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June 2021

Got Cryptocurrency? Here's How Much SARS Wants…

The future of money is digital currency" (Bill Gates, Co-founder of Microsoft)

Note: The risks and consequences of willfully or negligently failing to make full and true declarations to SARS, or to submit documents or information requested by SARS are now substantial, so ask your accountant for advice specific to your circumstances!

Cryptocurrencies have been around for over a decade, with the first and most famous one - Bitcoin - launched in 2009. Since then, many other cryptocurrencies have been created and supported in the market, including for example Ethereum, Litecoin, Dogecoin and Bitcoin Cash.

Regulators have been slow in responding to the rapid fintech developments behind cryptocurrencies. However, further cryptocurrency regulation is certainly on its way, and the Intergovernmental Fintech Working Group (IFWG), a group of South African financial sector regulators, published a policy position paper on crypto assets to provide specific recommendations for the development of a regulatory framework.

In the meantime, however, many cryptocurrency owners may be unaware that their cryptocurrency gains will most certainly be taxable by SARS – and in the year of assessment in which income or gains are received by or accrue to the taxpayer – not only if or when the cryptocurrency is withdrawn and converted into legal tender.

What's the sudden spotlight on cryptocurrencies?

A number of recent developments have catapulted cryptocurrencies into the spotlight.

The first was the Bitcoin boom over the last year. Having maintained a price under $10,000 for years, excluding two peaks in December 2017 ($13,000) and June 2019 ($12,000), Bitcoin's price started to skyrocket in September 2020 as big-name companies such as PayPal, Mastercard and Square began to accept it.

Early in 2021, the price of Bitcoin reached a staggering $60,000, following Tesla's announcement that it had acquired $1.5 billion worth of Bitcoin and the public listing of US cryptocurrency platform Coinbase Global on the Nasdaq. In February, Bitcoin breached the $1 trillion market capitalisation mark.

Local Bitcoin investors would have seen the price of their bitcoin jump from under R100,000 in March 2020 to just under R430,000 at the end of 2020 to almost R1 million in April 2021, doubling in value in just a few months.

Many South Africans started investing in cryptocurrencies during the boom, with a global crypto platform operating locally saying it had registered more than a million new cryptocurrency accounts in under two months, South Africa being in the top four highest growth locations.

SARS' scrutiny not surprising

It is not surprising that these substantial gains and the fast-growing number of South African investors in cryptocurrencies have come under specific scrutiny from SARS. It presents an opportunity to collect substantial taxes from a previously untapped source at a time when all other options for tax increases and new taxes have been exhausted.

In addition, earlier this year, R3 billion was allocated to SARS in the Budget to improve its ability to track undeclared assets and income, including a dedicated unit to uncover "undisclosed offshore assets, including crypto-assets such as bitcoin" and other cryptocurrencies.

Unfortunately, very few South Africans holding cryptocurrency are likely to be aware of the tax liability they could be facing.

So, while cryptocurrency platforms are not yet legally required to report on their clients and while SARS boosts its tracking abilities, our tax authority has simply begun asking for information on crypto transactions in audit letters issued to taxpayers – even to taxpayers that have never traded in cryptocurrencies.

The information requested includes the purpose for which the taxpayers purchased cryptocurrency, as well as bank statements, and a letter from the trading platform(s) confirming the investments and the relevant trading schedules for the period.

Thanks to recent legislative changes that have made it a criminal offence for a taxpayer to willfully fail to submit a document or information as requested by SARS, or to make a false statement to SARS, non-compliant taxpayers could be liable to a fine or imprisonment for up to two years - or up to five years for attempted tax evasion or obtaining an undue refund.

SARS' stance

In 2018 SARS issued a media statement confirming that the existing tax framework and normal tax rules will apply to cryptocurrencies and that affected taxpayers are expected to declare cryptocurrency gains or losses as part of their taxable income.

It said that cryptocurrencies such as Bitcoin are considered by SARS to be "assets of an intangible nature", and that capital gains tax or normal tax may apply, depending on whether you are investing for the long term or trading actively for short-term gain. SARS will likely consider cryptocurrency-related gains to be revenue in nature and the onus will be on the taxpayer to prove otherwise.

For long-term investors, cryptocurrency is deemed “capital assets” and gains will be taxed at Capital Gains Tax rates – up to 18% for individuals and 22.4% for companies. The purchase price of cryptocurrency is deemed to be the price paid on date of purchase.

Active trading will ensure your cryptocurrency is considered “trading stock”, with the income “received or accrued” falling under the definition of “gross income” in the Income Tax Act and profits taxed at normal income tax rates, between 18%–45% for individuals and 28% for companies.

Cryptocurrencies income can be “earned” in various ways, all of which are subject to normal tax.

1. A cryptocurrency can be obtained by so-called "mining". According to SARS, until it is sold or exchanged for cash, cryptocurrency obtained in this way is held as “trading stock” that can then be realized through an ordinary cash transaction, or through an exchange transaction.

2. Cryptocurrency may be received as income by a self-employed independent contractor for performing services; or received as remuneration or wages for services from an employer.

3. Cryptocurrency may be accepted as payment for goods or services. Where goods or services are exchanged for cryptocurrencies, such a transaction is deemed to be an exchange transaction and the usual exchange transaction rules apply.

4. Investors can exchange local currency for a cryptocurrency (or vice versa) by using cryptocurrency exchanges, or by private transactions.

5. If a trade is made between two cryptocurrencies, for example Bitcoin and Ethereum, the profits are also taxable.

Failure to declare cryptocurrency holdings, income and gains could result in interest, penalties and criminal prosecution.

What you should do now

(Remember to get expert advice specific to your circumstances!)

- SARS says that the responsibility rests with taxpayers to declare all taxable income in respect of cryptocurrency in the tax year in which it was received or accrued. If you mined cryptocurrency; bought any cryptocurrency; exchanged cryptocurrency for another cryptocurrency; or were in any way paid in cryptocurrency, it must be declared.
- As with other asset classes, it is important to understand cryptocurrency investments and the attendant tax obligations, and to plan accordingly. A buy-and-hold strategy is more tax efficient, but professional tax advice is recommended for each individual case.
- If you have received a request for information from SARS – whether or not you have traded in cryptocurrency – immediately contact your accountant for professional assistance.
- Whether or not you have received communication from SARS, if you have not disclosed cryptocurrency holdings, income gains and losses, contact your accountant for specialist tax advice.
- Keep records of all transactions – according to SARS conventional receipts and/or invoices are acceptable proof of purchase and sale price.
- Use software to track crypto transactions – cryptocurrency platforms do not provide SARS compliant tax certificates such as the IT3c provided by financial services institutions for tax returns.
- Declare cryptocurrency holdings, income, gains and losses correctly –
    - SARS has already included questions about cryptocurrency investments in the capital gains tax portion of tax returns;
    - The income or market value thereof forms part of total taxable income in respect of the year of assessment on a provisional tax return (IRP6);
    - Taxable income in the source code or tax return container field provided on the ITR12 form.
- Individuals can make use of the annual Capital Gains Tax exclusion of R40,000.
- Claim deductions - deductions against cryptocurrency income are allowed if they meet the requirements of the Income Tax Act, including whether expenditure is incurred in the production of income or for trade purposes - for example costs relating to computers, servers, electricity and internet service provider charges.
- Offset losses - losses on cryptocurrency bought as investments will count as capital losses. However, it can only be deducted from capital gains. If there are no capital gains to deduct losses from, the losses can be carried over to the next tax year. You

will be well advised to obtain expert tax guidance in this regard.

Youth Day: Why Our Young People Are So Important to Your Business

"If [business is] not listening to the youth, they are not listening to their future competitors, employees, or customers" (Wadia Ait Hamza, head of Global Shapers at the World Economic Forum)

Youth Day commemorates and celebrates the impact the youth of a country can have on the future - the Soweto Uprising on 16 June 1976 changed the course of history.

The size of its young population is Africa's huge asset and a strong competitive advantage, according to The African Development Bank: a large youth population, bigger than on any other continent, which is also growing rapidly, while populations in the rest of the world are ageing and contracting.

Current estimates are that the number of youths in Africa will double to 850 million by 2050. They form part of the 1.8 billion global youth who, according to Deloitte, are between the ages of 15 and 29, accounting for more than 25% of the total world population. These are the future taxpayers, voters and leaders, as well as workers and consumers.

The many reasons why these young people are crucial to the future of companies are briefly highlighted below, along with the ways in which your business can benefit directly from initiatives that encourage and incentivise youth employment and training.

The tax base of tomorrow

As Nelson Mandela reminded us: "Our children are the rock on which our future will be built, our greatest asset as a nation. They will be... the creators of our national wealth who care for and protect our people."

These future taxpayers are crucial in South Africa, with its very narrow tax base. A handful of taxpayers – just 3 million according to available data – paid 97% of total personal income tax collected in the past tax year, funding everything from hospitals and schools to roads and social grants for a population of 56 million! Tax on companies' profits is only the third largest contributor (after VAT) – and its contribution decreased to just 16.6% by February 2019, compared to nearly 27% a decade ago. In addition, tax revenue growth has slowed, despite the increase in VAT to 15% and the marginal income tax rate to 45%, and despite the introduction of new taxes such as sugar tax and environmental levies.

SARS has also highlighted the high youth unemployment rate in South Africa as "a serious threat to the tax base and the overall integrity of the tax system" in its annual performance plan for 2021/2022. According to **Statistics South Africa's unemployment numbers**, the official unemployment rate for young people aged 15–24 years was 63.2% in Q4 of 2020.

It is in the interests of all South Africans to invest in our youth, given that the only alternative to widening our country's future tax base is higher taxes on the few individuals and companies who are already carrying the tax burden of an entire nation.

The market of tomorrow

The youth of today will be tomorrow's consumer market – and in this respect, Africa is the place to be. Changing demographics and improving business environments across Africa are just two of the factors contributing to rising household consumption, which is predicted to reach $2.5 trillion by 2030.

This is according to The Brookings Institution, which also notes that Africa's emerging economies will take the lead in consumer market growth, with one in five of the world's consumers living in Africa by the end of the next decade, and more and more of these people falling into the category of affluent or middle-class.

Knowing that today's youth will be the consumer market of tomorrow creates an opportunity for companies to positively brand and position themselves in the minds of tomorrow's consumers, even if only in their immediate community.

How can your business connect with the young people who tomorrow will be your customers? Can your business sponsor a sports event or an academic prize at a local school? Perhaps you can provide opportunities for school tours of your facilities?

The workforce of tomorrow

The youth of today are also the workers and employees of tomorrow. The African Development Bank estimates that more than 12 million youth enter the labour market across the continent every year.

There are many benefits to employing young people in both the short-term and the longer-term.

Immediate benefits of youth employment

- Lower recruitment costs
- Lower wages than more experienced workers
- Flexibility in working hours and work locations
- Qualifications – more young people hold higher qualifications than ever before
- Young people bring optimism and the ability to anticipate and adapt to change
- A willingness to learn unchecked by previous experience and ways of doing things

Longer-term business benefits of youth employment

- Opportunities to instil organisational values and 'shape' employees to fit the company's ways of working
- Insights and connections into market - employing young people provides important links to the customer base, especially in markets that change rapidly
- Staff retention - investing in young people enhances loyalty and reduces staff turnover, lowering future recruitment costs
- Competitive advantage - hiring talented young people benefits the business and prevents competitors benefiting from their employment
- Diversity, innovation and energy - young people bring new ideas and knowledge and can help the business keep up to date with technological developments and business developments in the market
- Creates an internal talent-pipeline for the business' future skills needs and contributes to the pool of skilled people in an industry to ease future recruitment

Source: UK Commission for Employment and Skills

As Deloitte suggests in their recent publication *Preparing tomorrow's workforce for the Fourth Industrial Revolution*, now is the time for the business community to reposition itself as a driving force for change - investing in new ideas and alternative approaches to skilling youth for the future of work, such as retraining; technical, vocational, education and training (TVET); career and technical education (CTE); as well as internships, apprenticeships and artisanships for on-the-job skills training.

Take advantage of the tax incentives

Fortunately, there are also incentives for businesses to promote youth training and employment. The employee tax incentive (ETI) is a SARS incentive to employ young South

Africans valid until February 2029. In short, employers can claim a deduction from PAYE for qualifying employees: those who are younger than 29 and earn less than R6,500 a month. It is for a maximum of 24 months per qualifying employee and is not subject to broad-based black economic empowerment criteria.

Think of asking your accountant for assistance - the requirements to claim ETI can be complex and the claims can differ month to month and from one employee to the next, as various criteria and formulas determine the amount businesses can claim. There are also a number of “ETI Schemes” being marketed at the moment and if you are offered one, ask your accountant for advice before committing to anything.

Another example is the “section 12H Learnership Agreement tax allowance” providing an additional tax deduction, currently until March 2022, to employers with learnership agreements registered with a Skills Education Training Authority (SETA). It comprises both an annual and a completion allowance. It can be implemented internally or through programs such as the **NEASA** (National Employers Association of South Africa) **Youth Program,** with qualified TVET interns available for 18 months, funded by FASSET, the Finance and Accounting SETA. With regard to the NEASA Youth Program, students receive a monthly stipend and travel allowance, while employers can access additional entry-level labour at minimal cost (R2,575 excluding VAT per month) without having to commit to employment thereafter.

The leaders of tomorrow

It was also Nelson Mandela who said: “The youth of today are the leaders of tomorrow.”

Businesses that will operate in the environment created by these future leaders have a vested interest in their development.

As the World Economic Forum points out, cultivating non-traditional talents such as soft skills, critical thinking and empathy is increasingly important, as is teaching young people to be entrepreneurial thinkers.

Forward-thinking companies could, for example, offer mentorship to promising young leaders, invest in established leadership development programmes, host conferences or learning events, or provide bursaries to impact positively the young people who will be tomorrow’s leaders.

How SMMEs Can Benefit Financially from the Fourth Industrial Revolution

“Digital is the main reason just over half of the companies on the Fortune 500 have disappeared since the year 2000” (CEO of Accenture, Pierre Nanterme)

With the increased buzz around 4IR (the Fourth Industrial Revolution) in the last year particularly, due to lockdowns and “isolated industrialization”, it’s befitting to zoom-in the lens on how SMMEs (Small, Medium and Micro Enterprises) can better embrace and utilise the new operational technologies migration to their advantage.

Words like Big Data, Internet of Things, Block Chain, Machine Learning, etc tie into 4IR and are some of the buzzwords heard with which we are becoming familiar. Since the lockdowns, companies are being forced to embrace, adapt and adopt these changes more than ever. But just how far along is the implementation of these technology advancements and how much do they impact SMMEs today? Most importantly, how can your business benefit from these advancements?

The South African Context

President Cyril Ramaphosa has already announced that the government set up what is called “The Presidential Commission on the Fourth Industrial Revolution”. It is a 31-member commission spearheaded by communication minister Stella Ndabeni-Abrahams. It states that it wants SMMEs to benefit from digital migration, as much as financially possible.

Within the preambles and descriptions of the mandate of the commission itself, the state announced that the project was meant to “make recommendations on interventions to enable entrepreneurship and SMMEs to take advantage of the 4IR.”

Adapt or Die

Stevens Maleka, currently responsible for Strategic Planning & Monitoring at the Department of Communications and Digital Technologies, points out that the nation is at a point where companies have to either swim or sink, because industries have already picked the 4IR direction. He states that there are business opportunities in the transition, as much as there are cost implications – the secret to effectiveness lies somewhere in the median.

“It is important to note that the scale of investment in the 4IR should have a significant return in the form of economic development and this could lead to the increased investment in high growth technologies/companies, increased expenditure in technologies e.g. tablets, smart watches, and increase in exports of technological services and products to other African countries” he said.

4IR presents business opportunities for SMMEs on the “supply side”

The South African government, through the Presidency’s National Planning Commission, acknowledges that “Although the South African telecommunications market continues to be one of the most developed and advanced on the African continent, there are still gaps on the supply side (encompassing both infrastructural and regulatory issues) that constrain the creation of the affordable backbone and services required to develop a digital economy. To deal with supply-side gaps, ICASA must create a fair, competitive environment for multiple players in the market by publishing the findings of its market review and applying the necessary pro-competitive remedies, in particular with regard to entities enjoying significant market power.”

This in itself presents appealing opportunities for SMMEs as the South African government leans more towards tendering in the public service space.

Impact of 4IR on SMME Staff Complements

4IR has been identified as a potential reason for workforces being drastically reduced. However the pinch is only measured by the size of the business and the nature of the actual enterprise - thus far.

The Small Enterprise Development Agency (SEDA) seems somewhat ambivalent when it comes to the technological impact of the functional switch on workforce within our context, due to the size and gender spread thereof.

It states that “In Sub-Saharan Africa, it is reported that most youth-owned SMMEs have no employees (57.3%), while hardly any (1.5%) have more than six employees and none have more than 20 employees. Interestingly, there is also a gender difference within SMMEs owned by youth. In rural areas, SMMEs owned by youth have slightly lower labour productivity compared to the older age categories; and most youth-run businesses have no employees while hardly any have more than six employees.”

Each SMME’s individual case depends on the factors tabled above, and a blanket approach is not always applicable.

Ask your accountant for tailored advice on how your business can benefit from these developments.

8 Tips for Marketing Your Business on Instagram

“You are what you share” (Charles Leadbeater, We Think: The Power of Mass Creativity)

Instagram is a popular photo and video-sharing social media platform with over one-billion active users around the globe. Users are able to share photo or video posts as well as temporary “Stories” that exist on their profile for just 24

hours. What many don't know is that users are also able to shop directly from e-commerce brands through the app, and this is just one of the benefits for small businesses.

For the entrepreneur Instagram offers a cheap, reliable and easy way to build a following and engage with customers and has become a marvellous way to reach customers even for the newest of endeavours. To help you take advantage, here are some top tips for getting your business noticed on this platform.

1. **Use a business account**

   Signing up for Instagram is an easy process akin to signing up for any other social media site, but the business owner needs to take an additional step if they intend to use their Instagram account to market their business, by switching the personal account to a business one.

   You will want to do this as Instagram business accounts offer owners access to unique features which are not available on a personal account, including Instagram Insights, Instagram ads, Instagram Shopping, a call-to-action button on your profile, contact information and even a variety of messaging inboxes. These functions will allow the business owner to better engage with customers and bring their products front-and-centre to their client base.

   To change to a business account, go to your profile and tap the hamburger icon at the top right -

   1. Tap Settings, then Account.
   2. Tap Switch to professional account.
   3. Tap Business and follow the prompts.

2. **Know why you are on Instagram**

   Defining the reason for your existence on Instagram will immediately help you to create the kind of page that you want. Are you there to get the company noticed, to direct people to your website or shop, or sell directly to your customers from the app?

   In order to effectively achieve those goals you will also need to define your target market. Who are you trying to reach? Instagram's users are primarily between the ages of 18 and 35, but this does not mean they are the only ones there. Indeed, Instagram claims that more than 500-million people use the site daily, so knowing which demographic within that huge database you are targeting will help you stand out.

3. **Shape your page**

   Now that you have defined who it is that you are looking to target and just what you hope to achieve, you can set about shaping your actual page profile to be attractive to that demographic and for that purpose. There are a variety of aspects of your page that you will be able to change to including your username, your actual name, and your website. More subtle perhaps is making the decision as to which business “Category” you fall under as this will provide followers information without using up bio space and will help you get recommendations for people who are searching in your field.

   The most important part, however, is the actual bio itself. Your business' bio should directly reflect the brand promise as well as its personality. Are you informative? Funny? Motivational? Are you a local business or aiming for international sales? What makes you unique and what do you want people to do once they have seen your profile?

4. **Create engaging content**

   This is without a doubt the most critical part of a decent Instagram account, and is also the most elusive. On Instagram your brand will be judged by the effort you are putting into your images, so this isn't a place to put up sayings with a single colour background. While you don’t need professional photography, your photos and videos do need to be at least well-lit, well-composed, and in focus. What you are looking for is not simply beautiful photos, however, but photos and images that tell the story of your brand and make your audience feel like they know you better.

   Take your followers behind the scenes of your brand with shots inside your offices, or of your manufacturing process. Teach your followers something that aligns with your brand or show them how to overcome a business challenge which you just accomplished. Share your mistakes. Listen to your followers and Regram (share), their content about your brand. Ask questions, and respond via video to questions they are asking. It all comes down to getting your customers to buy into your business, believe in it and then start backing it.

5. **Create an aesthetic**

   Now that you know what kind of content you want to put up it's also important to think about the aesthetic you want for your content. You chose the colours for your logo carefully because different colours give off different impressions of the brand. Now you need to take that idea and extend it to each and every photo and video you upload on the site. Will you be highly corporate with defined lighting, or a softly lit and warm account? What colours will the curtains be, and how is the décor arranged when you do your live interviews? These things will all help make your content instantly recognisable and more shareable in the future.

   An easy way to achieve this kind of consistency is to use Lightroom presets. **Here** are a few unique filters that can get you started. Take a look at other user's accounts to try to find the looks you like or that you think may fit with your brand and start from there.

6. **The Writing is also important**

   While Instagram is definitely a visual medium, your captions on each post are also vitally important. Your captions are a great place for expanding your brand, nudging clients to your website and making a sale. While captions can be long, and some brands take advantage to tell stories, it's the first two lines that will be always visible and which will capture audience's attention. Getting the right information in those first two lines is therefore critical. Importantly, the caption is also a great place to introduce your unique hashtag.

   Creating your own hashtag is a good way to drive instant engagement with your business, and over time it will become an easily-spread marketing tool that others will use to share their own posts with your business. Because the hashtag is unique to you, this allows you to also search for all mentions of your business online quickly and easily, and every time someone uses your hashtag they will be exposing your business to their followers.

7. **Use Instagram tools to find the right metrics**

   Business profiles on Instagram aren't all that different from Facebook business profiles. Through Insights, you can view statistics like impressions, engagement data, and more. You can also get a breakdown of the demographics of your followers, including information on their age, gender, location, and most active hours. This information will help you make informed decisions about when you should be posting and what kinds of content your followers like the most.

   For starters though, according to SimplyMeasured, the worst days to post on Instagram are Wednesdays and Sundays, while Mondays and Thursdays are considered the most likely to be successful.

   These tools can give you great insights into just how successful your time on Instagram is. The two most important things to look out for are "Follower growth rate" and "Engagement". While the number of followers gives you very little idea of how good your posts have been of late, the rate at which that number of followers is growing does. Additionally, looking at how many likes and comments you are getting on your posts will show you just how interested those followers are in what you are posting.

8. **Engage**

   If you want more engagement, you are going to need to engage yourself. No Instagram account will be successful simply by uploading images every day. Search out other brands or products that are similar to yours and comment on their posts. This will not only put your brand front-and-centre for people looking for companies like yours on your competition's page, but it will also teach algorithms that you are an expert in this field and that other users should be directed at your page for that kind of service. Working with other brands and influencers will also allow your brand to be shared beyond your normal circle and engaging with them is a great way to get noticed.

Your Tax Deadlines for June 2021

- 7 June – Monthly Pay-As-You-Earn (PAYE) submissions and payments
- 25 June - Value-Added Tax (VAT) manual submissions and payments
- 29 June - Excise Duty payments
- 30 June - Value-Added Tax (VAT) electronic submissions and payments
- 30 June - Corporate Income Tax (CIT) Provisional Tax Payments where applicable
- 30 June – End of the 1st Financial Quarter