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April 2018 Newsletter

SARS's Stance on The Tax Treatment of Cryptocurrencies



Increased attentiveness and speculation regarding the future of cryptocurrencies has prompted calls for the South African Revenue Service (SARS) to provide direction as to how cryptocurrencies should be treated for tax purposes. However, there is an existing tax framework that can guide SARS and affected taxpayers on the tax implications of cryptocurrencies, making a separate Interpretation Note unnecessary for now.

SARS will continue to apply normal income tax rules to cryptocurrencies and will expect affected taxpayers to declare cryptocurrency gains or losses as part of their taxable income. The onus is on taxpayers to declare all cryptocurrency-related taxable income in the tax year in which it is received or accrued. Failure to do so could result in interest and penalties.

Cryptocurrency (typified by Bitcoin) is an internet-based digital currency that exists almost wholly in the virtual realm. A growing number of proponents support its use as an alternative currency that can pay for goods and services much like conventional currencies. In South Africa, the word "currency" is not defined in the Income Tax Act. Cryptocurrencies are neither official South African tender nor widely used and accepted in South Africa as a medium of payment or exchange. As such, cryptocurrencies are not regarded by SARS as a currency for income tax purposes or Capital Gains Tax (CGT). Instead, cryptocurrencies are regarded by SARS as assets of an intangible nature.

Whilst not constituting cash, cryptocurrencies can be valued to ascertain an amount received or accrued as envisaged in the definition of "gross income" in the Act. Following normal income tax rules, income received or accrued from cryptocurrency transactions can be taxed on revenue account under "gross income". Taxpayers are also entitled to claim expenses associated with cryptocurrency accruals or receipts, provided such expenditure is incurred in the production of the taxpayer's income and for purposes of trade.

Alternatively, such gains may be regarded as capital in nature, as spelt out in the Eighth Schedule to the Act for taxation under the CGT paradigm. Determination of whether an accrual or receipt is revenue or capital in nature is tested under existing jurisprudence. Base cost adjustments can also be made if falling within the CGT paradigm.

Value-Added Tax (VAT)

The 2018 annual budget review indicates that the VAT treatment of cryptocurrencies will be reviewed. Pending policy clarity in this regard, SARS will not require VAT registration as a vendor for purposes of the supply of cryptocurrencies.

Should you require further information please do not hesitate to contact us for professional advice in this regard.

Save 28% to 45% Using Section 12J Structuring



Private equity firms, family offices, private individuals, trusts and companies who have invested in start-ups or mature businesses during 2017 may have missed a huge opportunity if they have not considered investing through a Section 12J Venture Capital Company ("VCC").

At first glance, sophisticated investors may be convinced that Section 12J has no application to their investments. However, if investors are South African taxpayers, the chances that their investment/s may qualify for the Section 12J associated tax incentive are high.

The Section 12J benefit translates into a tax rebate on the full investment (28% for companies and up to 45% for individuals and trusts). This, in turn, results in a significant boost to returns on investment.

When considering whether Section 12J is applicable to an investment, one would need to determine whether any of the below elements exist. If they do, then an investment will be regarded as non-qualifying and thus Section 12J will not have application:

1. the book value of the target company exceeds R50 million (unless the investment can be broken down into separate special purpose vehicles);
2. the target company earns more than 20% of its income from investment income (for example, an investment into an investment holding company would not be permissible);
3. the target company carries on majority of its trade outside of South Africa;
4. the target company carries on one of the following "Impermissible Trades":
 1. any trade carried in respect of immovable property, other than a trade carried on as a hotel keeper (i.e. an investment in hotels, serviced apartments, holiday homes and student residences under certain circumstances, will be permissible);
 2. any trade in the financial services sector (for example, banking, insurance, money lending, hire-purchase arrangements etc., however, this doesn't prevent an investor from investing in technology within this sector);
 3. any trade carried on in respect of financial or advisory services, including trade in respect of legal services, tax advisory services, stock broking services, management consulting services, auditing or accounting services; and
 4. any trade carried on in respect of gambling, liquor, tobacco, arms or ammunition.

On the premise that an investor's investment does not fall into one of the categories above, there is a real opportunity to take advantage of the Section 12J associated tax benefits. Accordingly, if you have just realised that Section 12J may be applicable to your business, or if you are still not sure, feel free to contact us for professional advice in this regard.

The Emergence of Progressive Web Apps

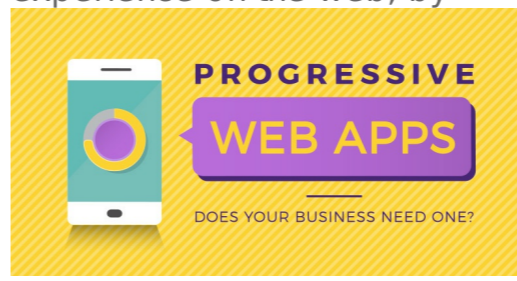
It's been a few months now since Progressive Web Apps (PWA's) have made their way into both the web and mobile domains but are you fully aware of all the advantages and benefits they offer?

The web ecosystem has evolved quite a lot over the course of the past several years. The surge in mobile usage has totally changed our way of using the web. Mobile constraints, like limited space due to small screens, as well as a pointer much less precise than that on desktop (your finger), have pushed designers to create user interfaces that are far from what we were used to using in the early 2000's. Clearer, more refined, and most importantly more intuitive, these interfaces figured out how to make their way onto larger screens as well - making it essential today to provide perfect user experience, regardless of the device being used.

PWA's are the next generation apps, by combining the best of apps and the best of the web, offering an unparalleled experience all the way from mobile to desktop.

In addition, PWA's which are available on the web directly from a URL, allow you to acquire on average 3 times more visibility than native apps do. The user experience that they offer leads users to stay 8 times longer than they do on classic websites.

PWA's represent a new way to deliver incomparable user experience on the web, by offering features that have been reserved only for native apps up until now. In terms of usage, the number of smartphone users is incessantly increasing—the global percentage has jumped from 56% in 2013 to around 66% in 2018. Today, 57% of web surfers browse with the help of a mobile device, leaving estimations at over 61% by 2020.



Another indicator supporting this trend is Google's recent move to modify its algorithm to favour sites that have perfect mobile versions. In time, Google algorithms will only use a site's mobile version of its content to classify its pages, to understand data structures, and to show snippets of the site in search results.

As you can see, all odds are in favour of PWA's being the new norm for web/mobile usage. Browser suppliers have got this message, as we can see through their efforts to implement all the technology necessary for them to work, so as to get to a point where PWA's are completely universal.

We're now facing a mega trend that's going to revolutionize the way we use the web by having access to the best tools out there for developing your business.



Important Dates

- 25th April 2018 - VAT manual submissions and payments
- 26th April 2018 - Excise Duty payments
- 30th April 2018 - VAT electronic submissions and payments
- 30th April 2018 - CIT Provisional Tax Payments

Sincerely,

