HRTorQue Outsourcing (Pty) Ltd

HRTorQue Reporter

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Table of Contents

Should you require any further detail on any of these topics, please feel free to contact us at info@hrtorque.co.za

1) South African Budget Highlights

Author: Jonty Aitken

In a bit of a turnaround the Finance Minister delivered a budget with very little in the way of tax changes and more importantly no increase in VAT or income tax rates.

Tax changes in the budget include (source treasury.gov.za):

- Given the weak economic outlook, government will not raise additional revenue from tax proposals in 2020/21
- Tax revenue is projected to grow by 4.9 per cent in 2020/21
- The main tax proposals include:
  - Providing personal income tax relief through an above-inflation increase in the brackets (5.2% vs inflation of 4.2%) and rebates
  - Increase medical aid tax credits from R310 to R319 for the first two beneficiaries and from R209 to R215 per month for the remaining beneficiaries
  - Further limiting corporate interest deductions to combat base erosion and profit shifting
  - Restricting the ability of companies to fully offset assessed losses from previous years against taxable income.
  - Increasing the fuel levy by 25c/litre, consisting of a 16c/litre increase in the general fuel levy and a 9c/litre increase in the RAF levy, to adjust for inflation
  - Increasing the annual contribution limit to tax-free savings accounts by R3 000 from 1 March 2020.
  - Increasing excise duties on alcohol and tobacco by between 4.4 and 7.5 per cent
  - Increasing the brackets for transfer duty by inflation (transfer duty on residential properties will now start for properties over R1mn)
  - Government will increase the cap on the exemption of foreign remuneration earned by South African tax residents to R1.25 million per year from 1 March 2020. Some advisors have recommended emigration, as recognised by the Reserve Bank, as a way to break tax residency. However, this is only one factor considered by SARS. Government wants to encourage all South Africans working abroad to maintain their ties to the country. Consequently, this concept of emigration will be phased out by 1 March 2021.
- The revitalisation of the South African Revenue Service (SARS) is under way, and this is expected to contribute to increased tax revenue over the medium term
- South Africa aims to strengthen its progressive tax system, while broadening the tax base and removing exemptions. In line with this approach, government will review tax incentives over the medium term, and repeal or redesign those that are inefficient or inequitable.

2) The price of a poor communication culture

Editor's note: HRTorQue works with a UK company to improve communication flows in the workplace. If you would like more information then please feel free to contact us at info@hrtorque.co.za.

Author: Douw van der Walt

Recently we have found that many disciplinary enquiries are related to employees who disrespect senior management and their employers

To try and understand why this is happening we use the "5-Why Model":

1) When listening to an employee who has acted badly we often find extenuating circumstances. These do not exonerate the employee, but do highlight flaws in the way the business operates and manages their relationships in the workplace. It points to issues in communication structures and poorly defined organisational culture in the "way we do things";
2) The employee is often very frustrated in the workplace and unable to express these frustrations or feels unable to do so without fear of victimisation. This frustration is often built up over a long period and results in an explosion which then causes the inappropriate behaviour;
3) Other issues that emerge are that employers do not regularly meet with employees to discuss the business strategy, new work procedures, or changes in the employee's world of work which may affect them and their families. This all leads to frustration and employees then act out of frustration, because they feel, they have no other way to resolve the matter.

Our advice is to try create an enabling work environment, with well-established communication channels and regular conversations about issues that have an impact in the workplace.

We advocate that the workplace culture should be conducive to two-way communication – not just the top-down, but also bottom-up. Simple structures can assist:

1) Monthly team meetings with all staff to brief them about business performance, new developments and to understand concerns from employees. These need to be formally documented and timeous feedback provided on items raised by employees. The feedback loop is important.
2) Monthly manager/employee 1-on-1's. This assists in helping employees achieve their individual goals and foster closer relationships between managers and subordinates.
3) Quarterly or Biannual business reviews. Brief staff how the business is performing, areas of concern and the step changes required to improve.
4) Union / management meetings. Critical if your workplace is unionised – a lot of union officials are great at resolving workplace conflict and it can be a huge asset to have a good working relationship with the objective being to make the workplace conflict-free. it does not mean rolling over on every issue, but it means constructive dialogue to arrive at win-win solutions.

Ultimately when communication fails and disciplinary process lead to the dismissal of employees, there is a cost. These costs can include CCMA, recruitment, disruption in the rhythm of the business and institutional memory loss of processes.

The current reality is that many good employees are lost purely because of poor communication and this could be avoided by simply talking to each other.

3) Net Promoter Score – Powerful, simple surveys

Editor's note: if you would like to roll this out to your employers feel free to give us contact us at info@hrtorque.co.za

Author: Jonathan Aitken

While we encourage employers to do regular, consistent employee surveys to gauge the mood of the workforce and the perception gap (the difference between management's view of the organization and employees'), there is sometimes a reluctance to do so because management believe surveys are just an opportunity for employees to gripe about their individual circumstances rather than a proper reflection of the organization. Alternatively, employers point to the poor response rate and difficulty in running the process successfully as reasons not to do the survey.

An alternative to a full survey is the Net Promoter Score (NPS). This is a single question survey developed by Fred Reichheld and adapted by Bain & Co. Originally intended to judge customer's perceptions of the company it can be equally applied to employees.

The NPS asks a simple question, "On a scale of 0 to 10, how likely are you to recommend the company to a friend or colleague?" Anybody answering with a 9 or 10 is a promoter, 7/8 are neutral and anybody from 0 to 6 a detractor. The net score is calculated by taking the percentage of promoters less the percentage of detractors.

Example: In a survey of 100 people, 50 are promoters and 15 are detractors. The NPS is 50% (50/100) less 15% (15/100) which is equal to 35%.

A score of 50% is considered good.

Using a simple survey the employer can assess engagement over time and assess whether things are improving or deteriorating. It won't give all the answers, but it will be likely to get a better response rate, is easy to design and can more easily show the trend.

4) Budget discussion – curtailing excessive interest tax deductions

Author: Jonathan Aitken (source treasury.gov.za)

Government proposes to restrict net interest expense deductions to 30 per cent of earnings for years of assessment commencing on or after 1 January 2021. This measure will address a typical form of base erosion and profit shifting by multinational corporations. This practice involves artificially inflating company debt and/or the interest rate on that debt to a related party in another jurisdiction with a lower corporate income tax rate. The resulting interest payments are deducted in South Africa, reducing the domestic tax base and effectively shifting profits to be taxed at a lower rate offshore.

Consultation on the design of this limitation begins today. A discussion document is available on the National Treasury website and the closing date for comments is 17 April 2020.

5) Budget change – Limiting the use of assessed losses

Author: Jonathan Aitken (treasury.gov.za)

When a company's tax-deductible expenses exceed its income, it records an assessed loss. Often, the loss is carried forward to the next year and is offset against taxable income in that year. Over the past few years, there has been an international trend to restrict this practice.

Government proposes broadening the corporate income tax base by restricting the offset of assessed losses carried forward to 80 per cent of taxable income, for years of assessment commencing on or after 1 January 2021. This is viewed as a reasonable approach that affects all businesses equally, rather than restricting the number of years for carrying forward assessed losses, which would disproportionately hurt businesses with large initial investments or long lead times to profitability.

6) Budget discussion – Proposed new foreign exchange approach

Author: Jonathan Aitken (treasury.gov.za)

The National Treasury proposes modernising the foreign-exchange system. Since 1933, South Africa has operated a "negative list" system. By default, foreign-currency transactions are prohibited, except for those listed in the Currency and Exchanges Manual. As a result, even small individual transactions – such as for travel – require onerous approval processes. This regime constrains trade and cross-border flows, particularly in relation to fast-growing African economies.

Over the next 12 months, a new capital flow management system will be put in place. All foreign-currency transactions will be allowed, except for a risk-based list of capital flow measures summarised in the list below. This change will increase transparency, reduce burdensome and unnecessary administrative approvals, and promote certainty.

- South African corporates will not be allowed to shift their primary domicile, except under exceptional circumstances approved by the Minister of Finance.

- Approval conditions granted by the Minister of Finance for corporates with a primary listing offshore, including dual-listed structures, will be aligned to the current foreign direct investment criteria and/or conditions to level the playing field.
- Cross-border foreign-exchange activities will continue to be conducted through dealers authorised and regulated by the Reserve Bank.
- Prudential limits on South African banks and institutional investors will remain, but the limits will be reviewed regularly.
- Banks' unhedged foreign-currency exposures will remain limited to 10 per cent of liabilities (known as the net open foreign exchange position) and will remain regulated by the Prudential Authority of the Reserve Bank.
- The domestic treasury management company policy, which allows South African companies to establish one subsidiary as a holding company for African and offshore operations without being subject to exchange control restrictions, will remain in place, as will the international headquarter company regime.
- The export of intellectual property for fair value to non-related parties will not be subject to approval.
- The current policy of certain loop structures, which relates to the acquisition by private individuals of equity and/or voting rights in a foreign company, will remain until tax amendments are implemented to address the risks.

7) Budget change - Tax and exchange control treatment of individuals

Author: Jonathan Aitken (treasury.gov.za)

Following reforms to the income tax treatment of South African tax residents who receive remuneration outside the country, government proposes to remove the exchange control treatment for individuals, while strengthening the tax treatment. The intention is to allow individuals who work abroad more flexibility, provided funds are legitimately sourced and the individual is in good standing with the South African Revenue Service. Individuals who transfer more than R10 million offshore will be subjected to a more stringent verification process. Such transfers will also trigger a risk management test that will include certification of tax status and the source of funds, and assurance that the individual complies with anti-money laundering and countering terror financing requirements prescribed in the Financial Intelligence Centre Act (2001). This will be phased in by 1 March 2021.

Under the new system, natural person emigrants and natural person residents will be treated identically. Additional restrictions on emigrants – such as the restrictions on emigrants being allowed to invest, and the requirement to only operate blocked accounts, have bank accounts and borrow in South Africa – have been repealed. The concept of emigration as recognised by the Reserve Bank will be phased out, to be replaced by a verification process based on the requirements above. Tax residency for individuals will continue to be determined by the ordinarily resident and physically present tests as set out in the Income Tax Act (1962). Under existing international standards, South Africa participates in the automatic sharing of information between tax authorities on individuals' financial accounts and investments. These cooperative practices will remain in place to ensure that South African tax residents who have offshore income and investments pay the appropriate level of tax.

8) African tax changes and announcements (2020)

Author: Jonathan Aitken (source crs.co.za)

Ghana tax rate changes

Following the 2020 Budget speech delivered in November 2019, the proposed personal income tax bands for resident individuals have been revised by the Income Tax (Amendment) Act, 2019 (Act 1007).

The personal income tax bands for resident individuals have been revised to align with the tax-free income threshold to the current minimum wage of GH₵3,828 per annum (GH₵319 per month).

Note that the flat tax rate applicable to income derived by non-resident individuals remains unchanged at 25%.

The monthly income tax bands applicable to resident individuals are:

Chargeable Income GH₵	Rate %	Tax GH₵	Cumulative Chargeable Income GH₵	Cumulative Tax GH₵
First 319	0	0	319.00	Nil
Next 100	5	5.00	419.00	5.00
Next 120	10	12.00	539.00	17.00
Next 3,000	17.5	525.00	3,539.00	542.00
Next 16,461	25	4,115.25	20,000.00	4,657.25
Exceeding 20,000	30			

The annual income tax bands applicable to resident individuals are:

Chargeable Income GH₵	Rate %	Tax GH₵	Cumulative Chargeable Income GH₵	Cumulative Tax GH₵
First 3,828	0	0	3,828.00	Nil
Next 1,200	5	60	5,028.00	60
Next 1,440	10	144	6,468.00	204
Next 36,000	17.5	6,300.00	42,468.00	6,504.00
Next 197,532	25	49,383.00	240,000.00	55,887.00
Exceeding 240,000	30			

The limits for some of the personal reliefs have increased as follows:

- Marriage or responsibility relief – increased from GH₵200 to GH₵1,200.
- Child education relief – increased from GH₵200 to GH₵600.
- Aged dependent relative relief – increased from GH₵100 to GH₵1,000
- Old age relief – increased from GH₵200 to GH₵1,500.
- Training and self-improvement – increased from GH₵400 to GH₵2,000

Zimbabwe

The Zimbabwean Revenue Authority (ZIMRA) has issued a public notice regarding payment of tax in foreign currency.

Businesses trading in both RTGS$ and foreign currencies are required to pay taxes in foreign currency.

Employers who are paying remuneration in foreign currency should remit the employee's PAYE in foreign currency.

If part of the remuneration is paid partly in foreign currency and partly in RTGS$, employers must apportion the employee's PAYE accordingly and remit both the foreign currency and RTGS$ to the commissioner on or before the due date.

With effect from 1 January 2020 the tax free threshold increased to $24,000 per annum for remuneration earned in ZWL and to USD$840 for remuneration earned in foreign currency.

Annual Tax Tables from 1 January 2020 to 31 December 2020 – Zimbabwe Dollars (ZWL)

Tax Band ($)	Tax Rate %
0 – 24,000	0
24,001 – 90,000	20
90,001 – 180,000	25
180,001 – 360,000	30
360,001 – 600,000	35
600,001 and above	40

Annual Tax Tables from 1 January 2020 to 31 December 2020 – Foreign Currency

Tax Band (US$)	Tax Rate %
0 – 840	0
841 – 3,600	20
3,601 – 12,000	25
12,001 – 24,000	30
24,001 – 36,000	35
36,001 and above	40

Swaziland (eSwatini)

Effective 1 January 2020, the maximum statutory contributions per employee to the National Provident Fund (ENPF) have increased from E270 to E290 per month.

This means that the expected maximum statutory contribution for 2020 per month from contributing employers is E290. Of this amount, the member's portion is E145 and the employer's is also E145.

For employees whose wages are less than E2 900 per month the statutory contribution is calculated at 10% of the employee's wages.

As the Swaziland Revenue Authority tax year runs from July to June and the ENPF limits are applied from January to December, with an annual increase in January every tax year, the tax constant should be changed twice a year, i.e. in January and again in July.

Effective Date	1 January 2019	1 January 2020
ER Maximum Monthly Contribution	E135	E145
EE Maximum Monthly Contribution	E135	E145
Total Monthly Contribution	E270	E290

Kenya

The Kenyan Higher Education Loans Board (HELB) issued a communication to employers requesting them to register and update their details on its online portal. Manual submissions will no longer be accepted by HELB after 31 December 2019.

HELB provides financing through loans, scholarships and bursaries to Kenyans pursuing higher education within and outside Kenya.

Employers are required to notify HELB whenever they recruit a beneficiary of HELB loans. They are then required to deduct and remit loan repayments monthly.

An employers portal has been added to HELB's website through which returns will be submitted and payment slips generated for onward payment through selected bank accounts.

Mauritius

Proclamation No. 45 of 2019 was published to fix the effective date of the New Worker's Right Act 2019 as at 1 January 2020. The Employment Rights Act (ERA) was replaced by the Workers' Right Act 2019.

The most important changes are:

<u>The definition of a worker:</u>

The Act raises the salary threshold from MUR 360 000 to MUR 600 000 per annum. Therefore, a worker means an employee whose basic wage is MUR 50 000 or less in a month.

<u>End-of-year bonus:</u>

All employees meeting the threshold are now entitled to the statutory "end-of-year bonus" based on 1/12 of the employee's earnings. Earnings includes basic wage, overtime and any sum of money by whatever name called, including commission, and which is related to productivity.

Employees are also entitled to the end-of-year bonus if their employment is terminated in the course of the year for any reason, or if an employee resigns in the course of the year on or after having been in continuous employment for at least 8 (eight) months.

Previously, workers meeting the threshold stated in the ERA were entitled to the statutory "end-of-year gratuity" based on earnings, while employees earning above the threshold were entitled to that gratuity based on the basic wage.

<u>Additional leave types:</u>

Vacation leave:

An employee who has been in continuous employment with the same employer for a period of 12 (twelve) months, will be entitled to:

- Paid special leave of 6 (six) working days to celebrate his/her first civil or religious marriage;
- Paid special leave of 3 (three) working days on the occasion of the first civil or religious marriage of his/her son or daughter;
- Paid special leave of 3 (three) working days on the death of his/her spouse, child, father, mother, brother or sister.

Juror's leave:

An employee will be entitled to leave with pay during the period of his/her absence from work pursuant to a summons issued to him/her to attend service as juror under the Courts Act.

Leave to participate in international sporting events:

Where an employee is selected or nominated to participate in an international sporting event to represent Mauritius, the employee will be granted leave with pay at his/her request by his/her employer for the duration of the event or such longer period as may be necessary.

The above is subject to advance notice being given and documentary evidence as to the duration of his/her absence.

Leave to attend court:

An employee must be granted leave to attend court regarding any matter in which he/she is a party to or in which he/she is a witness. The employer is not under any obligation to pay the employee in this case.

Where an employee is attending court as a representative of the employer or on its behalf, the leave must be paid by the employer.

An employer may require a worker to produce a certificate of attendance from the court which the worker attended, except where the worker attends court as a representative of the employer or on its behalf.

Portable Gratuity Retirement Fund:

It should be noted that Cabinet has postponed the entry into force of the Portable Gratuity Retirement Fund until 1 April 2020.

The idea of a Portable Retirement Gratuity Fund was introduced by the Workers' Rights Act 2019.

The employer will be required to contribute to the portable retirement gratuity fund in accordance with a prescribed formula.

It will not be applicable to:

- An employer who has a private pension scheme in respect of which a pension is paid;
- An employee earning a basic salary exceeding MUR 200 000 per month; and
- An employee who is more than 50 years of age.

Contributions must be made not later than the 20th of the month following the month in respect of which the contributions are due

Malawi

A public notice was released by Malawi Revenue Authority with the new tax rates proposed in the 2019/2020 Budget Statement.

The Malawi government has increased the PAYE tax-free bracket to MK45,000 from MK35,000 per month.
Note: The effective date for the new tax tables is 22 November 2019, not the beginning of the tax year which is 1 July 2019.

It should also be noted that the minimum wage was increased from the current K962 per day (translating to K25,012 per month) to K1,346.15 per day which translates to K35,000 per month.

Annual Income		Rate
First	MK 540,000	0%
Next	MK 60,000	15%
Next	MK 35,400,000	30%
Excess over	MK 36,000,000	35%

Monthly Income		Rate
First	MK 45,000	0%
Next	MK 5,000	15%
Next	MK 2,950,000	30%
Excess over	MK 3,000,000	35%

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