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## October 2017 Newsletter

### "PAY YOUR TAXES OR PAY THE PRICE"

SARS has announced an intensified drive to clamp down on non-compliant tax payers by intensifying criminal proceedings. There has been a significant increase in non-compliance, resulting partly in SARS not meeting revenue collection targets.

It is a criminal offence not to submit tax returns and could result in substantial fines or even criminal prosecution leading to imprisonment. The following non-compliance penalties could be charged:



#### Fixed amount penalties

Fixed rate penalties can be imposed by SARS for non-compliance with any procedural or administrative action or duty imposed or requested, for example:

- Not registering when required to
- Not informing SARS where there is a change in registration details
- Not filing returns
- Not retaining records as required by SARS

#### Percentage based penalties

The percentage based penalty is imposed where SARS is satisfied that the taxpayer has not paid their tax as and when required under a Tax Act. This penalty is equal to a percentage of the outstanding tax.

#### Understatement penalties

The understatement penalty is a percentage applied to the shortfall of the tax. It applies to all taxes and could be charged when there is a default in rendering a return, an omission from a return, an incorrect statement in a return and, if no return is required, the failure to pay the correct amount of tax. Excluded from the understatement penalties are penalties resulting from a "bona fide inadvertent error".

There is no doubt that SARS will be looking at all options to increase revenue collection and non-compliance is an obvious route to go. If your tax affairs are not in order, please do not hesitate to contact us for professional assistance in this regard.

### MEDIUM TERM BUDGET SPEECH LOOMS

Finance Minister Malusi Gigaba's first budget speech looms against a backdrop of allegations of "state capture of treasury". A number of treasury officials have stated all is not well in the finance ministry. Rumours of a parallel administration bypassing the existing structures with little or no consultation before key decisions are being made. In addition, a move that is seen as unconstitutional, it was recently announced that the budget allocation process would be shifted from Treasury to the presidency to "ensure allocations were in line with the National Development Plan".



There are also extensive rumours that Public Investment Corporation (PIC) funds were being utilised to fund State Owned Entities (SOE's). Despite public assurances from Minister Gigaba that this was false, rumours persist that up to R100 billion is being requested to fund debt redemption commitments. The PIC does administer a fund, known as the Isibaya Fund, which invests in black economic empowerment and infrastructure development projects that help to create jobs, relieve poverty and transform the economy. It is possible that this fund could be utilised as a vehicle to fund SOE's whilst still giving reasonable returns.

There will be tremendous interest on the 25th October when Minister Gigaba presents his first ever budget speech. With declining revenue collections, increased demands for education funding, housing, job creation, medical health insurance and a stagnant economy, Minister Gigaba needs to pull a few rabbits out of his hat. We will keep you informed of developments in this regard.

### BLOCKCHAIN - THE TECHNOLOGY BEHIND THE DIGITAL ECONOMY

The digital economy is evolving rapidly. Initially, the internet allowed the business world to promote products and services globally at a push of the button. Next, online shopping started a huge shift in shopping patterns and allowed the smallest of companies to sell their wares globally online. The next big buzz is now crypto currencies with bitcoin being the big buzzword. In essence, cutting out the middlemen and gatekeepers like banks and central authorities. The technology behind cryptocurrencies is called blockchain and below is a basic overview on how this technology works:



*"A blockchain is a continuously growing list of records, called blocks, which are linked and secured using cryptography. Each block typically contains a link to a previous block, a timestamp and transaction data. By design, blockchains are inherently resistant to modification of data. A blockchain can serve as "an open, distributed ledger" that can record transactions between two parties efficiently and in a verifiable and permanent way. For use as a distributed ledger, a blockchain is typically managed by a peer-to-peer network collectively adhering to a protocol for validating new blocks. Once recorded, the data in any given block cannot be altered retroactively without the alteration of all subsequent blocks, which needs a collusion of the network majority."*

*The first distributed blockchain was conceptualized by an anonymous programmer or group of programmers, known as Satoshi Nakamoto, in 2008 and implemented the following year as a core component of the digital currency - bitcoin - where it serves as the public ledger for all transactions. The invention of the blockchain for bitcoin made it the first digital currency to solve the double spending problem without the use of a trusted authority or central server."*

There is no doubt that the blockchain technology is fast changing how we do business, not only for financial transactions, but for storing data and facilitating all types of transactions. We will keep you updated with regular posts on the use of this technology.

### PRINCIPLES OF GOOD GOVERNANCE

There has been plenty written about poor governance in South Africa. Ranging from corrupt government officials to unethical behaviour from reputable international service providers to the state. As Directors of companies we need to be aware of our roles and responsibilities. We have prepared an extract from King IV™ for your perusal. If you feel you need further information as relates to your roles from a governance perspective, please do not hesitate to contact us.



King IV™ Principles of Good Governance

The board of directors should:

- Lead ethically and effectively
- Govern ethics and establish an ethical culture
- Ensure responsible corporate citizenship
- Appreciate that the company's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable components of the value creation process
- Ensure that reports allow stakeholders to make informed assessments about the organisation's performance and its short, medium and long-term prospects
- Serve as the focal point and custodian of corporate governance
- Have the appropriate balance of knowledge, skills, experience, diversity and independence
- Delegate within the board to promote independent judgement, and assist with the balance of power and effective discharge of duties
- Evaluate board's performance and support continued improvement and effectiveness
- Appoint and delegate to management in a way that contributes to role clarity and the effective exercise of authority and responsibilities
- Govern risk in line with strategic objectives
- Govern information and technology in line with strategic objectives
- Comply with applicable laws and adopted, non-binding rules, codes and standards
- Remunerate fairly, responsibly and transparently
- Use assurance services and functions to enable an effective control environment which supports the integrity of information
- Adopt a stakeholder-inclusive approach
- Practise responsible investment which promotes good governance and the creation of value (applies to institutional investor organisations)

Source: The King IV™ Report on Corporate Governance for South Africa 2016, Institute of Directors S.A. For more information, see <http://www.iodsa.co.za/?page=AboutKingIV>

Sincerely,

