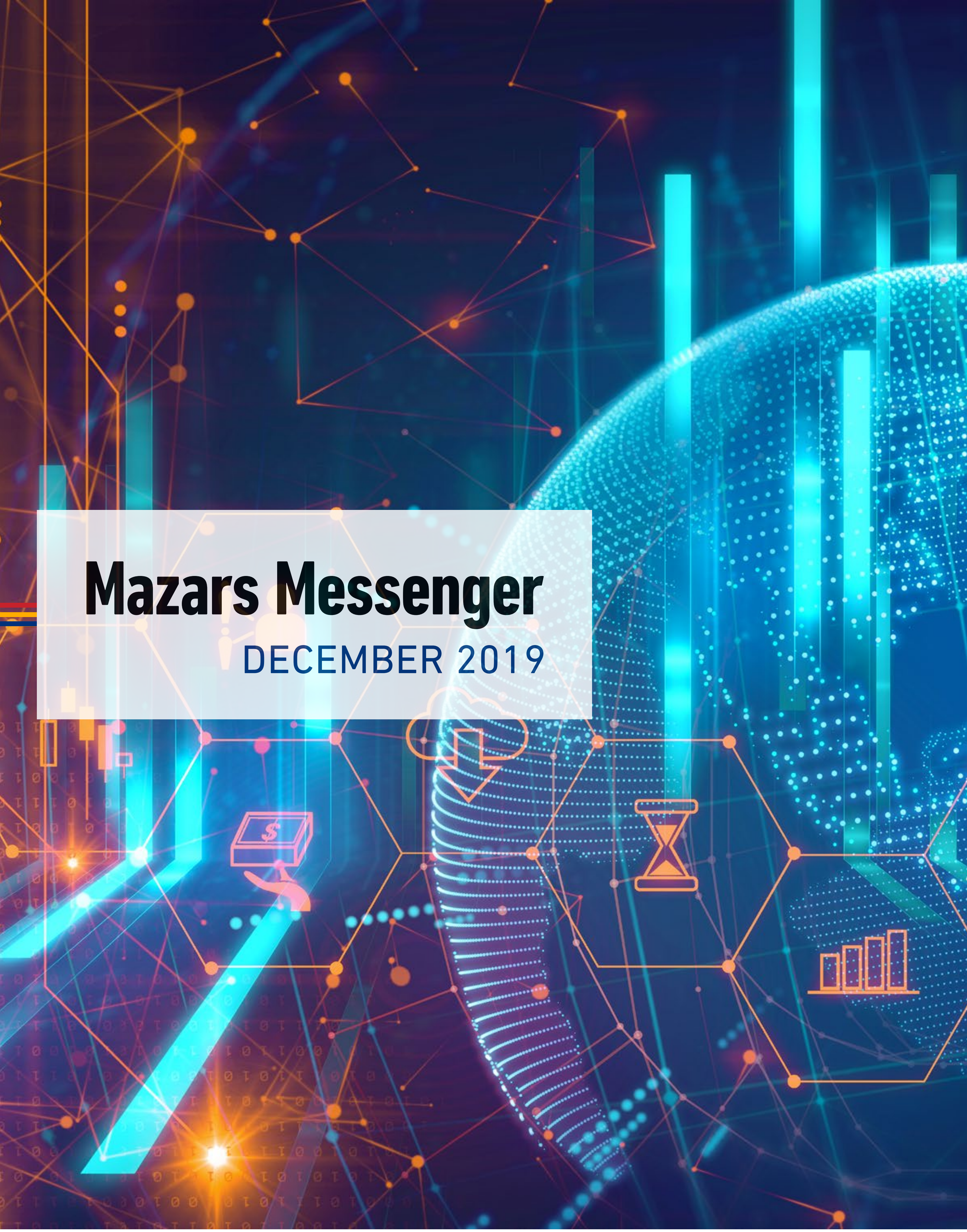
Mazars Messenger

DECEMBER 2019



REGISTERED AUDITOR – A FIRM OF CHARTERED ACCOUNTANTS(SA)

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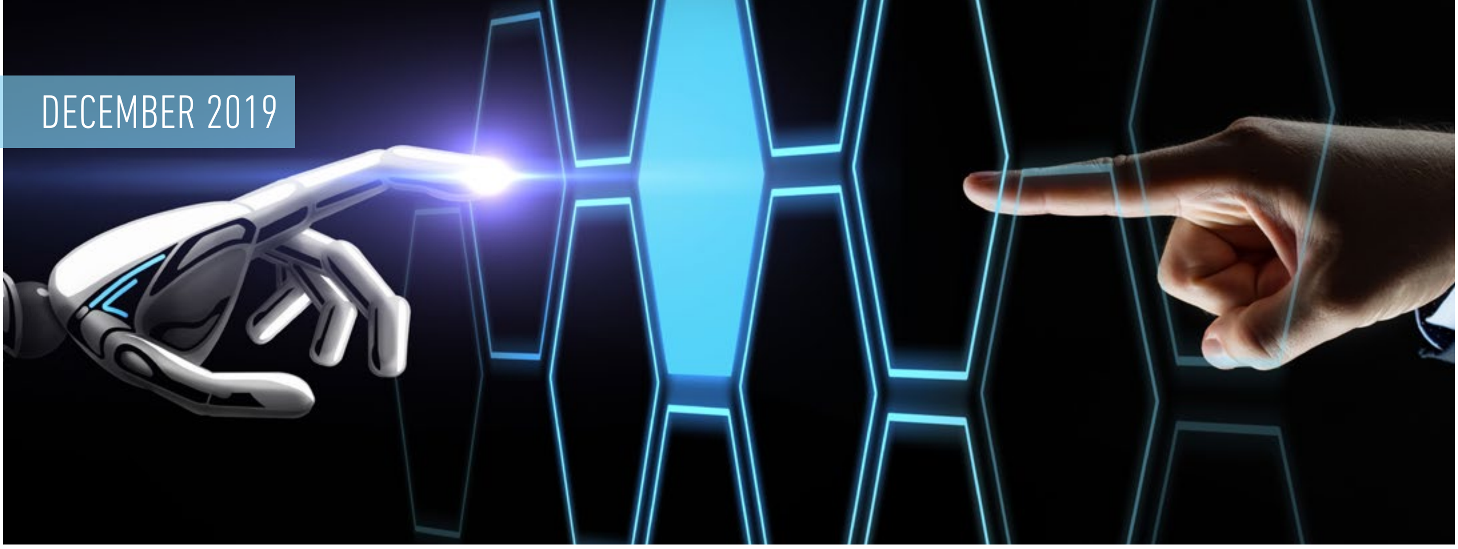

CONTENTS

2019 MEDIUM-TERM BUDGET POLICY STATEMENT COMMENTARY

During the 2019 Medium-Term Budget Policy Statement, delivered on Wednesday 30 October, Minister of Finance, Tito Mboweni, confirmed that Treasury would once again see a significant revenue shortfall by the end of the financial year. With this year's revenue gap predicted to be around R53 billion, the Minister's report on the state of revenue collections has painted a grim picture of the years ahead for the fiscus.

With this in mind, two of Mazars' tax experts weighed in on the key issues raised by Minister Mboweni:

NATIONAL DEBT ESCALATING

One of the most concerning points raised in this afternoon's speech, is the issue of South Africa's national debt, which is in serious danger of careening out of control if government does not take decisive action.

Debt service cost is currently the most rapidly growing area of national expenditure. What is concerning is that the gross national debt was around 51% of gross domestic product (GDP) only three years ago, which is now predicted to reach 71% of GDP within the following three years – and thereafter it continues on an upward trajectory. This is clearly unsustainable which will require a serious intervention to rectify.

PROPOSED COST SAVING BRINGS HOPE

On a positive note is the emphasis that the Minister seems to be placing on cost savings. Proposed measures like the freezing of salaries for politicians, review of subsistence allowances for top-level government employees over the next few years and downgrading their flights to economy class is certainly sending the right message to the South African public. In addition, he has also highlighted that the growth in the public wage bill needs to be brought in line with inflation. Time will tell whether there is enough political will to implement these measures with the desired outcome.

> Proposed cost saving measures are certainly sending the right message to the South African public.
>
> MIKE TEUCHERT

ECONOMIC GROWTH DECLINE EXACERBATES TREASURY'S PROBLEMS

The fact that economic growth has been regularly revised downwards is extremely troubling. Growth forecast has been revised downwards from 1.5% to 0.5%. It is definitely one of the key reasons why revenue collection is expected to only reach R1.37 trillion this year (well short of the R1.42 trillion target).

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> The fact that economic growth has been regularly revised downwards is extremely troubling.
>
> GRAHAM MOLYNEUX

The projected revenue is around 4% less than Treasury's revenue goal for the 2019/20 financial year, and it remains to be seen whether this revised target will indeed be met by February next year.

It directly affects some the biggest sources of revenue, namely VAT, personal income tax and corporate tax. As long as the economy continues to perform poorly, revenue collection will be under severe strain.

SPENDING PROBLEMATIC

Another important issue to note, is that non-interest spending in the current year is also projected to be up by a nett R23 billion, and the Minister attributed this in no small part due to Eskom's financial situation. In fact, according to the Minister, Eskom is responsible for R26 billion of non-interest expenditure in this year – and other SOEs account for a further R10.8 billion. As the Minister says, we are simply spending more than we earn.

The above press release was featured in various media and includes comment from Mazars experts Mike Teuchert (Partner) and Graham Molyneux (Partner).

2019 MTBPS **HIGHLIGHTS**

THE URGENCY OF REDUCING GOVERNMENT SPENDING

The Minister of Finance, Tito Mboweni's speech during the 2019 Medium-Term Budget Policy Statement (MTBPS), on Wednesday 30 October, was a strong warning that South Africa may not be able to recover if government does not act immediately.

This is according to David French, Tax Consulting Director at Mazars, who says that the Minister's message about the state of the fiscus was fairly direct. "He was very clear that the country is in trouble, mentioning that Treasury needs to get more money from somewhere. This will have to come from either raising taxes or raising the national debt. However, neither of these options is an acceptable solution."

As French points out, there is not much room for increasing any of the major tax classes. "There is widespread agreement that we are at the top of the Laffer curve, and that any further increases in personal or corporate income taxes are likely to only lead to tax collections shrinking further."

According to French, increasing the national debt is an even more dangerous option. "As the Minister pointed out, we are on the verge of an inescapable debt trap. At the current rate, the prediction is that South Africa's gross national debt will climb to 71% of GDP by 2022. The only real solution is to commit to some drastic cutbacks in government spending – which is already R23 billion higher than Treasury's projections at the start of this financial year."

French notes, however, that this is much easier said than done. "The Minister's suggestions included measures such as freezing of salaries for parliamentarians, a review of subsistence allowances for government employees, and putting caps on how much government employees are allowed to spend on items such as cars. However, I do not believe that government is going to enforce those measures."

At the same time, he points to the fact that bailouts for state-owned entities (SOEs) have already cost the country over R36 billion. "Eskom alone accounts for around R26 billion in spending. The problem is that we cannot operate without it, so Eskom is probably going to continue to be a drain on the fiscus for some years to come. The Minister's proposal to only provide money to SOEs in the form of loans going forward, is also rather pointless. Government will probably be forced to write off those debts in ten years' time anyway, when these SOEs are unable to repay them."

Lastly, French states that the Minister's stance on the controversial issue of the Gauteng Freeway Improvement Project and the payment of e-tolls, is oversimplified. "We can all agree with the principle that freeway users are responsible for paying tolls.

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However, the real problem is that those funds currently go directly to Sanral – an organisation with almost no transparency, and which is possibly diverting a lot of the money that it collects offshore. The correct way to do this would be to have SARS collect e-tolls and allocate these funds to the departments that actually require it."

On the matter of VAT, Tertius Troost, Tax Manager at Mazars weighs in. "Treasury made a good decision to raise the VAT rate in 2018, and the effect that this had on revenue collections was positive. However, I believe that government should have been more decisive."

He argues that if government had introduced a 2% VAT increase the revenue gap could have been avoided altogether. "In theory, increasing VAT by 2% instead of the 1% that we saw in April of 2018, would have been enough to help Treasury reach the R1.42 trillion target. Even though very unpopular and will lead to a backlash, no alternatives remain, but to increase VAT again."

Treasury made a good decision to raise the VAT rate in 2018, and the effect that this had on revenue collections was positive.

TERTIUS TROOST

On a more positive note for French, the Minister's comments regarding the Reserve Bank were quite heartening. "Minister Mboweni indicated to the advocates of nationalisation that the Reserve Bank was functioning well enough on its own, and was actually profitable – the state would therefore do well to leave it alone," he concludes.

The above press release was featured in various media and includes comment from Mazars experts David French (Director) and Tertius Troost (Manager).

SA LOOKS TO **MID-TERM BUDGET FOR A TURNAROUND** PLAN

Despite the ongoing uncertainty around when the medium-term budget policy statement (MTBPS) will be revealed, Minister Tito Mboweni has his work cut out for him. Addressing pressing national issues such as rising debt levels, ailing state-owned entities, and sluggish economic growth will therefore be top priority for Treasury.

This is according to Mike Teuchert, National Head of Taxation at Mazars, who predicts that Mboweni will talk more to his economic stimulus plan. "Mention of this plan is almost a certainty, but hopefully this will encompass a clear and practical strategy for facilitating real economic growth in the coming months. It may also foreshadow some of the possible decisions that are going to come out of the NEC, based on the recent representations that Mboweni has made to the council."

The other big thing that Teuchert believes South Africans should be looking out for in the MTBPS is an update on the country's debt levels. "People will be eager to know where we are in terms of our debt to GDP, the expectation here going forward and the likely outcome of the under-collection of revenues – will this give rise to further borrowing or be funded in another way?"

In terms of revenue collection, it is widely believed that Treasury is not going to meet its targets, Teuchert notes. "The question then is, if targets are missed, what is going to give – are we going to see a reduction in expenditure or more borrowing?

"This is a core issue that has stemmed from the current state of the economy and the poor state of revenue collection in South Africa," he adds.

"One of the things that we are aware of is that revenue collections are down from previous years. We are also concerned that the imminent changes to how foreign employment income of South African residents will be taxed may create a negative environment, increasing the prospect of higher emigration levels in the future – especially of higher-net-worth individuals."

> The new Commissioner of the South African Revenue Service (SARS) does seem to have more of a practical and impactful approach when it comes to revenue collection.
>
> MIKE TEUCHERT

On a positive note, Teuchert believes that the new Commissioner of the South African Revenue Service (SARS) does seem to have more of a practical and impactful approach when it comes to revenue collection. "The new SARS commissioner, Edward Kieswetter, is focusing on driving better compliance among taxpayers by making the actual process of compliance easier.

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"We are therefore hearing more talk of an update on e-filing and revenue collection systems to make it easier for people to be compliant. Ultimately, while this is a long-term project, it bodes well for the prospect of getting better collections going forward."

The other key issue that Teuchert says Treasury will need to deal with in the MTBS is the dire state of SOEs. "This will likely tie in with Mboweni's growth plan, which has raised the possibility of losing some of the SOEs that are failing to perform or no longer fit in with the greater strategic outlook of the country. While this may ultimately be more of a political discussion than a financial discussion, we are hoping to get a better idea of what we can expect in this regard."

Lastly, Teuchert hopes to get an update on the NHI. "Specifically, we want more details on how Treasury is planning to fund such an ambitious project. While a full update on this may only come about in the annual budget speech next year, we hope to at least get some indication in this coming mid-term budget about the direction that this funding will take," he concludes.

The above press release was featured in various media and includes comment from Mazars expert Mike Teuchert (Partner).

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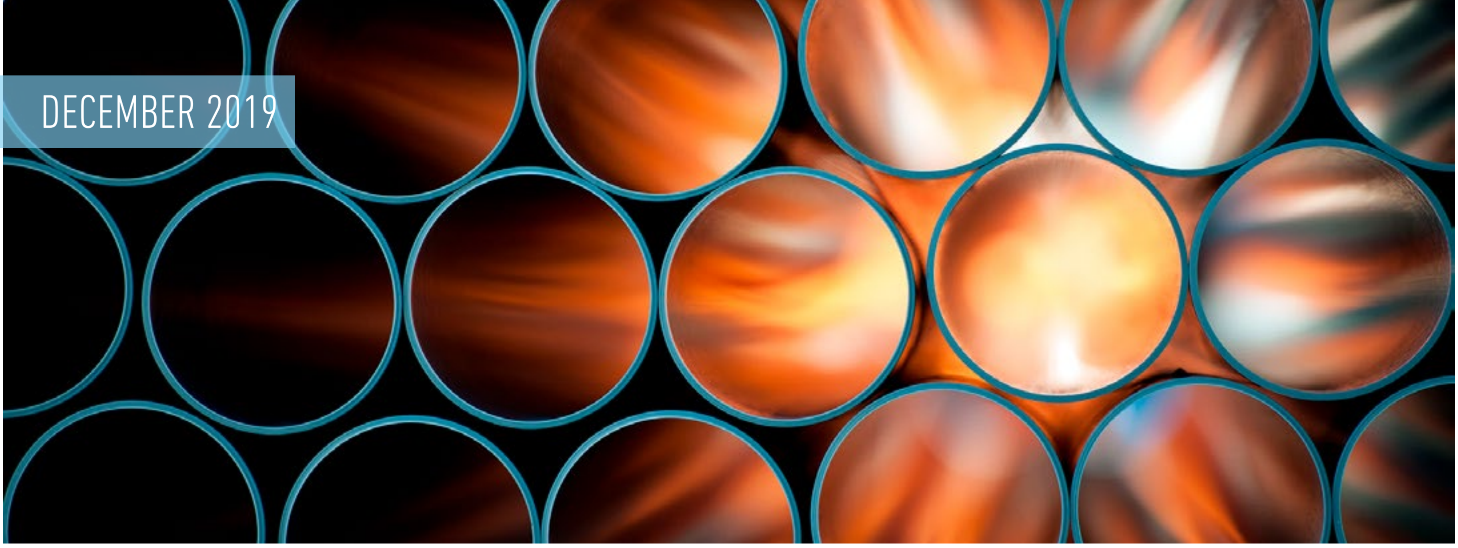

THE **GROWING CONCERN** OF SA SOEs

The national oil company Petroleum, Oil and Gas Corporation of South Africa (PetroSA) is the latest of a long list of cash-strapped state-owned enterprises (SOEs) to find itself in serious trouble, with reports that its flagship Mossel Bay gas-to-liquid refinery is set to run out of gas reserves by December 2020.

With no sustainable long-term solution in sight, the subsidiary of the government's Central Energy Fund is already close to negative cashflows, as the Mossel Bay plant continues to operate at less than half of its capacity due to declining reserves.

While PetroSA is yet to decide on a sure way forward, Bernard Sacks, Senior Tax Partner at Mazars, says that without an alternative source of gas, this will ultimately come at the expense of the South African taxpayer.

"Considering that $1 billion has already been lost through PetroSA's unsuccessful efforts to secure additional gas reserves during its recent offshore drilling campaign, hopes for an alternative source of gas being found are dwindling, and the possibility of closing the plant is now a real consideration."

Should PetroSA close the facility, in addition to the dire economic impact this would have on Mossel Bay and the surrounds, Sacks notes that a significant shortfall exists for the estimated costs involved. "In a presentation made to the National Assembly, PetroSA has said it would cost R9.8 billion to close the facility, of which it only has R2.4 billion available."

He explains that the shortfall of R7.4 billion would therefore have to be accounted for somewhere in the budget. "Ultimately, this shortfall would need to be funded through either a reduction in expenditure, or a possible increase in taxation – this, at a time when government is already under massive financial pressure."

Another consideration that Sacks raises is the potential state liability in relation to the 1500 people whose jobs are at risk. "With the reality of Mossel Bay's economy likely coming to a virtual standstill in the event of the facility's closure, the loss of 1500 jobs would place further pressure on government by means of additional social grants that may be required to support the families of all those affected."

While PetroSA reportedly has several initiatives planned to keep the plant's doors open, Sacks believes that a greater reliance on imported products may be unavoidable. "The fact that the plant is set to run out of domestic reserves means that South Africa will either need to import natural gas to keep the refinery going, or resort to a greater reliance on imported fuels in the event of a closure."

PetroSA's present predicament is unfortunately indicative of the general state of South Africa's SOEs, which Sacks says will be one of the major concerns for Treasury to grapple with in the upcoming 2019 Medium-term Budget Policy Statement (MTBPS).

"PetroSA is just one of the many embattled SOEs that continues to be a financial burden for the South African taxpayer. If Treasury has any further plans to contain the amount of money that is being lost through these entities, now will be the time to implement them," Sacks concludes.

The above press release was featured in various media and includes comment from Mazars expert Bernard Sacks (Partner).

WHAT **FINANCIAL SERVICES CFOs ARE LOSING** SLEEP OVER

The financial services industry, like many other industries today, is facing unprecedented change and uncertainty as it moves toward an era of digitalisation. Millennial customers are demanding better experiences and want greater transparency, flexibility and control, while pressures on compliance and risk functions remain high as banks continue to operate under multiple regulatory jurisdictions and have to comply with changing rules.

Geared specifically towards assisting companies to meet these challenges, global audit and advisory firm, Mazars has launched a practice to offer on-demand specialised skills and consulting services to businesses in the financial sector. Headed by industry veterans, Riaan Eksteen and George Ellis, the newly established Mazars Financial Services Africa is the modern CFO's answer to delivering more business value by taking a LEAN approach.

"In today's rapidly-evolving world, large banks and insurers are under immense pressure when it comes to revenue growth, with a large focus on cost and cost containment. As a result, project teams tend to be relatively light, often lacking the specialised skills and capabilities necessary. This is where Mazars Financial Services can help by providing access to qualified chartered financial accountants as well as industrial engineers to augment project teams," says Eksteen.

He notes that skills shortages and the war for talent are more than buzzwords. "The talent shortage in these specialised roles is very real and many companies in the financial sector are finding it difficult to hire the right professionals when and where they need them."

With firms like Mazars being uniquely positioned to find and attract these skills, Eksteen explains how the Mazars Financial Services model allows companies to eliminate a lot of hiring risk and build much leaner finance teams. "We can fill the need for on-demand skills and deploy people with the required expertise when companies need them. There is then the option for clients to permanently employ any of our professionals if they so wish, which is a win-win."

> Mazars Financial Services can provide access to qualified chartered financial accountants as well as industrial engineers to augment project teams.
>
> RIAAN EKSTEEN

In addition to suiting clients, this model is also in line with modern workforce trends, adds Eksteen. "Young professionals value flexibility and variety, so offering this type of non-permanent experience at various clients allows them to gain experience across different sectors and develop skills that are in high demand in the industry.

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This way, we believe we can grow the skills base to the benefit of our clients, our people and South Africa."

Touching on something else that makes Mazars Financial Services so unique; Ellis says that it is the only offering combining finance and engineering in a single solution. "The skills that we are offering are therefore extremely specialised, especially when it comes to our financial services engineering offering, which is proving to be a major value-add for clients."

> Mazars Financial Services, through automation, are able to increase the regularity of reporting from an annual basis to a monthly basis.
>
> GEORGE ELLIS

Ellis uses the looming compliance of IFRS17 as an example of this. "With all major insurance companies having to comply with IFRS17 in the foreseeable future, there are IFRS17 projects underway across all financial firms. The combination of providing firms with chartered accountants (CA's) who have a good understanding of IFRS17, as well as process engineers who can make the process as efficient as possible, will significantly improve the process for companies to become compliant.

"These process engineers will map out what the existing process is and what needs to change, while looking at ways to make it faster and better. They therefore redesign the process, but also incorporate elements of automation, artificial intelligence (AI) and robotics to streamline operations and maximise efficiency. As a result, a firm could effectually adopt IFRS17 and have a month-end close that is faster than before."

Another process-engineering concept that Ellis says appeals to CFO's is that of LEAN finance. Explaining the key metrics that Mazars Financial Services want to drive through their LEAN finance offering, he uses the acronym "PDQCRM", which stands for Productivity; Delivery; Quality; Cost; Risk and Controls; and Morale. "The intention of our LEAN finance offering is to take existing finance structures and processes, and apply intelligence to these by questioning if there is an opportunity to be faster or more regular in flows and reporting.

"We see a lot of banks and insurers with very complicated year-end reporting processes, and as a result of this complexity, they are unable to do it as regularly as they would like to. This is a perfect example of where Mazars Financial Services, through automation, are able to increase the regularity of reporting from an annual basis to a monthly basis."

While Mazars is already recognised as a major player in financial services across much of the African continent, Eksteen believes that the introduction of Mazars Financial Services Africa puts the firm on par with the large auditing companies and validates their ambition to become the best professional services firm in Africa.

"Mazars Financial Services Africa offers financial services clients the personalised service that their businesses need. The business world is changing, and Mazars is now well positioned to help clients face the changes and challenges of a rapidly evolving market. This means CFO's can sleep easy knowing that they are delivering the most business value possible," he concludes.

The above press release was featured in various media and includes comment from Mazars experts Riaan Eksteen and George Ellis.

A LINE TO THE FUTURE

HOW 5G IS OPENING UP OPPORTUNITIES FOR TELCOS

The future growth of telecommunication companies around the world will be affected by their ability to create and own seamless customer experiences, according to Mazars' recent future of telcos study. But what are the forces at play in the battle to win the customer experience? How important is 5G to the future of telcos' growth? And what can telcos count on in order to gain competitive advantage?

When discussing mobile technology and its great leaps forward, it can be easy to forget how far we've already come and, more specifically, what is making it possible. Seemingly overnight we have moved into the 5G era without recognising what such a transition promises.

IN THE BEGINNING THERE IS 5G

Contrary to what its name suggests, 5G is much more than an incremental change from previous network technologies. While 3G introduced us to mobile technology and 4G made us comfortable with its applications, 5G stands to reshape our lives in and out of the office entirely.

Why? 5G enables data transfers at record speed while shrinking latency – the time it takes for tech to be stimulated and to respond – to almost zero. As a result, the devices already in our hands will be supercharged to fulfil our every demand – think autonomous vehicles and smart homes.

5G is a breakthrough technology, not just an incremental innovation. It will act as the enabler for future experiences, whether that's accessing seamless, highly-sophisticated financial services via your mobile device, or remote medicine delivery and smarter, more sustainable energy grids.

TELCOS AND THE FUTURE OF FINANCE

Different industries are reacting to 5G-generated opportunities in various ways. In the world of finance, companies are vying to operate on the innovation frontline, hoping to win customer loyalty through new and improved services.

> At first, banks were disrupted by fintechs, which offered a more attractive experience – with more ergonomic interfaces and better leveraged data.
>
> GRÉGORY MARCHAT

In the UK regulators have proven open-minded and banks are co-operating with fintechs to foster and introduce innovation to the market. Interestingly, telcos may even have an advantage over fintechs when it comes to offering financial services that carry risk.

Grégory Marchat, Co-Head of Global Banking and Head of UK Financial Services at Mazars, explains, "At first, banks were disrupted by fintechs, which offered a more attractive experience – with more ergonomic interfaces and better leveraged data.

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But they have partly closed the gap since and could close it further thanks to two inherent advantages. The first is their existing client portfolio. The second is their mastery of regulation complexity. Compared to payment licenses, credit licenses are restricted and difficult to obtain. This is where telcos probably have an edge over fintechs as the former are more credible in terms of the capital, teams and processes that are necessary to manage risks and compliance."

5G AND DRIVERLESS CARS

It is not just in finance where 5G is reshaping industries. Grégory Derouet and Christian Back, Co-Heads of Automotive Services at Mazars, say 5G is already playing out in the automotive world, which is evolving its business model to accommodate drivers who will, soon, be able to take their hands off the wheel.

"5G is going to advance the level of vehicle automation – potentially – up to the 5th level, which is a totally driverless car. Such a level of automation requires cars to communicate with one another and with their environment... imagine traffic lights warning cars they're about to change colour, or the car in front warning yours that is has to urgently brake. 5G is expected to be reliable enough to enable that level of information exchange and decision making."

They add, "5G is a cornerstone of the business model evolution and we expect a large part of the auto-industry to move towards a 'mobility-as-a-service' model. The race is already on to offer the most enjoyable, integrated and hassle-free experience."

To find out how telcos are unlocking – and gaining from – experiences like this, see our 'seamless experiences' blog.

TELCOS EXISTING ADVANTAGES

Amidst the rapid pace of technological development and the crowded playing field when it comes to finance and the customer experience, it's important to reflect on the advantages already in telcos' corner. In our Future of Telcos report, we outlined the following four:

1. Straightforward customer identification
   "The phone number is a great asset to that end," says Emmanuel Dooseman, Head of Banking, Mazars. "It is unique, short and can be committed to memory."
2. Smart recommendations
   As 5G meets IoT, big data and AI, there are more opportunities to deliver timely and relevant advice to customers. A smartphone could remind the customer they have a coupon for their next purchase, or an algorithm could suggest a customer saves money when their financial situation allows it.
3. Invisible transactions
   A shopping experience where retail technology recognises you and can access the necessary data meaning you don't need your wallet. Some retailers are already trialling such technology.
4. Reward and loyalty
   No one wants to manage dozens of loyalty cards in their physical wallet but customers with a long-standing bond want to be treated differently to first-timers. The digitisation of loyalty programmes will lead to hassle-free rewards and build greater brand allegiance.

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GREENHOUSE GAS REPORTING REGULATIONS

AND CARBON TAX FOR BUSINESS

The Government Gazette of the 3rd April 2017 published the National Greenhouse Gas Emission Reporting Regulations, under Section 53(a), (o) and (p) read with section 12 of the National Environmental Management: Air Quality Act, 2004 (Act No. 39 of 2004).

The purpose of the regulations is to introduce a single national reporting system for the transparent reporting of greenhouse gas emissions, which will be used:

- to update and maintain a National Greenhouse Gas Inventory
- for the Republic of South Africa to meet its reporting obligations under the United Framework Convention on Climate Change (UNFCCC) and instrument treaties to which it is bound; and
- to inform the formulation and implementation of legislation and policy.

These regulations (http://www.gov.za/sites/www.gov.za/files/40762_gen275.pdf) apply to the categories of emission sources listed in Annexure 1 to these regulations and a corresponding data provider as classified below:

- **Category A:** any person in control of or conducting an activity marked in the Category A column above the capacity given in the threshold column of the table in Annexure 1 of these regulations; and
- **Category B:** any organ of state, research institution or academic institution, which holds greenhouse gas emission data or activity data relevant for calculating greenhouse gas emissions relating to a category identified in Annexure 1 of these regulations.

IMPORTANT CONSIDERATIONS FOR BUSINESS

Reporting Boundaries – Companies must define their reporting boundaries based on operational control, defined by the regulations as "the full authority to introduce and implement its operating policies at the company".

Inclusion/exclusion of certain emissions – The regulations require companies to exclude emissions from mobile combustion (emissions from vehicles) as well as emissions from purchased electricity and refrigerants. Emissions from waste and waste-water treatment are included, provided you exceed the threshold.

Transitional Arrangements – Companies, may for a transitional period of up to five years from the date of commencement of the regulations apply lower tiers than those specified in the regulations, with tier 1 method being the minimum.

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Thresholds per source category – The regulations provide thresholds per emission source, above which companies are required to report. In the energy sector this is typically 10MW for the energy sources and varies for other categories. It is important to note that the 10MW refers to the design capacity and not how much fuel you consumed. In addition, it is not linked to one piece of equipment larger than 10MW. The regulations provide an example of six 2MW boilers, equating to 12MW, which would then exceed the threshold. Likewise, if you have multiple sites all with back-up generators, and these exceed ten in number, then the 10MW threshold will be triggered, even if no diesel or gas was consumed.

Calendar year – Reporting needs to be done on a calendar year basis, regardless of when your financial year ends.

Timing – The Regulations state that companies must submit their returns by the 31st March for the preceding calendar year ending 31st December.

> Companies will need to register their company and the facilities that exceed the threshold on the South African National Atmospheric Emission Inventory System.
>
> WILLIAM HUGHES

Registration – Companies will need to register their company and the facilities that exceed the threshold on the South African National Atmospheric Emission Inventory System (NAEIS) which will serve as the reporting portal for GHG data. The regulations require facilities to register within 30 days of publication of the regulations.

Record Keeping – A company must ensure transparency of the data submission by archiving all data, measuring reports, algorithms, procedures and technical references used to estimate greenhouse gas emissions. The data submission must be kept for at least five years and must be available for inspection by the competent authority.

Validation and verification – The regulations do not specify verified data, but if the competent authority deems the data not to be transparent, complete or correct, they may undertake on-site verification and validation for which the company will be liable for all costs.

Offences – A company commits an offence if that company provides false or misleading information to the competent authority or fails to comply with the regulations.

Penalties – A company convicted of an offence in terms of the regulations is liable in the case of a first conviction to a fine not exceeding R5 million or to imprisonment for a period not exceeding five years and in the case of a second or subsequent conviction to a fine not exceeding R10 million or imprisonment for a period not exceeding 10 years and in respect of both instances to both such fine and such imprisonment.

CARBON TAX

The foundation of the carbon tax, including its administrative system, has been laid down through promulgation of the above mentioned National Greenhouse Gas Emission Reporting Regulations. Key points to note:

- Carbon tax has been implemented with effect from the 1st June 2019, with the carbon budgets imposed under a separate climate change bill starting out next year as voluntary before being made mandatory after 2020.

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- South Africa's carbon tax rate has been set at R120 per tonne of greenhouse gas emissions, and various percentage-based tax-free thresholds will be applied.
- The tax will affect virtually all areas of South Africa's economy, covering most stationary and non-stationary sources and applying to fossil fuel combustion, fugitive emissions, and industrial processes.
- Waste, agriculture, forestry, and other land-use sectors are exempt from paying it or performing MRV until 2022 due to the difficulty in accurately measuring output from those sources.
- A basic tax-free allowance of 60% is offered to all emitters, with an additional 10% for having process or fugitive emissions.
- Another variable allowance of up to 10% is available for trade-exposed sectors, with an additional 5% available for above-average performance relating to sectoral benchmarks.
- Each emitter has an offset usage limit of 5% or 10%, depending on their sector.
- Beyond that, a further 5% can be applied by companies that have developed an annual carbon budget and report it to the government.

NEXT STEP

Companies must register and familiarize themselves with the NAEIS and ensure that they are ready to report. The official deadline of the 31st March 2018 has long since passed, so urgency is required if your company emits greenhouse gases above the stipulated thresholds.

Mazars can assist you with this and the entire greenhouse gas emission reporting and carbon tax process as we have internationally accredited Institute of Environmental Management & Assessment (IEMA) Carbon Footprint Analysts on hand to guide you every step of the way.

WILLIAM HUGHES: Consultant
william.hughes@mazars.co.za

DECEMBER 2019

DO YOU HAVE **OUTSTANDING DEBT WITH SARS?** BEWARE

The Tax Administration Act (the TAA) was established with the following main objective: "to achieve a balance between the powers and duties of SARS, on the one hand, and the rights and obligations of taxpayers, on the other".

We have recently noted an increase in the number of cases where SARS have accessed monies from taxpayers bank accounts, without the taxpayers consent, to settle purported 'outstanding tax debts'. In this regard, it is important to note that SARS do indeed have the power access monies from your bank account, without your consent, but are required by law to follow the necessary steps prescribed by the TAA before doing so – if you default on paying your tax debt to SARS and do not follow the correct procedures, your banked monies or even your salary may not be safe! SARS will use your ID number to access data in relation to every bank account registered in your personal name.

Section 179 of the TAA empowers SARS do this by way of issuing a collection notice called a AA88 third party notice. This notice essentially instructs a third party to withhold and pay over 'any amounts due to SARS in terms of the TAA'. The third party can be an employer, or any other person who has 'the management, custody or control of any income, monies or property of the taxpayer' (i.e. a bank). The odds of SARS using this debt collection method (AA88 notice) increases as the end of the tax year approaches and SARS scramble to meet their steep revenue collection targets. It is important for taxpayers to understand that, due to recent amendments to the TAA, SARS can do this without any judicial oversight.

Most importantly, before SARS can recover any tax debt, the taxpayer must have received an assessment from SARS (i.e. there can be no debt without an assessment, whether it be an original, additional, reduced, estimated or jeopardy assessment). SARS can only recover an outstanding amount in terms of an assessment. Accordingly, assessments need to detail when an amount is in fact due and payable as well as the quantum of tax due and payable. A taxpayer is liable to pay the amount of tax to SARS by the due date of the assessment as detailed on the relevant assessment.

> SARS is still legally obligated to collect any tax debt due to it, regardless of any disputes.
>
> ROBIN GALLOWAY

If a taxpayer disagrees with an assessment issued by SARS, they have the right to lodge an objection in dispute of the assessment. However, SARS is still legally obligated to collect any tax debt due to it, regardless of whether the taxpayer has disputed an assessment or is in the process of disputing an assessment that gave rise to a tax debt.

continued on next page

In this regard, an important factor to consider here is the "pay-now-argue-later" principle, which applies to all tax debts. In terms of this principle, the obligation to pay tax is not automatically suspended by an objection or appeal lodged by the taxpayer or a taxpayer's representative. Accordingly, it is important that, where a taxpayer receives an assessment which taxpayer disagrees with and only intends to make payment in terms of the assessment pending the outcome of an objection or appeal, the taxpayer must do the following to prevent SARS from instituting collection proceedings (preferably before the tax becomes due and payable):

1. Submit a "Request for Suspension of Payment" via eFiling; and
2. Lodge (or inform SARS of their 'intention' to lodge) an Objection in dispute of the assessment.

A suspension of payment request essentially protects a taxpayer from all SARS collection procedures from the date the request is received by SARS through to 10 business days after SARS issues its decision to the taxpayer to either grant or decline the request. If SARS approves the request for suspension of payment, it may not commence any collection proceedings for the tax debt in dispute pending the outcome of the objection or appeal. At worst, this buys the taxpayer some much needed time to arrange the funds to settle the tax debt if SARS deny the suspension of payment request.

Only a senior SARS official can decide to suspend payment in terms of section 164 of the TAA, who must take the following factors into account when deciding to grant or decline the request:

- the risk of recovery will be put in jeopardy or there will be a risk of dissipation of assets;
- the compliance history of the taxpayer;
- whether fraud is involved in the origin of the dispute;
- whether payment will result in irreparable financial hardship to the taxpayer not justified by the prejudice to SARS or the fiscus if the disputed tax is not paid or recovered; and
- whether the taxpayer is able to provide adequate security for the payment of the amount involved.

If the senior SARS official declines the taxpayers request for SARS to suspend payment due to SARS in terms of an assessment, pending the outcome of an objection or appeal, the taxpayer has the option to apply to SARS for a payment plan (i.e. apply to pay off the tax debt in affordable monthly instalments).

Once the objection or appeal has run its course and finality has been reached, either by the issue of a reduced assessment, or the objection or appeal being declined, the resulting assessed tax becomes due and payable. The due date for payment will be reflected on the revised assessment. If the taxpayer disregards the stipulated payment date, then SARS may commence collection proceedings which includes collecting the tax debt from a third party.

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SARS must follow due process when issuing a AA88 notice to a third party:

- a senior SARS official must authorise the issue of the notice to a third party. SARS may only issue the notice after 10 business days of delivery to the taxpayer of a final demand for payment;
- the final demand must set out the following:
  - recovery steps that SARS may take if the tax debt is not paid;
  - available debt relief mechanisms contained in the TAA;
  - if the taxpayer is a natural person he or she may within 5 business days of receiving the final demand, apply to SARS for a reduction of the amount to be paid to SARS based on the living expenses of the taxpayer and his or her family; and
  - if the taxpayer is not a natural person it may within 5 business days of receiving the final demand, apply to SARS for reduction of the amount to be paid to SARS based on serious financial hardship; and
- if requested, SARS must extend the period over which the amount must be paid to SARS, to allow the taxpayer to pay basic living expenses;
- SARS may issue the notice to a third party without issuing a final demand only if a senior SARS official is satisfied that to do so would prejudice the collection of the tax debt.

In the event that the taxpayer cannot afford to settle the tax debt owing to SARS, another relief mechanism afforded by the TAA is a compromise agreement, whereby SARS may write off a part of the tax debt.

If a taxpayer has successfully applied for suspension of payment or applied for an instalment payment plan or reached a compromise, and SARS proceed with instructing a third party to withhold and pay over funds, these proceedings on the part of SARS will be regarded to be illegal and in contravention of the TAA. The taxpayer will have the following recourse against SARS in this instance:

1. To lodge an official complaint to SARS via the Complaint Management Office (CMO). This can be done on the taxpayers eFiling profile;
2. If the CMO fails to address the matter in a satisfactory manner, the taxpayer could take the matter to the office of the Tax Ombud (who is independent from SARS);
3. As a last resort, the taxpayer could institute legal action to remedy the situation.

It is becoming increasingly important that taxpayers understand their rights in terms of the steps SARS must follow to recover any tax debt as well as their obligations with regards to submitting objections and appeals timeously.

We further advise that taxpayers should seek the advice of a qualified tax professional immediately with matters of this nature. In this regard, Mazars Port Elizabeth has a number of dispute specialists that will deal with these matters timeously and decisively. Please email any queries you may have in this regard to PLZ.TaxConsulting@mazars.co.za.

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DID YOU KNOW THAT MAZARS NOW AUDITS INSURANCE ENTITIES?

DO YOU NEED SOME EXPERTISE IN THIS FIELD?

WHAT'S TRENDING IN INSURANCE?

Uncertainty
The insurance industry operates in an economic environment that remains heavily affected by the global financial crisis.

Digitisation
Digitalisation is creating new business models and disrupting insurance by opening up new routes to market and ways of engaging with consumers.

Regulation
Pressures on compliance and risk functions remain high as insurers operate under multiple regulatory jurisdictions and have to comply with changing rules.

Customers
Customers want greater transparency, flexibility and control. How to meet customer expectations in the key service areas of communications & channel strategy, product information and self-service.

New markets
With a developed market slowdown, a shift in power towards emerging market economies is happening as they continue to grow.

These challenges put a severe strain on traditional business models. Insurers need to rethink their trategies, products and business models to stay relevant in this fast-evolving market.

OUR SOLUTIONS: TAILORED SERVICES THAT FITS THIS NEW GLOBAL INSURANCE CONTEXT

PROVIDE RELIABLE FINANCIAL INFORMATION
Audit & Assurance Being your recognized signature and your trusted advisor on constantly evolving regulation and accounting standards

REDUCE RISKS
Actuarial & Risk Management Evaluating risk and adapting your strategy to market changes while strengthening your internal controls

BOOST YOUR PERFORMANCE
Consulting Optimising your organisation and processes and helping you navigating through changes

IMPLEMENT YOUR FINANCIAL STRATEGY
Financial Advisory Supporting you in financing your operations and growth

IMPROVE EFFICIENCY
Accounting & Outsourcing Improving your financial performance so you can focus on your core business

BE COMPLIANT
Tax Ensuring you maintain compliance while adding value

Contact Riana Groenewald +27 21 818 5312 or email riana.groenewald@mazars.co.za

YOUR **TAX DEADLINES**

4 December – Tax Season 2019 eFiling closes for Individuals (if you are a provisional taxpayer, you have until end January 2020 to submit your tax return)

- 6 December – Monthly PAYE submissions and payments
- 24 December – VAT manual submissions and payments
- 30 December – Excise Duty payments
- 31 December – VAT electronic submissions and payments
- 31 December – CIT Provisional Tax Payments where applicable.

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