New Business Kit

Financial, Tax and Accounting considerations when starting a new business

With this handy reference guide to starting a business, you should be able to successfully handle many of the problems encountered in starting and running a business. Always remember to seek professional advice in areas that you are not sure about. The benefits will far outweigh the cost. Good luck!

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Contents

Note to self:

Before Starting Up

It is the ambition of many people to run their own business. In recent years this dream has become a reality born from necessity for some who had been made redundant at their place of employment, whilst others may have decide to start up in business in order to be more independent and to obtain the full financial reward for their efforts.

Whatever the reason for considering setting up in business, a number of dangers exist.

A major concern must be the risk of business failure despite considerable effort and finance having been put into the venture. Time spent in making the decision and thinking through your plans will minimize the risk of failure.

Think carefully about ceasing to be someone else's employee. Certainty of income, both in terms of quantity and regularity, disappears, whilst fixed outgoings, such as mortgage repayments, remain. Similarly, other benefits of employment may be lost, such as life assurance cover, a company pension, medical insurance, a company car, regular hours and holidays.

Consider the views of your family and friends. Their support is essential. It is important they understand that the administrative and financial requirements of running a business can be time consuming and stressful.

Success in business depends on many factors; most important is the need to critically review all aspects of the business proposition before progressing too far.

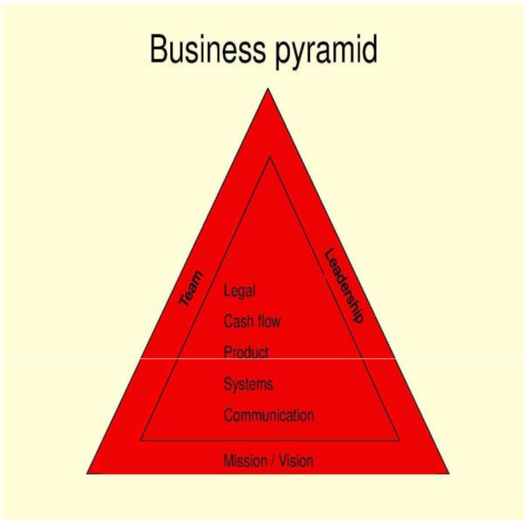
This kit highlights many of the practical points that require consideration before trading begins. It cannot cater for every possibility and decisions should be supported by appropriate professional advice.

Please Note:

This kit is published for information only. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice from a partner of this firm. The partners of the firm accept no responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this kit.

7P's

Proper prior planning prevents pathetic poor performance



Chapter 1 - Selecting a Legal Entity for your Business

One of the first major decisions you will have to make as you start your new business is the form of legal entity it will take. To a large degree, this decision may be dictated by the way you have organized your operations and whether you intend to work on your own or in conjunction with others.

The form of entity you choose can have a significant impact on the way you are protected under the law and the way you are affected by taxation rules and regulations. There are four basic forms of business organization. Each has its own benefits and drawbacks and is treated differently for legal and tax purposes.

Sole Proprietorship

A sole proprietorship is typically a business owned and operated by one individual. A sole proprietorship is not considered to be a separate legal entity under the law, but rather is an extension of the individual who owns it. The owner has possession of the business assets and is directly responsible for the debts and other liabilities incurred by the business. The profit or loss of a sole proprietorship is combined with the other income of an individual for income tax purposes.

A sole proprietorship is perhaps the easiest form of business to own and operate because it does not require any specific legal organization, except, of course, the normal requirements such as licenses or permits. A sole proprietorship typically does not have any rules or operating regulations under which it must function. The business decisions are solely the result of the owner's abilities.

Partnership

In a partnership, two or more individuals join together to run the business enterprise. Each of the individual partners has ownership of company assets and responsibility for liabilities, as well as authority in running the business. The authority of the partners, and the way in which profits or losses are to be shared, can be modified by the partnership agreement. The responsibility for liabilities can also be modified by agreement among the partners, but partnership creditors typically have recourse to the personal assets of each of the partners for settlement of partnership debts.

The rights, responsibilities and obligations of partners are typically detailed in a partnership agreement. It is a good idea to have such an agreement for any partnership.

A partnership is a legal entity recognized under the law and, as such, it has rights and responsibilities in and of itself. A partnership can sign contracts, obtain trade credit and borrow money. When a partnership is small, most creditors require a personal guarantee of the general partners for credit.

A partnership is not required to file an income tax return. A partnership typically does not pay income tax as the information from the tax return is combined with the personal income of the partners to determine their overall tax liability.

Inter Vivos Business Trust

Owners of small businesses will find that in most cases it will pay to use a business trust as a vehicle to do business. It has huge advantages over companies and close corporations (sadly, in some cases one will have to stick to companies due to the insistence of clients or other special circumstances like requests from investors). Some reasons why it is advantageous:

The trust protects trust assets against personal creditors, because the assets of the trust truly belong to the trust alone. With companies the shares still belong to the individual and by attaching the shares of the individual the creditors can get to the assets of the company.

The cost of administering a business trust is usually less than that of a company due to the additional requirements associated with companies.

Companies have an obligation to pay an annual fee/duty to Ministry of Trade. No statutory fees are payable by a trust.

The trust is more flexible when it comes to tax matters.

One can allocate trust income to individuals in such a way that there is an income tax saving. Benefits can also be allocated to charitable institutions, and payment of tax on these benefits can be avoided (within the law). Trusts pay tax on income at the same rate as individuals in Namibia, thus resulting in the first N$50,000 of income being tax free in the name of the trust.

Limited Company

A limited company is a separate legal entity that exists under the authority granted by statute. A limited company has substantially all of the legal rights of an individual and is responsible for its own debts. It must also file tax returns and pay taxes on income it derives from its operations. Typically, the owners or shareholders of a limited company are protected from the liabilities of the business. However, when a limited company is small, creditors often require personal guarantees of the principal owners before extending credit. The legal protection afforded to the owners of a limited company can be useful.

A limited company must obtain approval from MINISTRY OF TRADE to use its proposed name. A limited company must also adopt and file a Memorandum of Incorporation (MOI), which governs its rights and obligations of its shareholders, directors and officers.

A limited company must file provisional and annual income tax returns with the RECEIVER OF REVENUE.

Incorporating a business allows a number of other advantages such as the ease of bringing in additional capital through the sale of share capital, or allowing an individual to sell or transfer their interest in the business. It also provides for business continuity when the original owners choose to retire or sell their shares. From a tax perspective, the act of incorporation can create a number of advantages.

Should you decide to incorporate your business venture, it is recommended that you seek professional advice, such as offered by Kobus Visser Bookkeepers, to assist you with this process and in forming the company.

Business Structure – The Pros and Cons

Company	**Sole Trader/Partnership**
A company must be formally incorporated with a written constitution in the form of a Memorandum of Incorporation. There is, therefore, an initial setup cost.	There are no formation costs, but a written partnership agreement is advised.
The Companies Act governs companies. A company must: - Keep accounting records - Produce financial statements - File accounts and an Annual Return with the MINISTRY OF TRADE. This information is available to the public. - Keep Statutory Books	Sole traders and partnerships are not required by law to have annual accounts nor to file accounts for inspection. However, annual accounts are necessary for the Income Tax Returns.
Shares in a company are generally transferable - therefore ownership may change but the business continues.	

Incorporation does not guarantee reliability or respectability but gives the impression of a soundly based organization. Personally there may be prestige attached to directorship.	The unincorporated business does not carry the same prestige.
Tax is payable on directors' remuneration paid via PAYE on the 20th of the following month. Withholding tax is paid by shareholders on dividends. Corporation tax is payable 6-7 months after the financial year-end.	For a sole trader or partnership, tax is generally paid by 3 installments, August, February and the 3rd payment after Financial yearend in September.
Losses in a company can only be carried forward to set off against future profits.	Losses generated by a sole trader or a partner can be set off against other income of the year.
For profits tax is charged at 34% (2013/14) Withholding tax of 10% is charged on dividends paid by the company.	Taxable income is taxed at a sliding scale to a maximum of 37%

Chapter 2 - Registering with the Tax Authorities

A significant task for the new business owner is ensuring that the business is properly complying with the extensive tax and information filing requirements imposed by the various authorities. Problems and penalties could arise if the new business is not registered with the appropriate tax authorities in a timely fashion. While this chapter is not intended to be an all-inclusive list of filing requirements, it summarizes some of the more prominent requirements common to most businesses.

The RECEIVER OF REVENUE is moving towards electronic forms and notifications via the Internet. Paper forms are still required in some instances. In the following section we provide links to both downloadable versions of forms and the web links to apply online for various services.

Income Tax

It is necessary to notify the RECEIVER OF REVENUE of your existence by completing forms to register the entity as a taxpayer and obtaining a tax registration certificate (companies/ close corporations/ sole traders/ trusts/ individuals).

PAYE

PAYE (Pay As You Earn) registration has to be done for the business once you have an employee earning more than N$4,166 per month or in total N$50,000 for the year. Each employee needs to be registered for PAYE if not previously registered. It is the duty of the employer to deduct income tax payable from the employee's salary and pay it over by or on the 20th of the next month to the RECEIVER OF REVENUE.

If you fail to register you may face a penalty. Late payments of PAYE will result in a 10% penalty and 20% interest on the amount due being charged until date when payment is received by the RECEIVER OF REVENUE.

VAT

You need to consider if it is beneficial to be VAT registered from the outset. The pros and cons are discussed in Chapter 4.

All businesses with turnover in excess of N$500,000 or expecting to reach turnovers of N$500,000 per annum need to register for VAT and from then have to file VAT returns every second month.

Import VAT

Import VAT registration is necessary if you are going to import goods on a regular basis. You may import goods and then pay import VAT at the border, or, if you are registered for import VAT, you can import the goods which are then captured on the Customs ASECUDA system. Import VAT is calculated at the cost of goods (excluding SA VAT and transport costs) plus 10% of the value of the goods and then calculate 15% VAT on that amount. (Also an easier method is calculating 16.5% on the cost of goods)

The exporting country's customs stamps as well as the Namibian import customs stamps must appear on all import VAT documentation.

Import VAT due for the month is payable on or before the 20th of the following month. Kobus Visser Bookkeepers can double check the amount payable on the ASECUDA system installed in our offices for our clients.

Export VAT

When you as the exporter of products arrange pays for the transport of the goods to be exported out of Namibia –you can invoice the client at ZERO rate VAT, but make sure you get proof of export by obtaining a Namibian customs stamp at the border of export as well as the import customs stamps of the importing country.

There are many ways Kobus Visser Bookkeepers can help you:-

- We can assist you in registering for VAT, PAYE, Import VAT etc.
- We can act as your agent and file VAT returns on your behalf based on the figures that you provide us with
- We can help you implement online payment of VAT
- We can provide you with accounting software so you can easily calculate and file the figures

Tax Calendar

The following summarizes some of the more significant filing dates. Naturally, if a year-end other than 28 February is used; some of these dates will vary.

Date	Return
Annual Events	
31 Aug	Submission of form First Provisional Tax Return
28 Feb	Submission of form Second Provisional Tax Return. Submission of Annual duties for CC's and Pty's

30 September	Payment of Corporation Tax for accounts prepared for the tax year (7 months after the end of the accounting period) Submission of final top-up provisional tax
Monthly events	
20th of every month	PAYE returns and payments Import VAT returns and payment
Bi-monthly events	
25th of every month	VAT returns

Social Security and Workmen's Compensation

Workmen's Compensation

Once the business employs any employee the entity must register the business entity at the Social Security Commissioner's office for Social Security as well as Workmen's Compensation.

Workmen's Compensation is applicable on all employees earning less than N$72,000 per annum and is calculated on all staff collectively in advance at a rate of .0009% of gross salaries. Once a year at end February the business entity must complete and file a Workmen's Compensation Return (E.As.6). Any difference between the earlier estimated rate payable and actual rate calculated at end February of the next year, is offset against the estimated payment calculated for the next year. Since the Return distinguishes between total annual earnings of males and females employed with the business, it is recommended to maintain such distinction in monthly payroll records in order to simplify annual calculations needed to complete the Compensation Return.

Employees earning more than N$72,000 may be included for limited cover by special application to the Social Security Commission, but we recommend that the business entity rather consider the alternative of insurance (medical/disability/life cover) on higher earning employees or employees at risk of injury at the workplace.

Workmen's Compensation is a form of insurance to cover employees for expenses and loss of income resulting from injury at the work place. Health and safety regulations must still be adhered to in order to prevent accidents at the workplace.

Social Security

Upon appointment of its first employee the business entity must register with the Social Security Commissioner as an Employer. Each person employed at the entity must be registered as an Employee as soon as possible after appointment.

All employees earning below N$9,000 per month must contribute. The contribution due per individual is calculated at 1,8% of the individual's monthly salary, which amount will be equally funded by the employee and employer (i.e. 0.9% will be contributed by an employee and 0.9% by the employer).

Example: for an employee earning N$7,000 per month the contribution to SSC would be N$126 (i.e. N$7,000 X 1,8%) in total, which will be divided and contributed equally by the employee and employer (i.e. N$63 by the employee and N$63 by the employer).

The cut off ceiling for Social Security contributions is N$9,000 with a maximum of N$162.00 payable.

Social Security contributions are deductible monthly and must be paid over before the end of the next month.

Vocational education levy

From 1 April 2014 under Section 35 of the Vocational Education and Training Act of 2008, employers with an annual payroll of N$1 million or more are required to register as levy-paying employers with the NTA. Employers are encouraged to resister at the NTA official website www.nta.com.na

Chapter 3 - Accounting & Bookkeeping

Most operators of a new and growing business have a flair for the environment in which the business operates. They may be a great salesperson, an outstanding mechanic, carpenter, attorney or inventor. Unfortunately, most people don't like to keep proper books. As an owner of a business, you must remember that your business's books and financial statements represent a score sheet which tells how you are progressing, as well as an early warning system which lets you know when and why the business may be going amiss. Financial statements and the underlying records will provide the basis for many decisions made by outsiders such as banks, landlords, potential investors and trade creditors, as well as taxing authorities and other governing bodies. The necessity for good, well-organized financial records cannot be over-emphasized. One of the greatest mistakes made by owners of small businesses is not keeping good financial records and making improper or poor business decisions based on inadequate information.

Quality financial information does not necessarily translate into complicated bookkeeping or accounting systems. Far too often owners of businesses become overwhelmed by their accounting system to the point where it is of no use to them. An accounting or bookkeeping system is like any tool used in your business. It needs to be sophisticated enough to provide the information you need to run your business and simple enough for you to run it (or supervise the book-keeper). Questions you should ask in developing an accounting and financial reporting system are:

1. Who will be the users of the financial information?
2. What questions do I need answered to manage the business?
3. What questions should be answered for the Receiver of Revenue?

As your business grows, you should work closely with your accountant to ensure that your accounting system is providing you with appropriate information.

Chart of Accounts

The basic road map into any accounting system is the chart of accounts. It is this chart that helps establish the information that will be captured by your accounting system and what information will subsequently be readily retrievable from the system. This tool, like the rest of the accounting systems, needs to be dynamic and should grow as the size and needs of your business change.

To help establish a good working chart of accounts you need to answer some questions, in conjunction with your accountant, as to how your business will operate and what is important to you. Some of these considerations might be:

1. Will your business have stock to account for? If so, will it be purchased in finished form or will there be production costs?

2. Are fixed assets a significant portion of your business?

3. Will you sell only one product or service or will there be several types?

4. Will you have accounts receivable from customers, which you will have to track?

5. Are you going to sell in only one location or will you do business in several places?

6. Are the products you sell subject to value added tax?

7. Do you need to track costs by department?
8. What type of government controls or regulatory reporting are you subject to?

Each one of these questions can have several answers and will probably generate more questions. Each answer will have an impact on how the chart of accounts is structured. It may seem that developing a chart of accounts is not particularly high on your list of things to do as you start a new business. The amount of time and money a well organized accounting system may save you can be significant as the need to generate information for various purposes increases. An example of a basic chart of accounts follows this section.

Cash or Accrual Accounting

One of the decisions to be made as you start a business is whether to keep your records on a cash or accrual basis of accounting. The cash basis of accounting has the advantage of simplicity and almost everyone understands it. Under the cash basis of accounting, you record sales when you receive the money and account for expenses when you pay the bills. The increase in the money in “the cigar box” at the end of the month is how much you have made. The RECEIVER OF REVENUE works on the accrual basis.

Unfortunately, as we all know, the business world is not always so easy. Sales are made to customers and you sometimes must extend credit. Your business will incur liabilities which are due even though you may not have received the invoice or have the cash available to pay them.

Most users of financial statements such as bankers and investors are used to accrual-basis statements and expect to see them. Once you become familiar with them, they provide a much better measuring device for your business operations than cash-basis statements.

Whether you use the cash or accrual basis, it is possible to keep books for income tax purposes on a different basis than for financial statements. It may be more advantageous (less tax) for you to do so.

Accounting Records and Record Keeping

Another question that the owner of a business must answer is “Who will keep the books of the business?” Will you do it yourself, will the receptionist or a secretary double as a part-time bookkeeper, will you have a bookkeeper that comes in periodically, or will the volume of activity be such that a full-time bookkeeper will be required?

Very often the owners of a business decide to keep the books themselves and underestimate the commitment they have made to other phases of the operation and the time required to maintain a good set of financial records and books of account. As a consequence, the record keeping is often low priority and must be caught up later. This approach, though rarely planned, can require a substantial expenditure of time and money. While it is important for the owners of a business to maintain control and stay involved in the financial operations of the enterprise, maintaining close control over the cheque-signing function and scrutinizing certain records can achieve this. At Kobus Visser Bookkeepers we can help develop a good program of record-keeping duties for you, your employees and any outside bookkeepers you may engage.

A Word about Accounting Software Systems

There are a number of very good and easy to use accounting software systems, which are commercially available, but none of them will solve the problems of inaccurate or poor quality financial records. All they will do is generate bad information faster. This is one of the reasons why the computer has also probably caused more headaches for the owners of modern businesses than any other single cause. If you want to use a computer-based accounting package, either in your own business, with a service bureau, or through your accountant, it is imperative that you generate accurate information to be entered into the system.

The real value of accounting software becomes apparent once it is running smoothly in your business. Your accountant can then function in the capacity for which he was trained, not as a “number cruncher”, but as your business adviser, consultant and strategist. Both of you can focus not on producing reports for various regulatory agencies but on analyzing your business to make it more profitable.

Currently Kobus Visser Bookkeepers use PASTEL accounting software for our monthly bookkeeping.

Internal Control

What is internal control? It is the system of checks and balances within a business enterprise that helps to ensure that the business's assets are properly safeguarded and that the financial information produced by the business is accurate and reliable. When you are operating as a "one man shop", or at least handling all of the business's financial transactions, maintaining good internal accounting control is relatively straightforward.

However, when your business grows to the size where you must delegate some of the functions, it becomes more difficult to ensure that all the transactions are being accounted for properly.

No matter the size of your business, you should always be able to answer "YES" to the following questions:

1. When my business provides goods or services to our customers, am I sure that the sale is recorded and either the debt is recorded in accounts receivable or the cash is collected?

2. When cash is expended by my business am I sure we received goods or services?

The method used to ensure that these two questions can be answered affirmatively will be widely varied. They are essential stepping-stones to maintaining good control in your business. The solution in your particular instance may be as simple as numbering the sales invoices and being sure ALL INVOICES ARE ACCOUNTED FOR or reviewing all invoices and timecards before signing business cheques. These are fundamentals in a well-run business. As the business grows you will need to consider concepts such as segregation of authority or controlled access storerooms. No matter what the size of your enterprise, you should consider controlling your business and safeguarding hard earned assets as a priority from the outset.

Illustrative Chart of Accounts (Sole Trader)

FIXED ASSETS - TANGIBLE

0010 Freehold property cost

0020 Freehold property depreciation

0110 Leasehold property cost

0120 Leasehold property depreciation

0210 Plant and machinery cost

0220 Plant and machinery depreciation

0310 Fixtures/fittings cost

0320 Fixtures/fittings depreciation

0410 Motor vehicles cost

0420 Motor vehicles depreciation

FIXED ASSETS - INTANGIBLE

0700 Investments in patents

0900 Goodwill

CURRENT ASSETS

1000 Stocks and work in progress

1100 Trade debtors

1103 Debtors and prepayments

1200 Bank current account

1230 Petty cash

CURRENT LIABILITIES

2100 Purchase ledger control

2109 Creditors and accruals

2200 VAT control account

2300 PAYE creditor

LONG TERM LIABILITIES

2600 Bank loans

2700 Hire purchase creditors

2800 Lease purchase creditors

2900 Other loans

CAPITAL AND RESERVES

3000 Capital account - balance brought forward

3100 Capital introduced

3200 Profit and loss account

3300 Drawings

SALES

4000 Sales/work done

4009 Discounts allowed

4100 Export sales

OTHER INCOME

4200 Royalties received

4210 Commissions received

4220 Insurance claims

4230 Rental income

4240 Bank interest received

COST OF SALES

5000 Purchases

5900 Opening stock and work in progress

5950 Closing stock and work in progress

DIRECT COSTS

6000 Direct labour

6100 Goods outward costs

6200 Goods inward costs

6300 Packaging

6400 Duty paid

6500 Transport insurance

6600 Sales commission payable

6700 Royalties payable

OVERHEADS

7000 Motor expenses

7100 Telephone

7200 Wages

7300 Rent

7400 Rates

7500 Heat and light

7600 Postage, stationery and advertising

7700 Repairs and renewals

7800 Insurance

7900 Bank charges and interest

8000 Hire purchase interest

8050 Mortgage interest

8100 Accountancy fees

8200 Legal charges

8300 Use of home as office

8400 Protective clothing

8500 Cleaning

8600 Sundry expenses

8700 Subsistence

8800 Profit on asset sales

8900 Depreciation

9000 Bad debts written off

This provides an illustrative list – but you can generally create as many accounts as you need for your own analysis and information. Most software packages come with pre-configured codes set up, sometimes generic and sometimes for a specific trade or industry.

Chapter 4 - Value Added Tax

VAT is a tax on consumer expenditure and is ultimately paid by the final customer. Most business transactions involve the supply of goods or services and VAT is payable if they are made:

a) In Namibia

b) By a VAT Registered vendor

c) In the course or furtherance of business and are not specifically exempted or zero-rated VAT is collected by RECEIVER OF REVENUE and is normally payable every two months.

Registration

When to do VAT registration:

A. Compulsory

A person who makes taxable supplies becomes liable to be registered if:

a) At the end of any month, the value of his taxable supplies in the period of one year then ending has exceeded the registration limit of N$500,000.

b) At any time, there are reasonable grounds for believing that the value of his taxable supplies in the next year will exceed the N$500,000 limit.

In the most common situation, i.e. (a) above, the person must notify RECEIVER OF REVENUE of the liability within 30 days of the end of the month in which the value of the taxable supplies first exceeded N$500,000. If, for example, the value of the taxable supplies first exceeded N$500,000 in the twelve months to 31 March, then RECEIVER OF REVENUE must be notified by 30 April and VAT registration would commence on 1 May.

Advantages

• Enables input VAT suffered to be reclaimed;

• A VAT number can give the impression that a business is larger than it actually is which sometimes can increase the possibility of obtaining work.

Disadvantages

• The requirement to prepare VAT returns on a bimonthly basis and to submit them - is the amount of work involved worth it for the amount of input VAT that can be reclaimed?

• RECEIVER OF REVENUE may visit the business about every five years to ensure that VAT is being properly accounted for. There may be penalties for incorrect returns.

• When the business claims VAT back from the Receiver of Revenue it may result in a VAT audit whereby all the relevant original documentation must be taken to the Receiver of Revenues offices for checking of accuracy. Delays in refunds can take months resulting in cash restrictions for the business. This is especially true for building contractors building residential houses.

B. Taxable Persons and Supplies

a) Taxable Persons

It should always be remembered that it is a person that is registered for VAT and not a business. If a person has two separate different businesses, both with taxable supplies of N$ 100,000.00, then that person will be required to be registered for VAT and account for VAT at the appropriate rate on the total supplies of N$500,000.

It is possible to mitigate the effect of VAT by having one of the businesses operated by a limited company, close corporation or by a partnership with a relative, but professional advice needs to be obtained since the RECEIVER OF REVENUE has the power to still treat the two businesses as one if strict criteria are not met.

b) Taxable Supplies

Taxable supplies are all supplies made by a business either to a third party or to the trader himself (goods for own use), which are not exempt supplies. Taxable supplies therefore include zero-rated supplies.

The major categories of exempt supplies are:

Land (but not buildings)
Insurance
Postal services
Betting, gaming and lotteries
Finance
Education
Health and welfare

It is important that at the outset of a business, a trader establishes the VAT status of any supplies being made to avoid mistakes.

VAT Rates

There are two rates of VAT:

1. 15% - the standard rate of VAT, applying to any sales of standard-rated goods or services
2. Zero-rated - the eleven main areas of zero-rated goods are:

Illuminating Kerosene (paraffin)
Petrol and diesel
The sale of business or part of a business as a going concern
Direct exports
International transports
Work done outside the country
Basic food items e.g. Brown bread, Maize meal, Rice, Cooking oil, Dried beans
Services to non-residents
Services physically rendered outside Namibia
Municipal rates
Winnings in a horse race paid by the arranger of the event, to a Vat registered owner of a horse

Any VAT charged by the business is known as output VAT and the total charged or collected in the VAT period is payable to RECEIVER OF REVENUE.

Input VAT

Input VAT is the VAT that you are charged on your business purchases and expenses (the other person's output VAT) and is normally recoverable in full by a trader who only makes standard rated or zero-rated supplies. Businesses that make some exempt supplies (known as partially exempt businesses) have different recovery rules. The total input VAT payable in the VAT period is deducted from the output VAT charged or collected and the difference is either the amount of VAT due to the RECEIVER OF REVENUE or the amount repayable by the RECEIVER OF REVENUE. The majority of input VAT is recoverable but there are special rules for:

Cars
Business entertaining and accommodation;
Goods sold under a VAT second-hand scheme.

To reclaim VAT you have been charged as input VAT, you must hold valid evidence that you have received a taxable supply, which normally means a valid VAT invoice from a registered trader showing his VAT number and the amount of VAT charged.

Penalties

Late return	10% on outstanding value
Late filing of NIL return	N$100 per day

VAT Checklist

Registration

(a) Should the business be registered?

(b) Is basis of registration correct?

(c) Are details on registration certificate correct?

(d) Do procedures exist for notifying the Receiver of Revenue of relevant changes?

(e) Review position at regular intervals.

(f) Is it necessary to register for online filing of VAT returns and is this beneficial?

Preparation of returns

(a) Has a return been received? If not, then obtain a duplicate from the VAT Office.

(b) Review sources of information.

(c) Prepare draft return.

(d) Check for accuracy and completeness.

(e) Submit the return and make payment (if outputs exceed inputs)

Input Tax

(a) Do any restrictions on input tax exist? If "Yes", does an agreed method exist and does this method maximize input tax?

(b) Are invoice additions and calculations checked?

(c) Is input tax claimed at the earliest tax point?

(d) Are all claims properly supported? Ensure all original supporting invoices are kept.

Output Tax

(a) Are all income heads reflected for VAT accounting?

(b) Are all potential sources of notional supplies considered?

(c) Are all potential sources of income (asset sales, etc.) covered by a VAT accounting system?

(d) Is VAT captured at the correct tax point?

(e) Is VAT correctly applied where appropriate?

TAX INVOICE requirements

A registered person making a supply to another person shall on request issue a tax invoice to such other person for the supply which contains such particulars as specified by the VAT Act. A registered person is however not required to issue a tax invoice if the total consideration of the taxable supply is in cash and does not exceed N$100.

What do businesses have to show on a tax invoice?

A tax invoice must be issued where the consideration exceeds N$100. The tax invoice should contain the following information:

- The words "tax invoice" in a prominent place
- The name, address, and VAT registration number of the supplier the name and address of the recipient
- An individual serialized number and the date of invoice
- Full and proper description of the goods or services supplied the quantity or volume of the goods or services supplied
- The total amount of tax charged, the consideration for the supply, the consideration including tax

Money Laundering Regulations

The RECEIVER OF REVENUE has a responsibility for administering certain aspects of The Money Laundering Act particularly relating to High Value Dealers (HVDs).

HVDs are those traders who may receive N$5,000 in a single transaction or a series of linked transactions per annum. The Regulations principally apply if cash or cash equivalent are offered in settlement.

If you believe you may be a HVD you should discuss this with your advisors or visit the RECEIVER OF REVENUE or the Bank of Namibia.

Furthermore, if you believe you may be affected by the Regulations as they relate to regulated businesses you should discuss this with your advisors as the penalties for not complying are serious.

Chapter 5 - Payroll Taxes

Irrespective of the form of business in which you operate, if you are going to have employees, then you will have to contend with payroll taxes. The brief summary that follows will give you some guidance on the rules and regulations set by the RECEIVER OF REVENUE.

Helpful Publications

The RECEIVER OF REVENUE publishes various booklets relating to how PAYE is operated and the legislation that you have to comply with. You should run the PAYE scheme in accordance with the legislation and should you fail to comply then RECEIVER OF REVENUE will look to you for the tax. This can be costly if you are unable to recover the tax from the employee afterwards.

Do You Have Employees?

Whether an individual is an employee or not in a particular situation is a question of fact depending on the terms on which he works. The question of whether an individual is employed or self-employed is very important for the business "employing" him or her, as that business has to comply with the reporting requirements.

In certain areas the RECEIVER OF REVENUE has placed emphasis on reclassifying individuals claiming to be self-employed and has issued Interpretation Note 17 titled " Employees' Tax: Independent Contractors". This booklet sets out the questions that should be answered to determine the problem. If you have treated someone as self-employed and subsequently after a routine visit from the RECEIVER OF REVENUE it is clear that they were employees, then the tax, which should have been paid, will be assessed on you. Therefore it is important to ensure when using the services of self-employed people that they are in fact self-employed. If doubt exists as to the status of an individual, the situation can be clarified with the RECEIVER OF REVENUE. The best way is to draw up a contract between the employer and employee or in the case of a sub-contractor a subcontractor's agreement.

The Operation of a PAYE Scheme

Upon registration the RECEIVER OF REVENUE will send you guidelines on operating PAYE. Included will be a number of forms with which to operate the PAYE and UIF system. You should familiarize yourself with these forms, which are as follows:-

6-0/0044	Registration
6-0/0019	Return of Earnings
6-0/0033	Reconciliation

In order to calculate the amount of tax due by an employee, the RECEIVER OF REVENUE will supply you with sets of tables.

The tax should be paid to the RECEIVER OF REVENUE by the 20th of the month following that in which the salaries were paid.

The direct payment system will allow businesses to do payments electronically to the RECEIVER OF REVENUE every month.

Payroll Software

The use of the tables described above can be very time consuming and prone to error so it is recommended that either payroll software or a payroll bureau service be used if you have employees.

Payroll can be complex and time consuming. Kobus Visser Bookkeepers offers a bureau facility for processing your payroll and supplying you with reports, payslips etc. Contact us if you would like further details.

Installation of Accounting Systems

1. Decide on starting date, consider trial period.
2. Set up nominal ledger accounts, Balance Sheet and Profit and Loss Layout.
3. VAT? Accrual or Cash Accounting.
4. Are departments required for sub analyses?
5. Use a dummy company for practice (Multi-company systems only).
6. Obtain starting trial balance.
7. Obtain starting Sales and Purchase Ledger balances.
8. Enter Trial Balance by journal entry.
9. Enter Sales/Purchase account code, names, addresses, etc.
10. Enter Sales and Purchase Ledger balances by posting directly to Sales/Purchase control account.
11. Enter live data:
    a. Sales and purchase invoices
    b. Cash received
    c. Cash paid
    d. Petty cash
12. Consider the need to keep manual records for at least three months and Cash Book for full year.
13. Reconcile Bank Statements with Cash Book and Computerized Bank Control Account.
14. Consider direct production of Sales Invoices; free text or from stock. If the latter, stocks, dummy or real need to be entered into stock records.
15. Double Entry Principles

    By entering a Sales Invoice in the Sales Ledger, the customer's account, the Sales Ledger Control Account (agreeing the total of the individual sales ledger balances to the total debtors in the trial balance), the VAT Account, and the Sales Account in the Profit and Loss Account are all automatically updated. Posting Purchase Invoices, Cash Received and Cash Paid all complete the double entry and update Control Accounts.
16. Backup, backup, backup

    Keep a backup disk for each of the five weekdays.
    Keep an end-of-week backup offsite.
    Backups could also be done online via the Internet.

Chapter 6 - Income Tax and Corporation Tax

Eventually, you will have to deal with income or corporate taxes. The taxation legislation is extensive and can be confusing for an individual starting a business. This chapter does not cover all the tax ramifications of a new business, nor does it detail all the expenses you can claim for, nor does it give details of allowances available on the purchase of some capital items. A professional Accountant should be consulted when you are dealing with the taxation affairs of the business. The payment of taxation has a direct impact on your cash flow.

Choice of Year End

Which Accounting Year Should I Choose?

If you expect profits to rise steadily year-by-year, in the case of sole traders/partnerships, an accounting date early in the tax year, for instance 30 June, might be best in the short term, because this will defer the payment of tax on your profit. However, it is important to consider what will happen when you retire. Any accounting date other than 28 February will cause a bunching of your tax liabilities because all your profit that has not been assessed prior to your retirement will be assessed for your final year. There are a number of ways to mitigate the effect of this. You could plan to retire on or shortly after the accounting date, and allow "overlap relief" to reduce the burden.

On the other hand if you expect to make losses in your early years, an accounting date late in the tax year, for instance 28 February, will ensure that you get tax relief for those losses as quickly as possible. You would then not be faced with the bunching problem on retirement referred to above.

It will also be necessary to bear in mind the seasonality of your business. As part of the profit for your first period of trading could be taxed twice, it would be unfortunate if a poor choice of accounting date were to accelerate the tax on the profit of your first busy period. In these circumstances it might be preferable to run your first accounts to a date just short of your peak period.

As ever, it is important not to overlook commercial considerations. Your bankers might want to see as healthy a profit as you can manage and this desire could conflict with tax planning. A solution would be to choose a tax efficient tax accounting date, and keep the bank happy with quarterly management accounts.

Tax Returns

Companies

Companies are charged corporation tax at the rate applicable during the tax year (1 March – 28 February). Where a company's accounts period spans two financial years the profits for the period are apportioned between the years.

Companies and close corporations currently pay a flat rate of 34% income tax, except for diamond mining companies at 55% and other mining companies at 37.5%. This means that if a company or close corporation makes N$1000 profit, it will be taxable at these rates. Good tax planning between the entities and the individuals is necessary.

There are special rules to calculate the tax rates applicable for profits falling between the small companies and normal rates, and are such as to ensure that the tax charge rises progressively.

A company is required to make an estimate of its own liability to corporation tax and pay that liability by the normal due date, seven months after the end of the tax year, without an assessment being raised.

The company is required to submit its completed tax return by the filing date, which is 12 months after the end of its accounting period. Penalties will be charged if it is submitted late.

Once the company is assessed, there will be a settlement of any balance due or overpaid. Interest will be charged or paid from the normal due date on the balance.

Sole Traders/Partnerships/ trusts

Sole traders and partnerships are charged income tax at the rates applicable during the fiscal year (1 March – 28 February). The rates are as follows:

TAX RATES INDIVIDUALS AND TRUSTS- 2014	
Taxable income	**Rates of tax**
0 – 50,000	NIL
50,001 - 100,000	18% for each N$1 above 50,000
100,001 - 300,000	9,000 + 25% for each N$1 above 100,001
300,001, - 500,000	59,000 + 28% for each N$1 above 300,001
500,001 - 799,999	115,000 + 30% for each N$1 above 500,001
800,000 - 1,500,000	205,000 + 32% for each N$1 above 800,000
Above 1,500,000	429,000 + 37% for each N$1 above 1,500,001

For the self–employed and those that pay tax on other income such as rent, tax is normally payable in three installments - the first two installments are based on the taxable income of the current year. Therefore a minimum of 40% is paid by the 31 August in the year of assessment, the other 40% by the 28 February. The third installment will be any balance due (payable by 30 September) or any amount repayable by the RECEIVER OF REVENUE if your final liability is lower than the amounts paid on account.

However – a word of warning when you start up a non-incorporated business.....depending on accounting dates chosen and when you start to trade, you may not pay any tax on profits for some considerable time. As an illustration purpose assume you start to trade on 1 May 2012 and first accounts run to 28 February 2013. You will not pay any tax in August 2012 or February 2013 – nor will you pay any tax in August 2013- so the first tax liability will arise in February 2014. This will be 100% of the tax liability for the period to 28 February 2013 – but, in addition, you will also have to pay 50% in August 2014 of that sum "on account" for the following tax year, with a further 50% in February 2015. You are then however in the six monthly "cycle".

A lesson to take on board is to ensure that your accounts are prepared as soon as possible after the end of the accounting period. In our example of 28 February year end, if accounts can be prepared before 31 July it will be possible to calculate the tax for the year to 31 August and the installment can be adjusted accordingly – downwards if tax due is found to be less. If tax due is actually more for the year, there is at least early warning of the tax bill due in September. Under self-assessment your income tax return, which encompasses your trading results, needs to be filed by January/February following the tax assessment year. This payment date is moved forward to the end of September if you wish to avoid interest. Kobus Visser Bookkeepers can however file the returns electronically and perform the tax calculations on your behalf.

Chapter7 - Cash Planning and Forecasting

Cash is King!

The lifeblood of any business is its ability to collect cash and pay bills as well as pay its employees, particularly its owners. Far too often small businesses are profitable, but they do not have enough operating capital to meet their current needs. Consequently, they may be forced to sell out to a stronger competitor, sell a portion of the company to investors at an undesirable price or close the doors and put the company out of business. None of these alternatives are typically what the owners intended when starting the business.

The ability to forecast cash resources and uses is an art and is by no means a well-defined science. None of us have a crystal ball and any cash forecast which the management of a company or their accountant prepares can be no more than a guess as to when the customers pay and when your business will pay its obligations. Hopefully, the more effort that is put into cash forecasting the better will be the educated guess and the more accurate the resultant picture of the future operations of your business.

Starting the Analysis

One of the most significant factors to be considered in your cash flow forecast is the volume of sales that will be generated in the next several months and for the rest of the period for which you intend to forecast. Your sales forecast must be as fine-tuned as possible. It may be unrealistic to assume that there is a million dollar market for your product in your area and you will be able to capture a specified percentage of it. A sales forecast needs to be based on specific facts. These might include your sales history, or the history of similar businesses you have owned or operated, or the competition. In your area, what has been the experience of similar operations?

Some of the questions that should be addressed would include: - what other factors could I control, such as adding new product lines, deleting unprofitable operations, adding a new salesperson, or terminating one that is not producing to quota? In preparing a forecast, you must also take into consideration items such as the seasonality of your business, the relative state of the economy and the period over which you will forecast.

Obviously your ability to forecast sales for the next month is better than it is for three to five years from now. The amount of detail that must be included in the cash forecast is really a matter of preference. It can be based on per unit sales extended out by the sales price of each type of unit or an average sales volume per day, week or month of your type of business in its current environment.

Cash Collections

Once you have determined a reasonable level of sales and you are comfortable with the forecast you have made, you must address questions such as: what percentage of my sales are received in cash, and what portion are credit sales for which I will have to carry amounts in debtors? For those that are debtors based, how soon is the cash collected? Do I have to wait for customers to pay me or do third parties such as Visa or MasterCard or a debt factor take the customer's account and convert it to cash for me with an appropriate discount?

If you are relying on customer payments for collection of debtor balances you must determine what portion of the debts will be collected in thirty days, sixty days, ninety days and thereafter, and what portion, if any, may never be collected. To assume that 100% of your sales will ultimately be converted to cash is probably unrealistic especially considering the current economic environment and the tight cash situations that may face some of your customers.

Other sources of cash may be available in addition to sales. Do you expect to bring in a partner or other investors, or can you borrow money from a bank?

When will you receive the cash and how much will you get? Part of your cash flow analysis may be to determine how much investment money or borrowings will be required to operate your business.

Once you are comfortable with the cash receipt side of your business, and the timing of the collections of funds from your sales and other sources, it is necessary to consider the expenses and other cash needs of your business operation.

Disbursements

Certainly if your business entails sales of stock, you will have to purchase the merchandise from others or purchase the component parts and pay employees to assemble it. This may require a significant outlay of cash before the first rand of sales is generated and received. You should consider how often and in what amount your employees must be paid and when their payroll taxes must be paid over.

Additionally, you need to know the credit trade terms your creditors are willing to advance to you. Do you have to pay for stock items on a C.O.D. basis or can you pay for them thirty or forty-five days after receipt? What expenses must be paid to allow you to convert purchased merchandise to saleable stock? If your production requires utilities to run machines or supplies that are required, such as consumable chemicals or packing materials that must be purchased prior to the sale of the stock, you should consider the timing of these payments.

In addition to the cost of manufacturing, you should consider whether your productive capacity would allow you to generate enough stock to support the level of sales that you are predicting. If the volume of sales you forecast is above your ability to produce today, what changes in your operating environment must be made to meet the production levels? Will you need additional employees? If so, how much will they cost? Do you have to acquire additional machinery for your shop operations? What is the cost of the machinery and when will you have to pay for it? Do you have enough space to cope with the additional activity?

Once you have determined the cost of operating your production or service facilities, you need to consider what other expenses you must pay to keep the doors of your business open. You typically will have to pay rent for your office or manufacturing facility. You must consider how much the monthly payment is and when it has to be paid. Ask yourself if there will be other cash requirements such as a deposit on first and last month's rent. If you are opening a new business, you must consider what your cash requirements are to make your facility ready for your specific needs and purposes. Will you have to buy or rent furniture? Will you need to make tenant improvements or pay deposits for utilities and other services?

You also need to consider many of the overhead items and costs to open a new business that will hopefully be one-time expenses. This may be the cost of incorporating your business, an attorney's fee for drafting partnership and other agreements, the cost to obtain business licenses, approval from the taxing authorities, setting up an accounting system, stationery costs, costs of signs or logos etc.

It may seem like the list of costs and expenses to be incurred is endless. It may even discourage you in moving forward with your business endeavour. However, it is imperative to make the list as detailed as possible to ensure that you have sufficient funds to make your operation ready for business prior to running out of cash. The more detailed the list and the more sufficient information you can provide, the less chance there is of unpleasant surprises as you move down the stream to opening your business.

In addition to determining the amount and volume of expenses and cash outlays you will have to make, it is critical to determine the timing of such payments. As we have discussed in other chapters, there may be a variety of financing alternatives that are available to you. Most of the start-up costs that you incur can be delayed or deferred until you can generate the cash from your operations to help pay them. This needs to be carefully analyzed and built into your cash flow analysis. However, a good rule of thumb is to assume that you are going to have to pay your expenses sooner than you think and that you will collect your cash slower than you anticipate. If you work with this attitude, any surprises should be favourable ones.

Cash flow projections can be very slow, time consuming and tedious to undertake. It is often very tempting to hire someone else to prepare the projections for you. There are a variety of individuals who can help you do this, but the critical factor is that they only help. As the owner and operator of the business, you are the only one truly qualified to develop your cash flow projections. You know what it takes to open and operate your business. Certainly, a trained professional can offer guidance and ask pointed questions to be sure you are considering all of the necessary and sometimes hidden costs of operating a business. However, the more effort you put into developing the cash flow projections, the more accurate they will tend to be. This exercise may also help you to pinpoint areas of potential cash savings that you have not otherwise considered.

Chapter 8 - Obtaining Credit and Financing your Business

If not independently wealthy and perhaps even if you are, eventually you will probably need to obtain some outside capital for your business. In some instances, you may need to obtain capital for the initial expenses prior to opening your business or, for instance, the funds you require may be for expansion or working capital during the off-season.

Generally, business financing can take two forms; debt or equity. Debt, of course, means borrowing money. The loans may come from family, friends, banks, other financial institutions or professional investors. Equity relates to selling an ownership interest in your business. Such a sale can take many forms such as the admitting of a partner or, if you are in a company, issuing of additional shares to investors. It is typically a prudent idea to consult with your accountant, as there are many significant legal ramifications to such a step.

How Do I Get the Money?

Irrespective of the type of financing you need and are able to obtain for your business, the process of obtaining it is somewhat similar. There are several questions that must be answered during the course of raising money for your business. The ability to answer these questions is critical to your success in obtaining financing as well as the overall success of the business. Remember, in raising capital you have to sell the ability of your business to potential investors in much the same way as you sell your product to your customers.

1. *How much cash do I need?*

   To answer this question you will have to do some serious cash flow planning, which will require estimates of future sales, the related costs, and how quickly you must pay your suppliers. You will also have to build into your planning some assumptions about when you will generate enough cash to pay the money back. However, if you raise cash through equity you probably don’t need to pay it back but your investors will want to know how the value of the business will grow and how they will benefit through dividends or selling their shares.

2. *What will you do with the money?*

   One of the most important questions you will have to answer for a potential investor is how the money will be spent. Will you use it for equipment or to hire additional employees or perhaps for research and development for a new improved product? Again, part of the answer on how you spend the money is how it will benefit the company.

3. *What experience do you have in running your business?*

   One of the primary reasons for business failure is lack of experience of management. You will need to convince your investors that you have the knowledge, experience and ability to manage your business and their money at the level at which you expect to operate.

4. *What is the climate for your type of business and your geographic location?*

   Few investors will want to put money into your business if you haven't done sufficient "homework" to determine that you have a reasonable chance of success. If your business is based on existing economic or legal conditions that are subject to change in the near future your risk is substantially increased. Even if your business has great potential, if the local economy is sluggish to the point that it can't support your venture, you need to be aware of this before moving ahead.

Once you have developed concrete answers to these and other pertinent questions, you can begin looking for financing. One of the first steps is to determine whether to raise funds through debt or share capital. There are positive and negative aspects to each type. The cost to your company of each type of funding is different, as is the way in which they are treated for tax purposes. The interest on borrowed money is deductible by a business for tax purposes, which reduces the effective cost to your company. Dividends, which you might pay on the same investment in shares, would typically not be tax deductible by your company. In selling shares there usually is no firm commitment by your company to pay the money back but your shareholder will want, and generally will have, a legal right to have a voice in the management of your company. When you have made the decision as to the type of financing you think is appropriate to fit your desires and needs, it is probably a good idea to consult with your accountant as to alternative types of debt or equity financing available.

Business Plan

Typically, a potential lender will want to know all about you and your proposed venture. Many of these details will have already been provided, but are best provided in a logical consolidated format. This format, or **business plan**, is a document that enables the investor to readily obtain an understanding of your proposal. It follows that in order to successfully raise funding, the business plan should be commercial and realistic.

Kobus Visser Bookkeepers have experience in developing business plans and can assist you in the effective drafting of your plan.

Financing Alternatives

Whether you determine that debt or equity financing is the best choice for your company, there are a number of alternative types of financing available. Depending upon the nature of your business, the financing may be a combination of debt and equity and may be tailored to fit the specific needs of your company.

In the summary, we will only mention a few of the more conventional methods for a young company to obtain capital, though the possibilities are many. Kobus Visser Bookkeepers can discuss these and other alternatives in greater detail.

Debt Financing Sources

Banks

The first source of funds, which typically comes to mind when borrowing money, is a bank, which is why they are in business. Banks typically lend to small businesses on a secured basis preferring bricks and mortar as security in preference to equipment, stock or debtors. The more liquid and readily saleable the assets you have to offer as security, the more acceptable they are to a banker.

Loans from a bank may take several forms such as:

a) An overdraft limit which is reviewed annually and allows you to borrow up to a predetermined maximum as you need it and pay it back as funds from sales and receivables are collected.

b) A short-term loan that is repayable on specified dates.

c) A term loan for the purchase of a specific asset such as a computer or a machine.

As your relationship with your banker becomes better, and your business becomes established, you may consider a longer (3 to 5 years) loan which will be payable in installments.

Lease Financing

In today's business environment it is quite common to acquire equipment through lease agreements. Leasing packages come in a variety of types through many sources. Leasing companies typically will accept a somewhat higher degree of credit risk because they are looking to the value of the equipment for collateral if your business cannot make the agreed upon payments. For this reason, leasing companies generally prefer to finance new equipment of a general-purpose nature, which can be resold if necessary. Leases often run for a period of three to five years and because of the risk that leasing companies are willing to take, they are somewhat more expensive than commercial bank loans.

Trade Credit

A very important source of financing for your company may be from the creditors and suppliers with whom you do business. Many suppliers will originally ask for cash on delivery or, in some instances, they want payment before starting on your order, depending on the nature of your purchase. Most suppliers will quickly establish trade credit with you once you have gained their confidence by continuing to do business with them and paying as requested.

Equity Financing Sources

Equity financing usually means selling a portion of your business. This can be accomplished in a number of ways including the sales of ordinary or preference shares. Equity sales are usually carefully tailored to meet the needs of both the company and the investor.

Venture Capital Companies

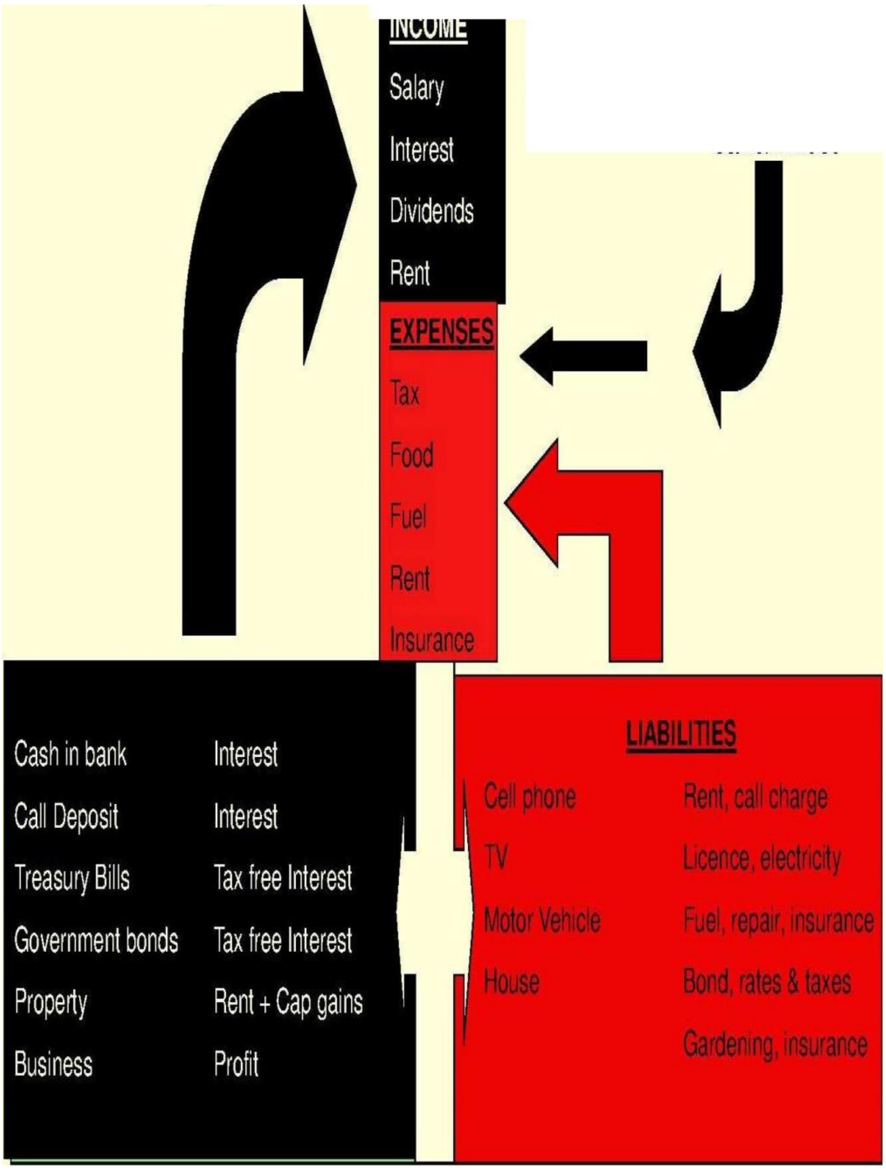
A venture capital company or fund is typically a company that is in the business of taking risks. A venture capital fund is often backed by a group of investors that may be individuals or companies. A management group that evaluates potential investments and manages the existing investment portfolio often represents the investors.

Private Individuals

Very often, individuals who are successful in their own right and have accumulated substantial wealth may be looked to for investment in your business venture. Such individuals may believe that the success of your business may enhance theirs as well as help increase their personal wealth.

Saving and investment principles

Pay yourself first - then save/invest



Chapter 9 - Insurance

Business insurance, like many types of expenditure, is one of those items that business owners typically do not like to pay. You must remember that sufficient insurance can be as critical to the success of your business as a good product or service. Without proper insurance you could lose all the money, time and effort you put into your company. The types and amounts of coverage you purchase must be evaluated on a cost – benefit basis like any other commodity that you purchase. Your insurance broker can help you review the amount of coverage your business requires. Usually you will want to insure against risks that could have significant detrimental impact on your business. This normally would include items such as fire, storm damage, theft, employers, public liability and products liability. Depending on the nature and size of your business it is often a good idea to self-insure for all or a portion of certain losses. Often raising the deductible (excess) can have a very favourable impact on the policy premium. The administrative cost to the insurance company to process small claims is quite high; consequently, the rates typically go down substantially if they are relieved of this expense by insuring losses in excess of a sizeable deductible amount. An insurance broker can provide you with comparative costs for various types of cover and varying degrees of deductible amounts.

Required Policies

Your insurance broker can explain the required cover and help you purchase the correct policy. You must be aware that the terms of your building, office lease or mortgage may require you to carry certain kinds of insurance cover in specified minimum amounts. If you have leased equipment or have borrowed money from a bank or other lenders, there will usually be insurance requirements in the agreement relating to these transactions. There are many other types of policies that you may wish to consider. Specific cover is provided by each policy and a qualified insurance broker can explain the related costs in-depth.

Some types of insurance cover that you should consider for your business are as follows.

Commercial Liability Insurance

There are many types of liability your business may need cover for. “Liability” refers to your legal obligation to pay compensation and costs awarded against you in respect of loss or damage sustained by a third party. Types of liability insurance you may want to consider are:-

Public Liability – this will protect you from any liabilities to a third party (other than your employees) for bodily injury or loss/damage to their property that may occur during the normal operation of your business.

Product Liability – this will protect you from any liabilities to a third party (other than your employees) for bodily injury or damage to their property that may occur from the products you have sold or supplied.

Professional Indemnity – this cover is usually purchased by “professionals” such as IT consultants, surveyors, accountants, attorneys, etc. This cover will protect your legal liabilities to third parties arising from your or your employees’ professional negligence/wrongful advice.

Property Insurance

There are many different types of property cover but generally businesses will purchase cover for buildings, machinery and stock against fire and other perils such as storm/flood etc. or theft. They will also consider covering money, goods in transit and glass.

For small businesses cover can be provided on a ‘package’ basis where certain covers such as money and goods in transit are included in the premium as standard. However, this option is only available for specific occupations/trades and you should consult with your broker for further details.

If you are working from home be aware that generally your ordinary household insurance policy will not provide cover for your business stock and liabilities. Specific policies can be purchased if you are working from home and you should contact your insurance broker for further details.

There are specific policies for property owners who rent out their premises to tenants. These policies provide cover for buildings, liability and loss of rent. Loss of rent cover is usually only provided in the event of an insured peril occurring such as a fire or flood etc.

Business Interruption

This covers loss of income/revenue or additional expenditure incurred following a disruption to the operation of your business. Business interruption usually mirrors your property policy and covers the same perils. However, it is possible to add additional perils to your business interruption cover such as food poisoning or failure of utilities.

Fidelity Guarantee

This type of insurance typically covers risk of loss resulting from theft by employees. If your business deals in large amounts of cash, negotiable securities or similar types of assets, you may be well advised to consider this cover. Certain industries are required to carry this insurance by regulatory authorities.

Directors & Officers Liability

Directors and officers of companies in recent years have been found to be personally responsible for their negligence in the running of their company. Recent legislation has also made company directors liable for their behavior to the company so that shareholders, creditors, customers and employees can now sue them as individuals.

Directors and officers liability cover provides indemnity to the company in respect of the costs it incurs in indemnifying a director against the successful defense of a claim or indemnifying the director where the defense has not been successful.

Key Person Protection

This provides a company with a valuable safety net should serious illness, disability or death curtail the contribution certain “key” people could make to its stability, profitability and success.

Identifying a Key Person

These are the people whose special knowledge, skills or enterprise are vital to the continuing survival of a business - people who are difficult to replace. Remember, key people come in many guises. They aren’t always the Managing Director or other high profile senior managers. Consider other key functions that are necessary to the company’s business when talking key person insurance with your insurer.

When is Key Person Protection Needed?

There are three clearly identifiable situations when key person insurance is most needed.

- To prevent loss of profits
- To protect the repayment of loans
- To safeguard the raising of capital

Partnership Protection

The death of a partner can be extremely damaging to any business. The ability to continue trading and maintain the financial wellbeing of the firm will be vital. In addition, there are other problems, which may have to be faced, in the absence of property provision in the Partnership Agreement and insurance cover:

- The partner's interest may pass to an heir who may not have the necessary skills, experience or interest to continue in the business.
- The partner's interest may need to be turned into cash to pay Inheritance Tax or provide for his or her dependants on death.

Raising the finance to buy a partner's interest may involve the sale of assets or finding someone who can afford to buy into the partnership.

Finding a suitable replacement and raising the money can be difficult and time consuming. If unsuccessful, the partnership may even have to be dissolved. It is clear that partners need to retain continuity, stability and control of the business whatever the eventuality. This can be achieved by making adequate legal and financial provision.

Shareholder Protection

Like partners, shareholder's shares may pass to an heir who does not understand the company's business or whose interest's conflict with those of the other shareholders. Alternatively, the shareholder's interest may need to be converted into cash to cover Inheritance Tax liabilities or provide for dependants. Maintaining control and stability of the company during this often-turbulent time is key to its continued success. By taking the appropriate legal and financial steps shareholders can be confident that the future holds no surprises.

Fee Protection Insurance

The RECEIVER OF REVENUE's powers have changed and they now have wider scope than ever before to visit business premises and inspect records. The likelihood of enquiries into a taxpayer's affairs appears to be on the increase. The professional fees in dealing with such enquiries can often be costly so it is advisable to "insure" or subscribe to a tax protection service, which will fund these fees in the event of an enquiry or visit. Kobus Visser Bookkeepers offer such a scheme and full details are available on request.

Chapter 10 - Selecting Professional Advisers

Starting your own business obviously entails a multitude of decisions, which can seem overwhelming without the right players on your team. In order to succeed, you need to equip yourself with every tool at your disposal.

One of the most cost effective tools you can utilize is the expertise of a specialist. The right accountant and attorney can eliminate a host of problems and potentially costly errors you might make as you build the financial foundation of your successful business.

As any coach can tell you, having a first rate attack (in this case, "you") won't guarantee a winning team without a first rate line of defense. The right accountant and attorney are your best defense. Their expertise can help save you money that in turn can be used to increase profits.

When enlisting the expertise of an accountant and attorney, you want a specialist suited to meet your specific needs. You want a specialist who will listen to you. More importantly, you need someone you can and will listen to, as they devise strategies to help you to succeed.

You want to succeed – and you can. By taking the time to make key decisions and enlisting the right players on your team – you will succeed!

We wish you success and welcome you to the wonderful world of free enterprise.

Chapter 11 - Computer Accounting Systems for First Time Users

Introduction

This chapter is intended to alert the business user to areas of information technology that require attention and action when installing or updating a system. It is not intended as a complete DIY handbook covering every eventuality.

Computer Hardware

The choice of computer hardware involves primarily: - Hard disk size, Processor speed and Memory (RAM).

In general terms go for as much memory and the highest processor speed within your budget.

Processor

The processor or central processing unit (CPU) is the part of a computer responsible for responding to and carrying out the sets of instructions necessary to perform operations. The clock speed of a processor, measured in Hertz (Hz) is a measure of how quickly the computer can execute these instruction sets. Bandwidth, measured in 'bits', relates to the amount of information that can be handled simultaneously by a processor within a given time. Higher clock speed and bandwidth will therefore yield better performance in a machine.

Memory (RAM)

Another important aspect to consider when selecting a system is the amount of Random Access Memory (RAM) that a machine has. RAM is comparable to the short-term memory in the brain, as it is a temporary storage solution. Various pieces of information are stored flexibly whilst a program is running so that it can be accessed quickly; a linear storage space would take longer for data to be retrieved. Having more RAM, therefore, allows programs to run faster, so again 'more is better'.

Hard Drive

The hard drive of a computer is used as a permanent storage solution and is used to store files and application data. The more storage capacity a hard drive has, therefore, the more information it can contain. The size of a hard drive is measured in bytes; many new desktop computers now come with at least 320 GB of space (3.2 billion bytes) that is more than adequate for most businesses. Portable hard drives are also available if required, adding even more storage capability to your system.

All software programs give their 'minimum system requirements' which are the requirements a computer system must meet to run a piece of software. Some programs give details of 'recommended system requirements', which will run the software more effectively if your system can meet them. It is therefore recommended that you check that your systems can meet both the minimum and recommended system requirements of any software applications your business will require.

Accounting Software

Accounting software, like hardware, is now very powerful and comparatively inexpensive. Integrated software includes Sales, Purchase and Nominal Ledgers with Sales/Purchase Order Processing and Stock Control in a single suite of programs. Networked versions for multi-user use are generally more expensive than single-user versions.

Choosing an accounting package

It is necessary to consider your requirements and what you want to be able to do before buying a package. There are often different levels of functionality in different versions of a program. Consider both the ability to get data into the product and also the reporting requirements that you have.

Consider also "online" packages, which will not incur you any upfront costs – you simply pay a monthly fee for its use. These may have integrated payroll too if you have employees in your business.

We have reviewed most of the well-known names in this sector of the market and find, as with many things in life, you tend to get what you pay for.

Modular systems are made up of individual programs for each of the above functions, each of which is more powerful and flexible than the integrated systems. These are put together to form a total system for the larger business, usually on a network of a number of PC's.

Websites

Developing and maintaining a website can be as complex and expensive as you care to make it. A great deal of careful thought needs to be given before significant time and expense is incurred as to how this aspect of technology can best be implemented to suit your business. There are many options to consider in how this should be addressed. At Kobus Visser Bookkeepers we can give some useful independent advice and thoughts in relation to your strategy in this area.

Social Media

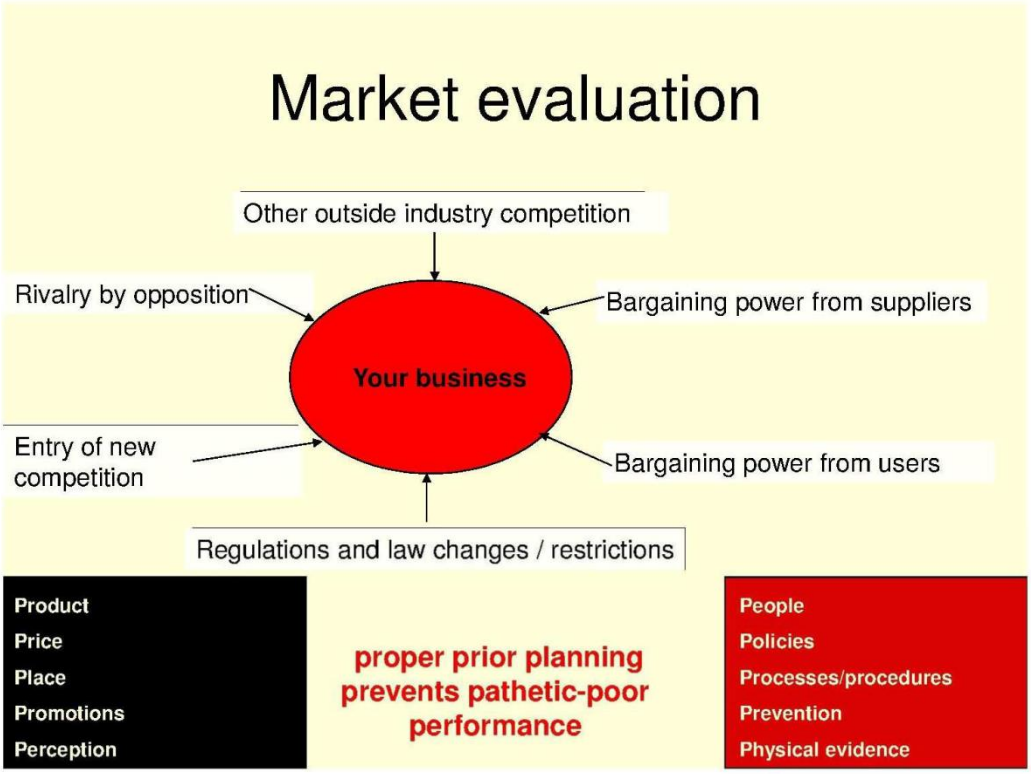
The rise of social media in recent years has meant that today there are a plethora of different tools that can be used to the advantage of business owners. This guide will introduce several social media platforms that are currently popular for business use.

Twitter

Twitter is a micro-blogging service whereby users send and receive messages of up to 140 characters in length to each other, known as "tweets". Users can track the tweets of other users by "following" them, and in turn can have their tweets "followed"; the more followers a user has, therefore, the more visible their tweets are. Twitter is useful as a business tool because it allows you to personally engage with potential and existing customers, monitor what is being said about your company and keep interested parties up-to-date with your company's newest developments, products and offers.

Facebook

Many people are already familiar with Facebook as a tool for personal networking, but opportunities exist to use Facebook for business purposes. The most prominent of these is Facebook Pages, a flexible space within which users can promote their local business, band or organization, amongst others. Facebook also offer a number of paid advertising solutions, whereby campaigns can be targeted at Facebook users according to defined demographics such as age, location and interests, which can direct people to the company Facebook Page or an external website.



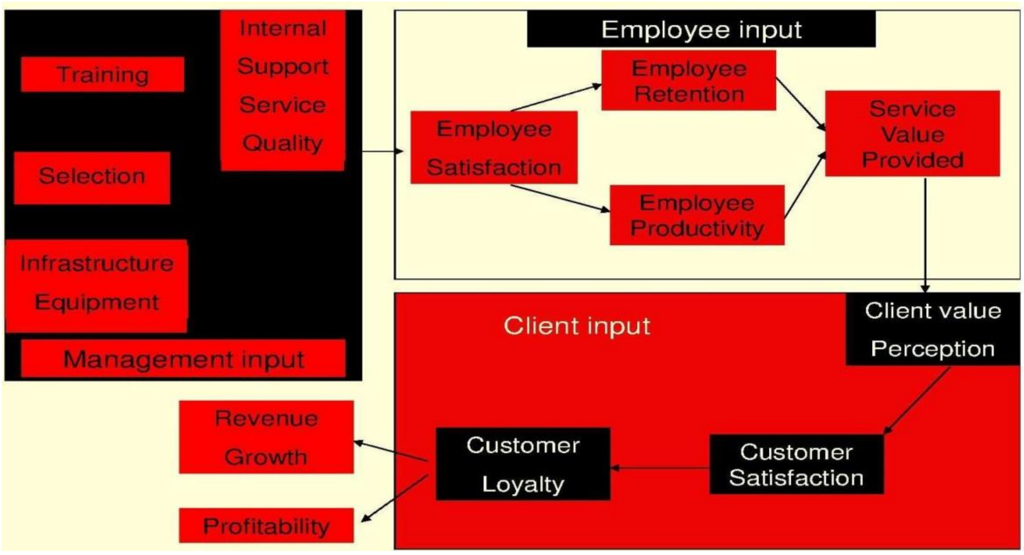
LinkedIn

Billing itself as the world's largest professional network, LinkedIn is designed for users to showcase their professional qualities. User profiles include elements such as professional experience, education and honors & awards, as well as recommendations from other LinkedIn users. LinkedIn is thus a great place to establish yourself as a competent individual within your industry. Moreover, due to the number and diversity of groups on LinkedIn, it can be a great tool for finding and networking with like-minded individuals, as well as discovering potential business partners or additional company personnel.

Suppliers

The computer industry is well known for "here today, gone tomorrow" suppliers. Make sure that you choose one with a good local reputation and never part with money until you have received the goods. Paying extra for on-site maintenance is a sound insurance for equipment being used for business.

Service-profit chain

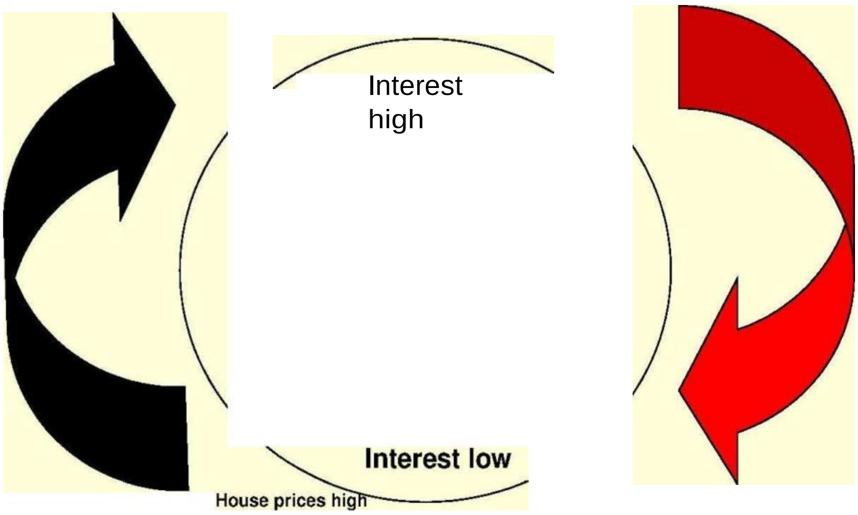


Economical cycle

Buy property stock- rent returns will become better than interest

Buy banking stock

Buy house for investment- house prices low -lot of liquidations



Rent low-tenants can afford and buy houses

Risk for banks low- low bad debt provision- over valuate

Easy to obtain loan from bank

Planning and Implementation

Planning and implementation must cover the layout of your accounts, control over the information going in and verification of the information coming out of the system.

It will also be necessary to produce the accounting data for entering the opening balances.

Where advanced management information is involved, such as profit and loss by departments, more detailed planning is required. Development of a system can only take place at the pace at which staff is able to increase their own skills.

The following phases of development may be appropriate for a new start-up system:

- Recording of prime entries (Cash Received and Paid; Sales and Purchase Invoices) Bank Reconciliations and VAT Returns
- Monthly Adjustments (e.g. Depreciation and Stock Change) producing monthly management accounts
- Sales Invoicing Routines
- Advanced Management Information e.g. detailed analyses of sales and departmental costs
- Sales and Purchase Order Processing with Stock Control

Even at the first stage, the system will produce Aged Debtors and Creditors on a regular basis to enable the business to improve its cash flow.

A “set up procedures list” together with details of typical available reports follows this section.

Training and Support

Training staff on your computer software is essential. Kobus Visser Bookkeepers can provide training, on request, tailored to your specific requirements.

Security

The popular press would have you believe that it is only a matter of time before a virus attacking your hard disk eats up your data! The most frequent reason for loss of data is not making regular backups.

Kobus Visser Bookkeepers will not only advise on, but also insist that proper procedures are in place to make your data as secure as is practical.

Costs

Hardware and software costs are dependent on prevailing market prices. Installation and training costs are proportional to your requirements and usually charged at an hourly rate.

Chapter 12 - Useful Names, Addresses and Telephone Numbers

Name	Tel No
Receiver of Revenue	061-209 9111
Social Security	061-280 7999
Bank of Namibia	061–283 5111
NAMFISA	061-290 5145
Development Bank	061-290 8000
Ministry of Trade & Industry	061-283 7242

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2020 Innovation

This document is available free-of-charge for 2020 members in a customizable (Word document) format. The idea is that you do a final edit and then top-and-tail it, i.e. brand the document by dropping in your firm logo in the header / footer area (which will then automatically appear on each page) and include your contact details at the end of the document - and then use this document as a marketing tool for new clients, and a resource for your existing clients.

2020 Innovation is the world's largest voluntary membership organization for accountants and tax professionals with over 2,000 member firms. We have members in the UK, Ireland, USA, Canada, South Africa, Slovak Republic, Cyprus, Australia and Namibia. These firms are the cutting-edge go-ahead practices that are committed to growth. They are looking for additional revenue streams while still offering traditional services.

2020 Innovation provides training, resources and guidance to professional firms from the finance, tax and legal industries.

If you would like to find out more please contact Shane Webb shane@2020sa.co.za