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Employee Incentives That Really Work for Small Businesses

"Always treat your employees exactly as you want them to treat your best customers." (Stephen R. Covey, author of The Seven Habits of Highly Effective People)

Small businesses often lose their talent to large companies simply because they can't afford the kinds of salaries and incentives on offer at a global corporate. Keeping staff happy is, however, critical for business success. Here are five employee incentives that really work to keep your staff happy, effective and engaged.

1. **Allow flexible time**

   In the modern world nothing is as precious as time and employers should not underestimate what this would mean for employee motivation. In a recent study on the 4-day work week 89% of all respondents said they would make sacrifices to work four days a week, and 54% said they would gladly work longer hours on the other four days.

   It costs nothing to offer employees the opportunity to set their own hours, and work when they are able. It also gives them the ability to look after families, run errands and still meet their work obligations – something larger companies may not be able to do.

2. **Profit sharing**

   Profit sharing is a bonus incentive scheme that effectively only kicks in when the company is profitable. Better yet, it provides personal incentive to employees to make the company as profitable as possible. By offering employees an equal share in the profit sharing regardless of their position you also create a strong sense of teamwork and bond them in a united cause.

3. **Public recognition**

   A big positive of working in a small company is being able to see and know each employee as an individual. Genuine recognition of achievements is therefore possible – did someone go above and beyond, or make a personal sacrifice to make a deadline? Acknowledge it publicly, in front of everyone else.

   In a recent survey, 92% of all employees say they are likely to repeat an action if they are recognised for it. Simple acknowledgement can be motivation enough, but if this is backed up with a real reward, like paid time off or a monetary bonus it can become even more effective.

4. **Make the office more fun**

   Small companies can introduce flexibility in office protocols as well as work hours. Think about how you can make things more relaxed in a genuine and helpful way. Consider providing a room where people can bring their children to do their homework after school pick up or allow employees to bring pets in on one day a week. Is South Africa playing a cricket test match? Put it on in the break room. Let people have a say in which coffee and tea are available and always remember birthdays with a thoughtful gift.

5. **Points-based incentives**

   A points-based incentive program allows employees to gather points and ultimately redeem them for rewards. You could develop a book of rewards your employees will genuinely enjoy from small things like free lunch and gift cards to theatre tickets, holidays, spa treatments, and cell phones.

   These incentive programs offer two major benefits, firstly your employees get things they actually want instead of generic rewards creating more motivation and secondly, they allow you to closely tailor where, how and for what employees are rewarded. This means greater incentive can be given for things that move your business closer to its goals.

Ask your accountant for advice on structuring these incentives to be as beneficial and cost-effective as possible.

SARS Admin Penalties: What Taxpayers Can Do

"…imposing administrative non-compliance penalties is to ensure the widest possible compliance with the provisions of a Tax Act … they are imposed impartially, consistently and proportionately to the seriousness and duration of the non-compliance." (SARS)

The Tax Administration Act stipulates that SARS can issue administrative penalties for outstanding tax returns.

In previous years, penalties were only imposed on taxpayers with more than one tax return outstanding. Since December, due to changes in the Tax Administration Act, SARS can apply administrative penalties to taxpayers who have a single outstanding return.

As a result, hundreds of thousands of South African taxpayers have received administrative penalties from SARS this year, many of them facing tax debt of tens of thousands of rands, accumulated over many years.

When are penalties incurred?

SARS can raise administrative penalties if a taxpayer is non-compliant in a specific area of their tax affairs, including Personal Income Tax (PIT) and Corporate Income Tax (CIT), Pay as You Earn (PAYE) or value-added tax (VAT).

A percentage-based penalty is imposed when a payment is received late. To prevent a payment from being received late, the payment must be received into the SARS bank account on or before the due date.

SARS also imposes fixed amount administrative non-compliance penalties for outstanding returns and/or non-compliance for PIT or CIT. These include the once off PIT penalty imposed where the taxpayer submitted a return late as from 2020 year of assessment onwards.

There is also a recurring penalty for the failure to submit a return for PIT and CIT. The fixed amount penalty is based on a taxpayer's taxable income and can range from R250 a month (where there is an assessed loss or no taxable income) up to R16,000 a month (where the taxable income exceeds R50 million) for each month that the non-compliance continues.

For PIT, the recurring penalty is imposed where the taxpayer failed to submit an income tax return for years of assessment from 2007 onwards, when that person has one or more income tax returns outstanding.

For CIT, the recurring penalty is imposed where the company has failed to submit an income tax return for years of assessment from 2009, where SARS has issued the company with a final demand and the company failed to submit the return within 21 business days of the final demand.

As such, penalties are now applied monthly for tax returns dating back many years.

Companies also face administrative penalties for PAYE. If an employer has failed to submit an EMP501 reconciliation declaration on time, an admin penalty of 1% per month over 10 months, based on the employer's liability over 12 months, is levied.

What are the costs of the penalties?

Percentage-based penalties are often steep, such as the 10% late payment penalty on VAT or PAYE, or the penalty of 1% over 10 months where an EMP501 was not submitted in time.

But it is the recurring penalties levied every month that really snowball. This is because SARS will keep penalising non-compliant taxpayers month after month until the outstanding returns are submitted, or up to a maximum of 35 months, if the taxpayer's address is known, or 47 months if the taxpayer's address is unknown.

Even at the lowest monthly admin penalty of R250, just one return outstanding for 35 months will have already racked up a tax debt of almost R9,000, not including interest.

Remember, unpaid penalties will also attract interest for each month they remain outstanding.

If you ignore Admin Penalty notifications from SARS, it will keep levying these penalties. In addition, the individual or company will have a non-compliance tax status. If a tax refund is due to the taxpayer, SARS will not pay the refund until any outstanding penalties are paid. Penalties can also only be offset against a refund after approval of a formal request to SARS.

Ultimately, if the admin penalty is not paid, SARS also can appoint an agent, such as a bank or employer, to collect the money on its behalf.

What should you do if you already have admin penalties?

If you have admin penalties, you need to do two things immediately:

1. Correct the non-compliance by filing the outstanding return/s; and

2. Pay the penalty on time or submit a request for remission of penalties.

Your accountant will be able to assist you with remedying the outstanding returns, including finding the outstanding documents, and the penalty payment. For example, if you are unable to pay any outstanding tax and penalties immediately, your accountant will help you enter into a repayment plan with SARS to pay it off.

However, if there were legitimate reasons for not filing an outstanding return, a taxpayer can dispute an administrative penalty through a request for remission to SARS for the penalty to be waived.

If you want to request a remission of the penalty from SARS, it is a good idea to rely on your accountant's assistance. This is because a remission is only considered once the non-compliance has been remedied and where the taxpayer can show certain reasonable grounds, such as a first incidence non-compliance or if the duration of the non-compliance is less than five business days. Certain exceptional circumstances such as serious illness or accident, social disturbance or natural disasters will also be considered.

SARS says that administrative penalties will be "imposed impartially, consistently and proportionately to the seriousness and duration of the non-compliance," so requests for remission are not always successful – or may result in only part of the penalties being reversed.

Avoiding penalties going forward

It has never been more important for individuals and companies to achieve and maintain tax compliance.

Taxpayers need to submit returns even if they are not earning an income and even if a company is dormant. In these cases, individuals and companies must submit zero returns to SARS or face mounting penalties. Where a company will remain dormant, consider deregistering the company with the Companies and Intellectual Property Commission (CIPC) and with SARS for the various types of tax.

When facing admin penalties now or in the future, the expertise and experience of your accountant or tax practitioner will be a key success factor in achieving and maintaining tax compliance.

The Hidden Costs of Starting a Business

"There are only two things in a business that make money - innovation and marketing, everything else is cost" (Peter Drucker, author)

Running a business is never cheap and starting one up may be one of the most expensive things you ever do. According to the U.S. Small Business Administration, most microbusinesses cost around R60 000 just to get to the point where you are ready to start operating. Clearly, larger businesses with extensive infrastructure would cost much more. While it's easy to plan for obvious production costs, office equipment, marketing and even taxes, the hidden costs we list below may come as something of a surprise.

- **Registration, licences and permits**

  Business registration is a cost that is absolutely essential for all businesses. Just registering a business name will require a payment to the CIPC.

  Depending on your industry there may also be licences and permits necessary to manufacture or sell your products. This is particularly relevant in the manufacture and supply of foods. Restaurants, hotels and B&Bs may also need permits to offer specific services and any business that wants to make use of natural resources, such as fish, water, or land will undoubtedly also need to pay for government permission. Health clinics, spas, nightclubs and many more will also have to find money to meet permit requirements.

- **Business Insurance**

  Not every business owner needs to take out insurance, but anyone with a business that deals with the public would be wise to at least cover their liabilities in that regard. If employees are going to operate onsite, employee liability insurance is also highly recommended. In addition to this you may need to insure key equipment, vehicles, and important and expensive stock items.

- **Shrinkage**

  Shrinkage is any loss of inventory that occurs before it can be delivered to your customer. New business owners may not account for any loss whatsoever, but studies indicate that depending on the industry, shrinkage can account for up to 7% of turnover.

  Usually though, shrinkage will be in the region of 1% to 2% of turnover, which can add up. These losses come from customer thefts, employee fraud, administrative errors and damage, and need to be controlled, but the truth is, some will always sneak through and have to be accounted for in any business calculations.

- **Delayed payments**

  New business owners might develop their projections based on their sales always going to customers who pay for the products or services as soon as they are received. The reality of doing business is that this is extremely rare. Some large corporates may only pay on a 90-day cycle.

  Meanwhile, new stock must be purchased/developed and staff have to be paid. Taking loans to cover costs because of delays will result in interest payments, whereas monies held back to meet these payment requirements will mean that other investments or growth opportunities will have to be delayed. All of this incurs unexpected costs. It is therefore essential that you meet with your accountant to determine the most cost-effective way to meet your obligations and keep the company running.

- **Banking and credit card costs**

  No matter which bank you use, their services do not come free. Whether it’s structured through monthly account fees, transaction charges or interest on credit cards, businesses will end up paying a significant portion of their income to their financial service providers. Every bank will structure these costs differently, so it’s important for a company to find the one that best suits their way of doing business.

- **Administrative costs**

  Working for someone else, it’s hard to imagine just how much the everyday office costs to run. Everything from toilet paper to paper clips, and printer paper costs money. Even if you aren’t offering free coffee and tea to employees, you can still expect to pay for cleaning supplies, software registration fees and the electricity bill at the end of the month. Individually these items don’t cost a lot, but added together they will amount to a significant extra burden each year.

- **Market research**

  Many business owners start their businesses based on their own knowledge and gut feel for their industries. This is generally a good starting point, but getting a company to thrive requires a solid knowledge of your market and your product’s key differentials. This takes market research, and this isn’t free.

You do not necessarily have to hire an expensive consultancy to do the market research for you and can choose to instead do it in-house through emails and phone calls. Whichever way you go, however, it will take money, and time, both of which are valuable resources you may not have accounted for.

- **Hiring and training costs**

  Entrepreneurs know of course that they will have to pay the staff they employ. They probably also know that each employee costs the company more than their simple salary. What they may not take into account is that hiring someone costs money and training them up to standard costs even more.

  Hiring someone may well require you to either contact an agency or pay to put adverts online. Then there is the process of vetting CVs, conducting interviews and ultimately bringing someone on board. All of this costs money as does the time, and equipment needed to train them for their position.

- **Graphic Design**

  Building a successful company will also require you build a recognisable brand. This takes proper logo and website design alongside copywriting fees for working brand slogans, corporate values and web content. All of this costs money, but without it, you can't expect to maximise your profits.

  In order to ensure you aren't surprised by unanticipated business expenses, there is one other cost you should always budget for – an accountant. Your accountant will be able to help you make the crucial decisions that stretch your money as far as possible each month while ensuring you aren't tripped up by these hidden costs.

Dispute with SARS? Here are the New Rules…

"The importance of the ability of taxpayers to challenge the legality of actions and decisions within the tax system is internationally recognised." (Taxpayers' Rights: Theory, Origin and Implementation)

In South Africa, taxpayers have the right to dispute tax assessments, interest, late payment penalties, and administrative penalties for various taxes, including Personal Income Tax (PIT), Corporate Income Tax (CIT), Value-Added Tax (VAT), and Pay-As-You-Earn (PAYE). This is done by submitting requests such as Request for Reason, Request for Late Submission (Condonation), Request for Remission (RFR), Notice of Objection (NOO), Notice of Appeal (NOA), and Suspension of Payment.

Recent changes to the procedures to lodge an objection and appeal against an assessment or decision aim to enhance the efficiency and effectiveness of tax dispute resolution. Here are the key changes:

- Taxpayers now have 80 business days to file a Notice of Objection against a SARS assessment or decision, a significant increase from the previous 30-day window. Taxpayers are not obliged to wait the full 80-day period.
- All substantiating documentation must now be submitted within the extended 80-day objection period, making it crucial to request reasons for an assessment before objecting. Previously taxpayers were only required to list the substantiating documents.
- Taxpayers can request an additional 30-day extension beyond the 80-day period for valid reasons and, in exceptional cases, an extension up to three years.
- Taxpayers and SARS can agree on shorter periods for dispute resolution, not just extensions as per the old rules.
- Taxpayers can appeal the outcome of an objection on new grounds not raised in the NOO, if it doesn't pertain to a previously unchallenged part of the assessment.
- Alternative Dispute Resolution (ADR) changes now require facilitators to have appropriate tax experience and to be acceptable to both parties. A senior SARS official must appoint the facilitator within 15 days of the ADR commencement. Interim ADR reports must be delivered within five days after the meeting, and final reports within 10 days following the end of ADR proceedings.
- SARS must now issue assessments within 45 days of a settlement being reached in a dispute and/or after receipt of the Tax Court's decision from the Registrar.
- SARS must provide a statement explaining why they made an assessment and why they oppose an appeal to the tax court. SARS can now add new grounds for disallowing objections or appeals, unless it changes the assessment basis significantly or requires a new assessment.
- Changes to the Tax Board and Tax Court processes include the issuance of subpoenas by the Tax Board clerk or Tax Court registrar, with parties having the right to challenge these if they find them irrelevant or unreasonable.
- An email address is now expressly included as an 'address for delivery'.

What's still the same?

- SARS must inform taxpayers of assessments, notifications or communications issued by also sending a message to the taxpayer's last known number or email. Keep your contact details updated and check your compliance status regularly, especially when receiving emails or SMSs from SARS.
- Submitting an objection or appeal does not suspend the payment of a tax debt. To prevent SARS from instituting collection proceedings, taxpayers must file an objection as well as a "Request for Suspension of Payment." If granted, SARS cannot commence collection proceedings pending the outcome of the objection or appeal, but interest will accrue on the unpaid debt.
- The importance of involving a qualified tax advisor early in the process cannot be overstated, especially where penalties and interest have already been imposed, and particularly if the objection is submitted after the prescribed due date.

Your Tax Deadlines for November 2023

- 7 November - Monthly Pay-As-You-Earn (PAYE) submissions and payments
- 29 November - Excise Duty payments
- 30 November - Value-Added Tax (VAT) electronic submissions and payments & CIT Provisional payments where applicable.

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