



SUMMER 2008

Moores Rowland integrates with Mazars

Benefits already being felt

It's been five months since Moores Rowland formally joined the Mazars fold. The encouraging noises from every quarter serve to confirm that the transition has gone as successfully as expected. With new benefits presenting themselves constantly we're working hard to maximise new opportunities on offer at every level.

Even though we are now part of a group that employs over 8 000 professionals in 42 countries, we're still upholding the ethos that has characterised the success of Moores Rowland in South Africa for over 70 years. And because our vision and objectives are so closely aligned with that of Mazars, integration has been seamless. We've also been able to maintain the personal care we confer on all our clients, from owner-managed businesses to large corporates, with the consideration and awareness that brings big firm benefits coupled with truly personal attention.

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Beating fraud across borders

Tackling corporate financial scandals like World.com, Enron and South Africa's own Fidentia, can become tougher when assets are scattered around the world.

One of the biggest challenges to investigating large scale cases of alleged fraud is unravelling international structures that are designed to make investigation as difficult as possible. Such complications can be further compounded by the distribution of assets throughout multiple countries where differing structures and laws make an intricate job even harder.

In South Africa, at least, Moores Rowland's integration with Mazars world-wide will help to ease such problems for its clients. The Forensics Department can now act as a unified team with other practitioners in 55 countries – investigating cases of alleged corruption with the benefit of local knowledge of cross-border asset recovery and procurement and supply chain management fraud.

With international experience ranging from work with the Office of Serious Economic Offences in the UK to various regulatory bodies and contracts in the European Union, clients now have access to a range of services that don't just tackle existing problems but also work proactively to review systems and procurement procedures.

In working in partnership with our clients to deal with issues, apart from investigating immediate problems, we emphasise the importance of a strongly proactive focus to minimise the chances of the same problem recurring.

Gill Bolton

Welcome reader,

I am so excited to welcome you to our first issue of Compass. This publication has been created to keep you updated on issues, topics and developments that have an impact on you and your business.

As the title suggests, we hope to act as a compass in your business life by providing you with information that will lead you in the right direction and towards a safe harbour.

We have recently integrated with Mazars, a leading international and independent accounting partnership, which operates throughout the world – read more about it on page 1.

Saving on tax is always a good thing; read what Bernard Sacks and Marius Fenwick have to say on page 4 and 5.

Find out what an accountant who has been in the industry for over 30 years has to say, meet Clem Morris on page 7.

I hope that you enjoy reading Compass. If you have any feedback or would like us to cover any specific topics, please feel free to contact me on noleen.hepburn@mazars.co.za

Happy reading!

Noleen



from page one

We also continue to operate as a full member of Praxity (the organisation set up by Moores Rowland International and Mazars last April). This further extends our reach to 55 countries as part of an alliance with revenues of over €2 billion per annum.

Major advantages

There are three initial benefits that promise to sharpen efficiencies and broaden our range of services as well as our geographical reach.

- Our adoption of Mazars technology over the next two years (including systems, procedures, manuals and software) will bring tangible advantages, both to the Practice and our clients.
- Mazars Moores Rowland will provide a springboard for growth throughout Sub-Saharan Africa. This will be bolstered by an injection of resources that the Mazars group has committed to the region.

“Our priority is to continue to service our clients as efficiently as ever”

- We are already feeling the impact of the change through our involvement with international tenders and the awareness internationally of South Africa as a valuable member of the Mazars community. Since our integration, on 1 September, we've also been talking with a number of European companies that are looking to expand into South Africa.

On a day-to-day basis we continue to run our practice as before so, by and large, clients have not been subjected to any alteration in our service approach.

Staff and clients can also look forward to more international experience

through an enhanced secondment programme that is now as expansive as Mazars' global footprint.

Integration with Mazars' global strategy means we can share information and methodologies on an international scale, enabling us to stay even closer to the impact of global developments on business around the world.

AUDIT WELCOMES NEW PARTNER

Marc Edelberg has joined Mazars Moores Rowland's Cape Town Audit department

Marc joins the firm after 11 years with Grant Thornton where he was an audit partner as well as providing business consulting services.

He also served as the human resources partner, served on the office's management committee, was the partner responsible for Cape Town office's business risk services division and was a member of SAICA's Equity Development Committee.

Marc brings a deep understanding of areas such as: legal, services, property and investment, the motor industry and retail along with extensive experience of the issues faced by South Africa's manufacturing industry. A reputation for accuracy and high standards contrasts with his proactive yet approachable manner – especially when interacting with clients, which he views as, “... team members working toward a common goal”.

Marc also specialises in both business and BEE consulting and has a BComm degree and GDA (Graduate Degree in Accounting) from the University of Cape Town.





Dispose of assets and save tax before 2009

Change is on the way for STC rules

As part of the reform of the dividend tax regime (announced in the 2007 Budget Speech by the Minister of Finance) all dividends declared by a company will become taxable.

Presently, dividends from capital profits that pre-date the introduction of Capital Gains Tax (CGT) in 2001, or from profits that pre-date the introduction of the Secondary Tax on Companies (STC) in 1993 are exempt from tax when deregistering or liquidating a company.

The amendment presents an opportunity for companies to distribute such reserves to shareholders without incurring STC or CGT.

The effective date of the amendment is 1 January 2009, which gives taxpayers time to plan accordingly. Corporate restructuring designed to take advantage of current legislation should therefore be completed by 31 December 2008.

The affected capital profits may have arisen from capital assets disposed of prior to the valuation date (1 October 2001, being the date of introduction of CGT) or from assets disposed of afterwards but which were held beforehand. Because a portion of the realised gain

would relate to the period prior to the valuation date it may also be eligible for exemption from STC.

Threat or opportunity?

The amendment is especially likely to affect groups that have a number of separate companies registered which, while they may be lying dormant, still contain reserves resulting from either capital gains or normal trading activities.

While these 'liquidating reserves' do not attract STC, they will as from the 1 January 2009 – when the exclusion of these types of profits will no longer be compatible with the overall intention of broadening the tax base.

If you want to keep your pre-STC or pre-CGT reserves free of STC you should consider taking advantage of this gesture from SARS. Bear in mind though, this will also result in any post-STC or post-CGT profits also being distributed – therefore attracting STC.

The prudent approach to this paradox is to conduct a cost-benefit analysis, particularly if you have yet to dispose of assets and would be unlocking CGT, or if significant STC is likely to become due as a result of the liquidation.

Bernard Sacks

SME RULES ARE CHANGING

New accounting principles designed to simplify reporting by SMEs may bring complications of their own.

It's been a question posed by smaller entities around the world: why do we have to comply with accounting standards that are only relevant to large or public corporations?

In response, the International Accounting Standards Board (IASB) has unveiled plans for a simpler accounting framework for small and medium-sized entities (SMEs).

At present, companies in South Africa have to comply with the stringent requirements of Generally Accepted Accounting Practice (GAAP), now integrated with International Financial Reporting Standards (IFRS).

Under IFRS, a company must comply with complex recognition and measurement principles and disclose a multitude of items from hedging techniques to judgements and uncertainties related to measurement. Such requirements are essential for public companies – especially in a country like South Africa that depends on foreign investment. But applying such far reaching rules to every (Pty) Ltd, whatever its size, places an onerous burden on resources that, in most cases, is not necessary.

Enter the Statement of GAAP for SMEs: a new standard with simpler accounting principles for use by qualifying entities. The new standards are designed to simplify the sometimes insurmountable hurdle of broad legislation that doesn't always distinguish between, say, a small family owned

business and a public company. Under the new standard, entities only need to disclose 400 key items of information compared with more than 3 000 items under IFRS.

The problem facing South African SMEs is that the proposed new standard is based on a draft that is still being refined by the IASB. The IASB's comment period for the existing exposure draft closed on 30 November 2007, with a plan to "issue a final IFRS for SMEs in the second half of this year". As the Statement of GAAP for SMEs has already been accepted in South Africa, based on the draft document of the IASB, it presents the thorny issue (when edits are made in the final draft) of potentially having to make a second round of adjustments to its accounting practices to align with the international standard.

Edits to the international draft seem likely, especially as it still contains a number of controversial issues such as the treatment and valuation of share-based payments, straight-lining of operating leases and the treatment and recognition of deferred tax.

South Africa is the first country in the world to adopt the international draft as a standard. While the intentions of the local standard setter are admirable, premature introduction could mean a different set of complications for the very enterprises it wishes to assist. Qualifying entities should seek advice on the process before adopting the Statement of GAAP for SMEs.

Kevin Frohbus

Insurance products help you save tax

Recent changes in tax legislation now present an opportunity to invest in retirement annuities. Interest earned within retirement annuities are tax exempt and you can now place a cash sum of up to 15% of your non-pension funding taxable income in a retirement annuity without attracting any tax on the interest received. Moreover, you can claim the contribution as an expense against your taxable income.

Considering all other interest bearing investments remain taxable, it's an advantageous approach to tax planning that can confer considerable value.

Any amount exceeding the 15% will not be tax deductible until retirement, but, as long as you stay within the 15% rule, no maximum rand value applies. Taxable income also extends to bonuses and the value of taxable benefits, so, by transferring cash assets you can save significant amounts on tax.

If you have a cash lump sum that will attract tax at the end of the fiscal year, it's worth considering investing in retirement annuities before 28 February 2008.

Marius Fenwick

Taxing the interest on interest-free loans

A recent ruling from the Supreme Court of Appeal has caused widespread alarm in relation to the tax implications of making interest-free loans. But things may not be as bad as they first appear ...

When Brummeria Renaissance(Pty)Ltd – a developer of retirement village units – needed capital to fund its developments it came up with what seemed to be a win-win solution. The company approached retirees with an attractive offer: give us an interest-free loan of R500 000 and in return you'll receive a life-long right to use and occupy a unit. When you die, or when the agreement is cancelled, we will repay the loan in full. Subsequently however, SARS assessed the arrangement as Brummeria granting life-long occupation of its units in return for certain benefits; namely, the right to use interest-free loans with a money value. This presented significant tax liabilities, motivating Brummeria to appeal the decision from SARS in the courts.

A unique case

The SARS vs Brummeria Renaissance(Pty)Ltd case dealt with whether the benefits derived from an interest-free loan should be deemed as income. The question facing the court was posed against the background of the definition of 'gross income' in section 1 of the Income Tax Act. Paragraph (i) of that definition includes, within a taxpayer's gross income, any '... amount, in cash or otherwise, received by or accrued ...' to the taxpayer, '... excluding receipts or accruals of a capital nature ...'.

The Supreme Court of Appeal held that an amount equivalent to the value to be attributed to the interest-free loans had to be included in the developer's gross income. It agreed with the Commissioner that the prime overdraft interest rate might be used to determine the amount to be included in the developer's gross income.

The principles applied by the Court were not new. It had previously determined that the notion of an 'amount' (which might be included in gross income) was not restricted to money, extending also to include rights and benefits. What was novel was the application of already established principles to benefits in the form of interest-free loans.

Cause for concern?

The case has been seen, in some quarters, as opening the way to the taxation of benefits derived from interest-free (or low interest) loans in other contexts, such as the making of interest-free loans to family discretionary trusts, and the making of interest-free loans by shareholders to companies.

Much of the alarm caused is an overreaction, based on a misperception of the scope of the judgment. The Brummeria case dealt with a benefit (that of interest-free loans) which was clearly derived on trading account – the developer was a dealer in rights of occupation, and the interest-free loans were its *quid pro quo* for the granting of such rights. Where benefits are derived by a taxpayer, not on trading account, but on capital account, such benefits will not qualify for inclusion under paragraph (i) of the definition of gross income. (Paragraph (i) will expressly not capture amounts/benefits of a capital nature.)

Where interest-free loans are made to a trust, or to a company by a shareholder they are typically not made in return for the trust or company having provided rights, goods or services to the lender. In the ordinary case, the trust or company concerned would accordingly not derive the benefit of the low-interest loan on revenue (trading) account.

Although the implications of the Brummeria Renaissance case would be huge if applied to interest-free loans generally, it's worth bearing in mind that the facts of the case were unusual. The Supreme Court's judgement is unlikely to apply as broadly as many fear, especially in relation to interest-free loans by shareholders to companies or interest-free loans to trustees.

Wouter Scholtz

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MAZARS

GETTING TO KNOW OUR PEOPLE

PARTNER PROFILE: CLEM MORRIS

Clem Morris heads up Mazars Moores Rowland in Port Elizabeth – one of the firm’s largest offices. We spoke to him about what he’s learned in nearly four decades in the accounting profession and what he sees for the future.

Clem, how long have you been with the firm?

It’s been 37 years since I left my job as an articled clerk in 1970, aged 24, to join some friends in a young practice which subsequently became Cohen Morris. From there we grew into the much bigger firm we are today.

What’s your position in the firm?

These days I occupy the role of senior partner and “chairman”, as it were, having moved away from direct day-to-day management. Essentially I look after direction and policy, which includes both national and international issues and assessing new income opportunities.

Who are your clients?

Mostly local businesses: high net-worth family type businesses and individuals along with many professionals and farming enterprises. Historically we’ve been very strong in the hospitality industry and hospitals have also been major growth areas. Property is a big feature of the practice as well. We boast the biggest portfolio of property owners in Port Elizabeth.

So, you’ve seen some changes over the years?

Yes, apart from expanding to nine partners and over a hundred staff today, our range of services has developed enormously, as have many of our clients. We’re now ranked in the top three largest practices in PE.

How do you differ as an employer?

Our long-standing strategy is to employ young, dynamic talent who will make good partners and grow with the firm.

Currently, what are your biggest challenges?

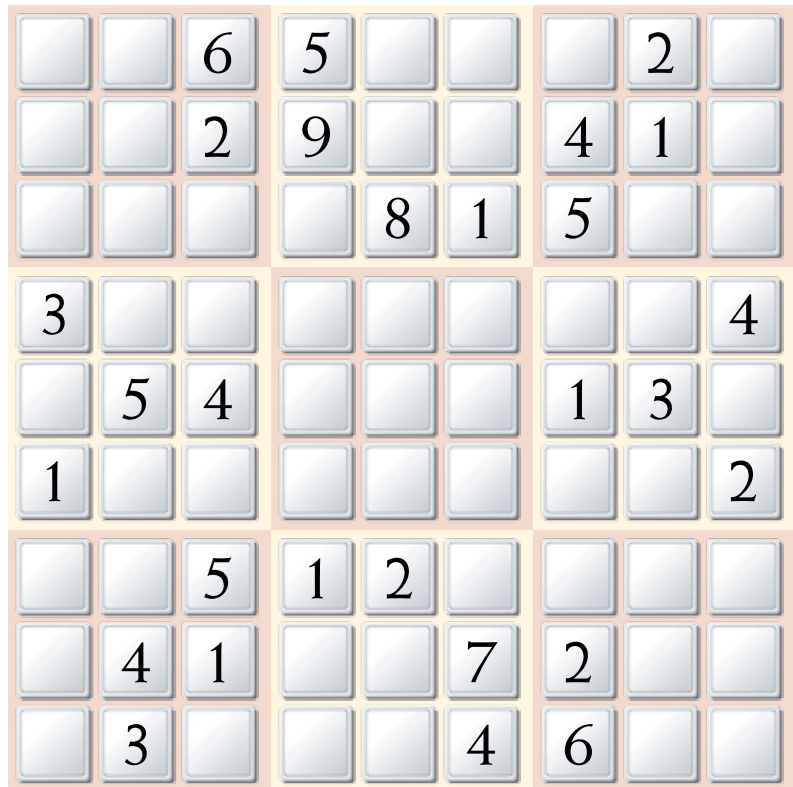
We’re facing a transitional period at the moment where, from an audit position at least, the profession is expected to be considerably more distant from the client. That presents issues of practicality, especially to smaller clients who rely on their accountant to advise on personal and business matters as well as to provide audit services.

There’s also much more transparency today and that’s not necessarily bad for our clients. Although there are many more rules now, it’s much easier to do business generally by remaining compliant.

Any advice for new graduates who are considering a career in accountancy?

Getting qualified as a chartered accountant is the best entrée into business. As Warren Buffett says, “accountancy is the language of business” so a career in accountancy promises a good future and can provide an excellent stepping-stone to the rest of the financial services sector. As time goes by, the profession will become more demanding but undoubtedly more rewarding.





level: hard



MAZARS MOORES ROWLAND

BLOEMFONTEIN

TEL: +27 51 403 4100 • FAX: +27 51 403 4190 • bfn@mazars.co.za

CAPE TOWN

TEL: +27 21 405 4000 • FAX: +27 21 405 4140 • cpt@mazars.co.za

DURBAN

TEL: +27 31 313 1000 • FAX: +27 31 313 1050 • dbn@mazars.co.za

GEORGE

TEL: +27 44 874 5022 • FAX: +27 44 874 1932 • grg@mazars.co.za

JOHANNESBURG

TEL: +27 11 484 7700 • FAX: +27 11 484 7864 • jhb@mazars.co.za

PAARL

TEL: +27 21 871 1474 • FAX: +27 21 872 4752 • prl@mazars.co.za

PLETTENBERG BAY

TEL: +27 44 533 0510 • FAX: +27 44 533 0512 • plt@mazars.co.za

PORT ELIZABETH

TEL: +27 41 501 9700 • FAX: +27 41 585 3617 • plz@mazars.co.za

PRETORIA

TEL: +27 12 346 4111 • FAX: +27 12 346 4146 • pta@mazars.co.za

www.mazars.co.za

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