

NOVEMBER 2018

WHEN HUBRIS GROWS, CAN A MARKET CRASH BE FAR BEHIND?

*“Hubris ... extreme or foolish pride or dangerous overconfidence”
(Wikipedia)*

There is so much information going around that it is almost impossible to see through it all and make informed decisions. As Johann Rupert says, if he could accurately predict the time when shares are going to rise or crash, he would be the richest man in the world.



We know that before a bust there is a boom which usually ratchets up to dizzying proportions. People see prices rising and blindly assume that they need to get in and make a profit – overconfidence and hubris become dominant. This just fuels more price rises until the boom stops and just as quickly prices drop.

Of course, Johann Rupert is right – it is impossible to forecast the top of the boom – but there are some interesting pointers that may be able to tell us that a crash could be imminent -

- ***The skyscraper scenario***

Deciding to build the world’s tallest building is a classic case of hubris. In 1930, the Chrysler Building became the world’s highest skyscraper and was quickly surpassed by the Empire State Building in 1932. The planning of these skyscrapers was done just as the Great Depression set in.

The World Trade Centre (1974) came just before the stagflation of the mid to late 1970s. The Petronas Towers in Malaysia became the world’s tallest buildings just before the Emerging Market Crash in 1998. The Burj Khalifa broke the world height record on its completion just prior to the Global Financial Crisis in 2008.

Keep an eye on this with Wikipedia’s “List of future tallest buildings” [here](#).

- ***Sotheby’s***

Another good indicator of a crash is said to be the share price of Sotheby’s. When people are full of hubris they bid high prices on art. This drives up the price of Sotheby’s stock. The mega art prices come mainly from successful businessmen and when they expect their businesses to begin cooling off, they stop buying art. This feeds into the Sotheby’s share price which begins to quickly reverse.

Keep an eye on this by Googling “[Sotheby’s stock price dollars](#)”.

In terms of having a strategy as to when to exit a rising market, it pays to watch these two indicators and when they start rising at a slower pace, take advice on whether it might be time to begin to start selling. You will never get the actual timing of a crash right but if you have got rid of the bulk of your investments before a crash, you will be doing well.

LACK OF A MEDICAL CERTIFICATE NOT ENOUGH WHEN DISMISSING AN EMPLOYEE

“Forewarned is forearmed” (Wise old proverb)

Recently the Labour Court ruled in favour of an employee who was dismissed for failing to produce a required medical certificate. The employee had a history of absenteeism.



Going AWOL 21 to 24 December

The employee had a medical condition which the employer was aware of. In November last year, the employee was counselled for work absences for the months of September, October and November. These absences were authorised by the company.

In mid-December, the employee had received a warning for two unauthorised periods when he failed to attend work.

On 21st December, he went off ill and contacted the manager on duty to say he was suffering from his medical condition. Further, in his conversation with the duty manager, the employee said he did not know when he would return to work.

The employee was not at work for four days and did not submit a medical certificate to the company as required by company policy. He had, however, shown the duty manager his bank statements which showed he could not have afforded to see a doctor and had self-medicated. This was accepted by the duty manager.

After a hearing, the employee was dismissed. The case went to arbitration where the employee was reinstated, the arbitrator having accepted that there were circumstances which mitigated his failure to produce a medical certificate.

The company took this award on review to the Labour Court.

The Labour Court's findings

The Court found that procedurally the company had acted fairly. The company had followed its policies and procedures. The warning was issued after two unauthorised absences from work.

As to the substantive fairness of the dismissal however, the company argued that the employee did not inform his line manager (who he was required to contact) when he was ill and speaking with the manager on duty was irrelevant. He had also not contacted the company on the additional three days he was ill. In the arbitration, the company, strangely, did not raise this point.

Next the company argued that with no medical certificate, it had no reason to believe the employee was ill. However, as noted above, the duty manager had accepted his explanation that the employee was ill from his medical condition.

Finally, the warning given to the employee on 17th December was not a final warning (in the company's policies, absenteeism was not listed as a serious offence). Also, the company failed to take into account the employee's interaction with the duty manager.

The Court ruled there were no substantive grounds for dismissal and the employee was reinstated with costs.

The bottom line is that failure to produce a medical certificate is not necessarily in itself a sufficient ground for dismissal. Be careful when you want to dismiss an employee for absenteeism. Remember how circumstances can vary, so before deciding whether to discipline an employee, review all the actions you have taken and make sure they bolster your case. Get professional advice if in any doubt.

CLOUD BASED ACCOUNTING: IDEAL FOR YOUR SMALL BUSINESS?

One of the advantages of the technological revolution is that advances move swiftly down the cost curve. Accounting software for small and medium-sized enterprises (SMEs) has now become much faster, more secure and cheaper. It gives businesses real time information and thus makes SMEs more competitive against big business.

Cloud-based accounting software is stored in remote servers in “the cloud”. Processing also takes place in the cloud and the information is accessible anywhere in the world. Effectively, it makes the days of loading software onto your accountant’s desktop and passing information via memory sticks obsolete.



The benefits of cloud accounting

It improves **cash flow** not only because it is less costly with no upfront costs (most people rent cloud-based solutions from as little as R200 per month) but also it allows you to virtually integrate with your customers. This reduces bottlenecks, improves communication and speeds up processes which take cost out of your system. For example, if your customer can see your planned offtake of their product for the next several months, they can reduce their inventory holdings and pass on some of these cost savings to your business.

It helps make your business more **integrated** as cloud accounting packages can “talk” to your other business software such as Customer Relationship Management (CRM). Thus the CRM system is automatically updated when accounting transactions which affect customers are processed.

The system is **visible** to multiple users who can interrogate the general ledger from anywhere in the world. This does not compromise **internal controls** as different users have varying degrees of access to the information. It is also **secure** as cloud-based software can be stored in different cloud locations.

It enhances **management control** as not only is the accounting information accessible but it is easy to run your own reports from it. Cloud-based software also leaves easy-to-follow audit trails of data. Management have much better information and they can quickly check how all aspects of the business are performing.

Whilst it involves a (possibly considerable) investment in time and effort to design and set up cloud accounting, once it has been installed the benefits can be substantial.

Ask your accountant for advice on whether it is right for your business.

IS YOUR PROBLEM WITH SARS A SYSTEMIC ISSUE? IF SO, SPEAK TO THE TAX OMBUD

Many taxpayers are experiencing frustrations in their dealings with SARS. The Tax Ombud is there to assist taxpayers if they have experienced:

- Procedural difficulties
- Service issues
- Administrative problems and the taxpayer has exhausted all avenues of appeal with SARS with respect to SARS dispute procedures.



However, the Ombud may take up a taxpayer’s complaint before all SARS processes have been followed if there are “compelling circumstances”. The most significant of these is systemic issues.

What are “systemic issues”?

The Ombud defines these as coming from causes in SARS’ practices and policies which will adversely affect numerous taxpayers. The Ombud’s Office may investigate systemic issues and recommend solutions to the Minister of Finance. So far, the Ombud has identified twenty systemic issues. Some of the most significant are:

1. Placing unjustified “special stoppers” on taxpayers - these are supposed to be placed on high risk fraud accounts and freeze any payments to taxpayers until they are lifted
2. SARS not adhering to agreed timelines
3. Requested documentation being received by SARS and not filed with the taxpayer’s account
4. SARS illegally instituting collections from taxpayers
5. Frequent follow-ups by taxpayers where SARS failed to show them the correct procedure for this and/or informing taxpayers how to escalate matters
6. Assessments being revised without SARS sending the taxpayer a letter of findings
7. Incorrect bank accounts being used by SARS when processing refunds and incorrectly allocated payments to the wrong taxpayer.

If you think that your complaint falls into a “systemic issue” category (ask your accountant in doubt), then you may approach the Tax Ombud without going through all of SARS’ hoops. There is no doubt that the credibility of the Tax Ombud is growing, and whilst the Ombud may still decide not to help you it is well worth giving it a shot.

BEWARE THE NEW CORPORATE INCOME TAX PENALTIES! AND YOUR TAX DEADLINES FOR NOVEMBER

There are only run-of-the-mill tax deadlines for November but companies need to take note of a new warning from SARS that it will be imposing administrative penalties from December 2018 for outstanding Corporate Income Tax (CIT) returns. Until now, penalties have only been imposed for failure to lodge personal returns.



The penalties, says SARS, “range from R250 to R16,000 **per month** (see Table) that non-compliance continues, depending on a company’s assessed loss or taxable income” (our emphasis), and will apply to companies which have been issued a final demand to submit a return.

Note also that this also applies to **dormant companies**: “If a company is dormant, it is still required to submit any outstanding returns prior to 2018 to prevent a penalty being imposed.”

Table: Amount of Administrative Non-Compliance Penalty	
Assessed loss or taxable income for ‘preceding year’	‘Penalty’
Assessed loss	R250
R0 – R250,000	R250
R250,001 – R500,000	R500
R500,001 – R1,000,000	R1,000
R1,000,001 – R5,000,000	R2,000
R5,000,001 – R10,000,000	R4,000
R10,000,001 – R50,000,000	R8,000
Above R50,000,000	R16,000

(Adapted from the Tax Administration Act)