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February 2017

#### WILL 2017 BE BETTER THAN EXPECTED?

2016 was our *annus horribilis* with drought, political uncertainty, low commodity prices, rising inflation and a weak currency.

From such a low base, economists are arguing things should get better.

#### What will drive the economy in 2017?

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Our economy has been running a substantial trading deficit which puts pressure on the Rand and inflation. As with any economy, it is important we live within our means. To the end of October the current deficit was R14 billion versus R60 billion in 2015. We have an open economy which means that when exports rise and imports fall, we are creating economic growth. This substantial turnaround in the current account deficit signals that the economy is starting to pick up steam.

#### Agriculture

We are coming off one of the worst droughts in living memory. Apart from being a drag on economic growth, the drought has been the largest contributor to rising inflation with food inflation now above 11%. The 2016/17 crop is well under way and is expected to be a bumper crop. This will dampen inflation, improve further the balance of payments and could add up to 1% in economic growth.

#### Commodities

Since the global financial crisis of 2008/2009, the price of commodities continuously fell. Iron ore fell from \$140 to just \$20 per ton. In 2016, it rose to \$80. The same trend can be seen with our other major commodities like gold and platinum. As commodities make up more than half of our exports, the improvement in prices will also add to economic growth, employment and a further improvement in the balance of payments.

#### The Rand

The Rand had a roller coaster ride in 2016 – at one stage it touched R17 to the dollar. Today it is R13.50 to the dollar. If it remains within this range it will give confidence to investors (thus attracting investment which will further strengthen the currency) and will keep inflation in check.

#### ***But .....***

Plenty of factors can derail this forecast, such as more political turbulence, particularly around the Finance Minister, a ratings downgrade is still a possibility and the global economy still faces a great deal of uncertainty. We need to also remember that consumers have been under pressure and proposed tax increases in the February Budget will add to this pressure.

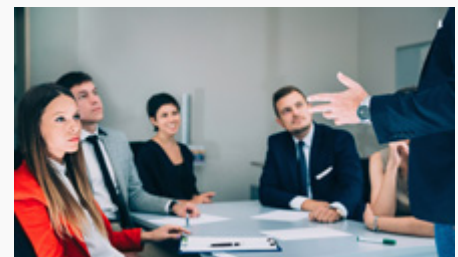
Nevertheless we should experience positive growth – it could even go above 2%. This growth could be the springboard for a positive growth cycle. Remember the economy goes in cycles and we have experienced a low point in 2016 which signals the end of the downward cycle. Our population growth rate is 1.7%, so anything above this means there is real wealth growth for the economically active.

### DEVELOPING YOUR SENIOR STAFF: LET THEM RUN MEETINGS

One underrated but important aspect of an organisation is its ability to run effective meetings. Problems are identified and strategies are put in place to chart a successful way into the future.

In smaller businesses invariably the most senior person (the owner or CEO) runs these meetings.

As business owner or CEO, it is well worth thinking about allowing your senior staff to conduct and lead these meetings.



#### ***Everyone benefits***

Firstly, one of the key assets in a business is its people. Enabling them to learn an important skill will add to the depth of your staff. It will also give these managers credibility and respect within the organisation which enhances their commitment to the business.

Secondly, a business is more sustainable and profitable when management and staff act in unison. Getting leadership's vision to filter all the way down the organisation is critical. Up-skilling your senior staff will add to this process and will spread your vision throughout the company.

As a CEO you are often more effective as a participant in a meeting, as not running allows you to be more focused. You can ensure the meeting sticks to significant matters by making critical interventions when necessary.

Finally, the fact that you can delegate important tasks fosters teamwork and gets buy-in from your staff.

### ***Who to appoint***

This is really a judgment call but clearly you should select people with development potential, good communicators who have empathy and facilitation skills. The person selected to run a particular meeting should be objective so consider, say, using a marketing person to facilitate a human resource issue.

Letting your managers run meetings is a cost-effective way to improve management skills and to build a more effective company.

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## **“JUST WALK OUT” – AMAZON IS REVOLUTIONISING GROCERY SHOPPING. HOW WILL IT AFFECT US?**

In South Africa only about 10% of retail shopping is done online as shoppers still prefer to go to malls to do their shopping. The worst part of this is often the queuing when it comes to paying for your purchases. Pressure has been put on retailers to find ways to ease these long queues.



Amazon is piloting a product (“Amazon Go”) which stops all queuing – you put your goods into the trolley and when you’ve finished you walk out the store, get into your car and go home.

### ***How does it work? Watch this video .....***

Amazon has adapted the technology for driverless cars to the grocery store environment. Consumers open an account with Amazon and download an app. At the store they swipe their smartphone on a scanner as they enter the store. In the store, sophisticated technology captures what you put and take out of your trolley (if you decide not to purchase an item, it takes it out of your grocery purchase list). When you leave the store your Amazon account is debited with your purchases and you receive an online receipt.

Watch Amazon’s **explanatory video** (and read the FAQs) on its [website](#).

Amazon plan to launch this in the first quarter of this year in the USA. Its sheer convenience will almost certainly make it a big hit with consumers. This means it will

almost certainly be rolled out globally. It is difficult to know when it will reach South Africa but Amazon have a presence here.

### ***Its impact (and “What about the workers?”)***

Clearly large grocery outlets like Walmart will be affected and if it comes here so will Checkers, Pick n Pay and other grocers. The groundwork has been laid already - in September last year Pick n Pay started trialling a related concept in the form of self-service checkout tills.

A major attraction for retailers is that checkout staff and in-store packers will no longer be needed which is a substantial cost saving. The issue in South Africa is how will the country cope with more unemployment? The technology will almost certainly spread to warehouses and once again will involve sizeable staff reductions.

We are already seeing that business disruption technologies, such as Netflix, have a sizeable impact on consumers. It is extremely difficult to stop these technologies and strategies will need to evolve in South Africa to cushion the impact on less skilled workers.

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## **TAX OMBUD NOW HAS MORE POWERS**

The Office of the Tax Ombud (“OTO”) was created in 2013 and despite initial doubts as to its role has carved a niche for itself and gained credibility as a result. Recent legislation has strengthened the OTO.

The Ombud was designed as a free service to taxpayers to assist them when there is poor service from SARS, or when taxpayers experience administrative or procedural issues with SARS.



### ***How independent is the Ombud?***

Initially, the Ombud was funded out of SARS’ budget and all staff were seconded from SARS. This created the perception that the Ombud was not an independent institution.

In January President Zuma approved legislation which permits the OTO to recruit its own staff and its budget has been moved from SARS to the Minister of Finance.

This new Act also extends the tenure of the Ombud from three to five years. This will allow the Ombud the time to leave his or her mark on the Office of the Ombud and thus should improve the calibre of future Ombuds.

### ***The effect of Ombud findings***

These are not binding on either SARS or the taxpayer. The recent legislation requires that the party not accepting the Ombud’s report has 30 days to explain to the Ombud why the findings will not be followed.

Apart from providing the OTO with information to help it review how effective its

findings are, this explanation requirement will enhance the OTO because SARS and taxpayers will now carefully weigh up whether to reject the Ombud's findings.

A concern with the OTO process is the lack of prescribed time periods for the various processes in resolving a complaint, but hopefully this will be addressed in the future.

The power of the Ombud has been further strengthened by allowing the OTO to launch investigations (with the permission of the Finance Minister) of systemic service, administrative or procedural issues. Again this increases the credibility of the Ombud and should be a valuable service to taxpayers.

### ***A Bill of Rights and a Service Charter in the wind?***

The Ombud has lobbied for an updated Taxpayers Bill of Rights and a SARS Service Charter which will provide improved transparency and clarity for both parties. To date this has not happened.

The OTO is beginning to provide taxpayers with a useful service. **In 2014/2015, 75% of the cases taken on by the Ombud resulted in decisions in favour of the taxpayer. By 2015/2016 this had risen to 87%.** The Ombud is providing a counterweight to the widespread powers that SARS has.

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### **SUBMIT YOUR BUDGET 2017 TIPS!**

Minister of Finance, Pravin Gordhan, makes his budget speech on 22 February and would like to hear your tips for the budget. To submit your suggestions go to "Budget Tips" on the National Treasury website.



As Minister Gordhan is intending to raise taxes, putting down your recommendations could help your tax position.

Remember the Minister does read these and mentions the ones he finds useful in his budget speech.

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### **YOUR TAX DEADLINES FOR FEBRUARY**

The second provisional tax payment for the 2017 tax year is due by 28 February. Taxpayers are required to estimate their total taxable income (i.e. including any capital gains) for the tax year.



Penalties will apply where your estimate is not accurate enough -

- **If your taxable income is less than R1 million**, you will have penalties levied if your estimate of taxable income is less than the "basic amount" (essentially your latest assessed taxable income escalated by 8%) and also

less than 90% of your actual taxable income for the year. Taxpayers who estimate their taxable income to be less than the “basic amount” must justify such lower estimate.

- **If your taxable income is greater than R1 million**, your estimated taxable income must be within 80% of the actual taxable income for the year to avoid penalties.

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