SECTION 4 : MONEY MATTERS – PERSONAL AND BUSINESS

Introduction:

This section deals with a variety of topics which are both pertinent to the subject matter as well as practical. Much of the material is centred around you as a householder, and the various economic challenges that face you daily. It will help you make decisions on those areas where you need to make a choice, by making you better informed as to how the world actually functions and how you have to manoeuvre you way thorough a host of tricky situations. Some of these have become recent challenges, possibly because of the lifestyle changes were are constantly making.

Always remember, this section, rather than being academic in nature, is focussed on bringing the complex economic world to you to help you get around the choices you make and to make the most of your limited resources.

The section will be handled as follows:

Topic Heading	Topic (with Approximate Instructional Time)
Unit 1 Managing Personal Money 24 hours.	1.1 Money and Net Worth 1.2 Managing Banking Accounts 1.3 Investments
Unit 2 Debt Control 8 hours	2.1 Debt Management – • Debt collectors, • Provisions of NCA, • Provisions of the CPA
Unit 3 Insurance 10 hours	3.1 Personal Insurance 3.2 Business Insurance
Unit 4 Contracts 10	4.1 Business Contracts 4.2 Home Contracts
Unit 5 Taxation 14	5.1 PAYE and SITE 5.2 VAT

UNIT 1 MANAGING PERSONAL MONEY

Introduction:

As mentioned above, this section applies to you as a householder and is personal in nature. It is meant to expose you to the various options that banks are offering so that you can choose the one that offers you what you want sometimes growth sometimes tax benefits and so on.

1.1 Money And Net Worth

Personal Net Worth

After completing this section you should be able to :

1.1.1 Calculate net worth

1.1.2 Distinguish between a positive and negative result. Comment on the implications.

1.1.1 Calculating Net Worth

In business, the accountant calculates the net worth of the business. This you learnt in the previous section (Accounting and Information Management). In the same way, it is possible to calculate a person's net worth. This calculation is important to determine to what extent your situation has improved over a time period. It is important to do this calculation before taking important financial decisions, like buying a house.

To calculate our net worth, you have to make a simple calculation. You need to add the value of all your assets. Examples of assets *are property, clothing, vehicles money* in the bank and *investments*. This will give you your total assets.

Now you need to calculate your total liabilities. Examples are amounts owing to businesses (clothing accounts, groceries etc) amounts owing on property (mortgage), credit cards and so on. This will give you your total liabilities.

Then all we have to do is to subtract the total liabilities from total assets.

TOTAL ASSETS - TOTAL LIABILITIES = NET WORTH

1.1.2 Interpreting results.

When assets are more than the liabilities the answer is positive. This is a situation we should all be trying to be in.

When liabilities are more than assets the position is described as a deficit. This is a situation we should try and avoid.

Activity 4.1

Mr. Majola has the following:

Assets:	
Land and property	600 000
Furniture /clothing	85 000
Vehicles	400 000
Bank balance	44 000
Liabilities:	
Amount owing on house	140 000
Clothing accounts	17 000
Outstanding balance – Vehicles	75 000

1. Calculate his net worth.

2. Comment on his financial position especially if he is thinking of purchasing another vehicle.

1.2 Managing Banking Accounts

Introduction:

In this section we will be briefly looking at some of the common banking products and how they work. Each bank will no doubt have its own special product so that it can compete with products offered by other banking institutions. You should familiarise yourself with the banks in your area and the services it provides.

We will be focusing on the following only:

- Savings account
- Current account
- Fixed deposits
- Money market account

After completing this section you will be able to:

1.2.1. Different types of accounts

The Savings Account

- Anyone over the age of 18 is allowed to operate a savings account.
- Those under this age need parents consent.
- A deposit is made into the banking account and the client receives a card.

- The card will allow the depositor to make withdrawals from this account.
- The withdrawals can be made at the bank (counter) or at an ATM (automatic telling machine)
- The bank pays interest to the depositor.
- The rate of interest is usually low as the money may be withdrawn at any time.
- There may be a minimum amount to have in the account.
- The money is readily available.

There are other types (e.g. 32 day deposits) which requires you to give 32 days notice before the funds become available. To compensate for this, the rate is usually higher than that of an ordinary savings account.

The advantage of this type of account is that there are no restrictions and the money is immediately available. This encourages saving.

Example:

Standard Bank offers the following facilities :

Savings and Investments

Have a goal you're aiming for? We can help to get you there through saving and investing your money.

The power of saving is immense. Even putting away a little bit every month in a savings account will help you eventually reach your goal. Interest on interest earned every month ultimately turns your small initial amount into a big nest egg.

The best savings account to have is one that caters for your unique needs. Look at the interest rate, how long the term is, and how soon you can get to the money in your investment or savings account when you need to. Another thing to consider is whether the account is tax-free or not.

Find what works for you to reach your savings and investment goal.

Start by deciding how soon you'd need access to your money.

Access Later

Need to save money, but don't want the hassle of having to give notice when you want to use it? Start saving for your goals now. Have access to your funds immediately with these savings and investment accounts - ideal for short-term goals such as buying a new TV or some pricey concert tickets.

MoneyMarket Select
Investment Account

Benefit from premium interest rates. Access your money when you like and your capital is guaranteed

Opening Deposit	R 250 000
Interest rate	7.10%
Access to money	Anytime

Tax-Free Call
Investment Account

Invest up to R 30 000 a year and a maximum of R 500 000 in your lifetime – and get tax-free returns on your contributions.

Opening Deposit	R 250
Interest rate	up to 6.75%
Access to money	Anytime

PureSave
Savings Account

PureSave is an easy way to start saving. Save what you can – and gain instant access to your money when you need it.

Opening Deposit R 50

Interest rate up to 2.90%

Access to money Anytime
Apply now

MarketLink
Investment Account

With MarketLink you gain the flexibility of a current account, in addition to competitive interest rates.

Opening Deposit R 5 000

Interest rate up to 5.15%

Access to money Anytime
Apply now

MoneyMarket Call

Investment Account

Benefit from highly competitive interest rates. Your funds are available on demand and your capital is guaranteed.

Opening Deposit R 20 000

Interest rate up to 6.50%

Access to money Anytime

Apply now

Call Deposit

Investment Account

Earn competitive interest while retaining immediate access to your funds.

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Opening Deposit R 1 000

Interest rate up to 5.45%

Access to money Anytime

Apply now

Society Schemes

Savings Account

Society Schemes is a savings account ideal for groups that want to save together. Includes stokvels, burial societies, social clubs and investments clubs

Opening Deposit	R 100
Interest rate	up to 3.65%
Access to money	Anytime

Apply now

www.standard bank.com

Note: other banks will offer similar facilities.

Each person will choose a bank that will suit him the best.

The Current Account

Banks offer this type of account for transactional purposes. Businesses use this type of accounts to make payments.

Money is deposited into the banking account. The depositor is allowed to make cheques against these amounts. When the amount in the account is positive, it means that the business has a positive balance. However, it often happens that businesses use more than the amounts they have deposited. This results in the account becoming overdrawn and is called a bank overdraft. This situation will only be allowed if the depositor has made arrangements with the bank to allow this to happen. There are limits set for such arrangements. The bank charges interest on overdraft.

In addition, there are charges attached to operating such an account like cheque deposit fee, cheque cashing fee and so on. These are known as **bank charges**.

Bank charges : charges levied by the bank for using their services like maintaining the account, cashing cheques , providing guarantees, etc.

The advantage of opening such an account for a business is that it allows the businessman to carry on with his business payments with as little restrictions as possible.

Example:

Some packages offered by Standard Bank of SA are presently:

Type	Cost R	Earning requirement
Access	59	-
Elite		8 000
Prestige	179	25 000
Private	325	58 000

Also offer a variety of kid's current accounts.

More information is available on the banks website. ***(www.standardbank.com)***

Fixed Deposit Account:

Banks are able to offer this facility to those customers who do not have immediate use for their money and are able to deposit it into a fixed deposit account for periods of 3 months, 6 months, i year, and longer..

Because the bank has the use of this money which may not be withdrawn for the periods mentioned, they are able to use it more profitably and therefore are able to offer clients higher interest rates on their money. The rate increases as the period is lengthened.

Currently Standard bank offers from around 5,5% to 8% on deposits from 33days to 60 months. Special rates are available to senior citizens.

Consult the banks website

Money Market Accounts:

These are also savings accounts that offer a higher rate of interest rate.

The Standard Bank of SA offers the following:

Money Market Call is a premium investment account that earns highly competitive interest rates and the funds deposited are available immediately. There is no defined investment period, so funds can be invested in the money market indefinitely. There are no upfront commissions or fees, and your capital is secure. The minimum opening deposit requirement is R 20 000 and the minimum balance requirement is R 20 000.

Balance bands	Nominal rate	Effective rate
R20 000 to R99 999	6.00%	6.17%
R100 000 to R249 999	6.40%	6.59%
R250 000 to R499 999	6.40%	6.59%
R500 000 to R999 999	6.40%	6.59%
R1 000 000 to R19 999 999	6.45%	6.64%
R20 000 000 and above	6.50%	6.70%

www standard bank.com

Activity4.2

Make a visit to your local bank and determine the following:

- The types of savings they offer
- Other types of accounts they offer
- The interest rate on their savings
- Whether they offer interest rate on current accounts.
- Other charges for bank services.
- The fixed deposit rates they offer

RSA Retail Savings Bonds

In May 2004, the government launched the RSA Retail Savings Bonds.

RSA Retail Savings Bonds have been designed to be as accessible as possible for the general public to invest their money, while earning secured and market related returns on their investments. Two different types of RSA Retail Savings Bonds are on offer: the RSA Fixed Rate Retail Savings Bond, and the RSA Inflation Linked Retail Savings Bond.

Eligibility

All individuals who are citizens or permanent residents of the Republic of South Africa and in possession of a valid South African identity number, and who operate bank accounts with financial institutions in the Republic, are eligible to purchase RSA Retail Savings Bonds. Persons under the age of 18 must receive parental consent in writing before investing in RSA Retail Savings Bonds, unless such persons are married or have been granted majority status

Buying Retail Bonds

There are three easy steps to follow to invest in a Retail Bond:

1. Register your details with the National Treasury or any post office.
2. Apply (select a bond and maturity)
3. Pay

Taxation

As a general rule, investors treat interest received as ordinary revenue for purposes of income tax. Depending on the personal circumstances and age group of an investor, investors may be entitled to the tax exemption of a portion of or all of the interest. Investors are therefore advised to consult their own tax consultants for advice on the manner in which the interest payments received on RSA Retail Savings Bonds may be treated in terms of the Income Tax Act for the purposes of tax returns.

Transferability

RSA Retail Savings Bonds are not transferable to a third party. The bonds can therefore also not be purchased from any other person.

Proof of ownership

The National Treasury maintains a register of all registered holders.

Statement of Account

Investors will receive a statement of account on a regular basis, setting out the unique investor number, personal particulars, the amount invested in each of the RSA Retail Savings Bonds, interest rates payable and maturity dates of respective investments, the bank details into which the interest and/or capital balance on maturity will be paid, and a confirmation of nomination of beneficiary and particulars of nominated beneficiaries.

Nomination of a beneficiary

An investor may nominate a beneficiary or beneficiaries in the event of his / her death.

secure.rsaretailbonds.gov.za (adapted.)

ELECTRONIC Banking

This can be described as:

The use of computers to carry out banking transactions such as withdrawals, cash dispensers or transfer of funds.

Source**: www.businessdictionary.com/definition/electronic-banking.html**

Electronic Fund Transfers

Electronic banking, also known as electronic fund transfer (EFT), uses computer and electronic technology in place of cheques and other paper transactions. EFT's are initiated through devices like cards or codes that let you, or those you authorize, access your account. Many financial institutions use ATM or debit cards and Personal Identification Numbers (PINs) for this purpose. Some use other types of debit cards that require your signature or a scan. For example, some use radio frequency identification (RFID) or other forms of "contactless" technology that scan your information without direct contact with you

Direct Deposit lets you authorize specific deposits — like salary and other benefits — to your account on a regular basis. You also may pre-authorize direct withdrawals so that recurring bill like insurance premiums, mortgages, utility bills, and gym memberships are paid automatically.

Pay-by-Phone Systems let you call your financial institution with instructions to pay certain bills or to transfer funds between accounts. You must have an agreement with your institution to make these transfers.

Personal Computer Banking lets you handle many banking transactions using your personal computer. For example, you may use your computer to request transfers between accounts and pay bills electronically.

Debit Card Purchase or Payment Transactions let you make purchases or payments with a debit card, which also may be your ATM card. Transactions can take place in-person, online, or by phone. The process is similar to using a credit card, with some important exceptions: a debit card purchase or payment transfers money quickly from your bank account to the company's account, so you have to have sufficient funds in your account to cover your purchase. This means you need to keep accurate records of the dates and amounts of your debit card purchases, payments, and ATM withdrawals

A note of caution!!

Be careful with online and telephone transactions that may involve the use of your bank account information. The merchant also should ask for your permission to electronically debit your bank account for the item you're buying or paying on. However, because online and telephone electronic debits don't occur face-to-face, be cautious about sharing your bank account information. Don't give out this information when you have no experience with the business, when you didn't initiate the call, or when the business seems reluctant to discuss the process with you. Check your bank account regularly to be sure that the right amounts were transferred.

www.consumer.ftc.gov.

Cellphone banking:

An added convenience is the use of the cellphone you can use to conduct your banking activities. You can apply at the bank and register for the service; you will be given your password to protect unauthorised access to you account.

Example (from ABSA Bank)

Would you like the convenience of being able to bank on the move? Wherever your busy day takes you, Absa's Cellphone Banking offers you a convenient way of banking using the one item you never leave home without - your cellphone.

With Absa Cellphone Banking, you can do more than just top up prepaid airtime and check your balances. You can also

- pay accounts,
- transfer funds,
- send money to any Absa ATM using Cash Send,
- have a statement e-mailed or faxed to an address or number of your choice.
- you can also apply for a Personal Loan or Express Loan (a short term loan), and receive the money in less than 10 minutes if approved.

Transform your cellphone into a mobile bank by joining more than one million Absa customers who use Cellphone Banking regularly.

www.absa.co.za

Activity 4.3

Read the following article taken from www.bankrate.com and answer the questions that follow:

Judging from these TV commercials, using a cellphone to check your bank balance, transfer money and pay bills seems like a no-brainer, so easy and convenient that anyone who doesn't do it must be some kind of an idiot. According to Javelin Strategy & Research, mobile banking increased by 40 percent in 2013, with 74,000 new users per day.

If you're not yet using your phone to check your balance, pay your bills or move money from account to account, you will soon. "There's little doubt that the era of mobile banking is coming," says Mark Schwanhausser, director of omnichannel financial services at Javelin Strategy & Research in Pleasanton, California.

That raises the question: How safe is it? With all the tech-savvy crooks and identity thieves lurking about, is it really a good idea to have your precious financial information floating around the airwaves or residing on a piece of gear that you could easily lose? According to a Javelin study, security, or the lack thereof, is the No. 1 fear among potential mobile banking customers.

The good news is that the fear is so far worse than the reality, thanks in part to the financial industry's heavy investment in security technology. In addition, many bank and credit card companies promise to cover 100 percent of a customer's mobile fraud losses. Other banking institutions, such as Bank of America, offer zero liability as long as customers report the fraudulent transaction within 60 days and have not violated other protection rules.

Mobile banking comes in three different formats. Most banks emphasize one or a combination of them.

SMS

Short message service, or SMS, works with just about any cellphone sold in recent years. It basically involves you and the bank exchanging text messages. Once you have registered your phone with the bank, you can ask the institution to send you a text alert when, say, your checking balance drops to a specific level or when your credit card is approaching its limit.

You can also request your current balance by sending the bank a message code, like BAL, and get a quick response. By sending various codes, you can learn what checks have cleared recently or move funds to a linked credit card. Because the bank will accept instructions only from your phone, you don't have to worry about someone impersonating you unless you lose or loan your phone.

Read more: ***http://www.bankrate.com/finance/personal-finance/is-mobile-banking-safe-1.aspx#ixzz4K4VK6HFD***

Questions:

1. What is the convenience cellphone banking offers?
2. Would you consider it safe? Explain your answer.
3. What level of security do banks offer?
4. Identify one policy mentioned above that would make you feel comfortable.
5. What are some of the banking activities that you could conduct from your phone?

insert article

festive banking and safety tips

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1.3 Investments

This section takes a look at interest structures; you will learn how to understand investments when they are quoted. A brief explanation of some of the important investment vehicles is discussed.

After completing this section you should be able to:

1.3.1 Define simple and compound interest

1.3.2 Perform calculations involving simple and compound interest

1.3.3 Describe the following types of investments focussing on the advantages:

- Retirement annuities
- Retail Bonds
- Shares
- Unit trusts
- Stokvels
- Property Portfolios.

1.3.1 Simple interest and Compound interest.

Interest is the cost of borrowing money,

The borrower pays a fee to the owner for using the owner's money.

The interest is typically expressed as a percentage (e.g. 12%) and can be either simple interest or compound interest

Basically the difference between these systems is as follows:

Simple interest is based only on the principal amount of a loan, while compound interest is based on the principal amount and the accumulated interest.

1.3.2 Calculating the interest:

Simple interest is calculated by multiplying the principal amount by the interest rate and the number of periods in a loan. Generally, simple interest paid or received is a fixed percentage of the principal amount that was borrowed or lent.

In our calculations we use the following:

- P for Principal (the amount of the loan)
- R for the rate
- T is for time.

The formula is **PxRxT**

A simple example will illustrate this:

Suppose you took a loan for R200 at a rate of 12% p.a. simple interest for 4 years. The amount owing at the end of 4 years is R 200 plus the interest which is:

$\frac{200}{1} \times \frac{12}{100} \times \frac{4}{1}$ which is 96 .

The total amount is therefore R200 + R 96 which is **R 296.**

Note:
The interest for each year is R24 and remains constant that is 24+24+24+24.

Activity 4.4

Calculate the total amounts (principal plus interest) in each of the following cases:

1. R600 at 8% for 3 years. (simple interest)
2. 8500 at 12% for 18 months. (simple interest)

On the other hand, compound interest is calculated by multiplying the principal amount by ***one plus the annual interest rate raised to the number of compound periods***.

Expressed as $P(1+r)^n$

As opposed to simple interest, compound interest accrues on the principal amount and the accumulated interest of previous periods. (Interest on interest)

Let us take the same example above and find the amount owing if we had used compound interest to do the calculations.

Long method.

200 at 12% interest will accumulate R24 at the end of year one.
Added to the principal will give us (200 +24) = 224.
(end year 1)
This now becomes the principal for the second year and the calculation is done on R224.

This accumulates interest which amounts to R26,88 which brings the total to R250,88.(end yr 2)
This accumulates interest which amounts to R30,10 which brings the total to R280,98 (end yr 3)
This accumulates interest which amounts to R33,71 and brings the total to 314,69 (end yr 4)

Short Method

There is a formula which can greatly lessen the calculations. It is stated as

$$P\ (1+r)^n$$

where n represent the number of time periods, (in this case years).

Applying the formula we get

$200\ (1.12)^4$ which gives the same answer R 314, 70. (try it).

Activity 4.5 Look at the calculations done above. R200 was invested in both types of calculations. . Compare the simple interest and compound interest for the same amount. 1. What do you notice about the final amounts? 2. To understand this, make a comparison of the interest being added each year. What do you notice?

Another method:

There is another method for performing the calculations.

This is with the use of tables.

An extract from the tables:

Insert table

In this table, the number of time periods (e.g. years, half years ,months etc) is read on the extreme left hand column. After choosing this (e.g. 4 periods in the example above,) then move along the row until you reach the rate column you will be using (12%) . At the spot where it intersects, there will be a figure e.g. 1. 57352. The next step is simply to multiply the principal , by this factor, that is:

R 200 (1. 57352) to arrive at the answer, R 314,70

More information and tables can be viewed at : ***highered.mheducation.com***

Note:

In the above examples, we have been using years as compounding periods. This is not always so. The compounding can be done half yearly or quarterly or monthly. This will affect the result considerably. We will not discuss this here.

Activity 4.6

1. Robert Ntuli invested 2 000,00 to be invested for five years at an interest rate of 5% per annum compounded yearly. What amount will he receive at the end of five years?

2. What if the interest rate was 8% ?

3. Look at the answer you arrived at in the above calculation (8%). What would he have received if the interest was calculated as simple interest and not compound interest? What is the difference between the two amounts?

1.3.3 Types of investments:

Retirement Annuities:

An annuity is an insurance product that pays out income, and can be used as part of a retirement strategy. Annuities are a popular choice for investors who want to receive a steady income stream in retirement.

How does it work?

You make an investment in the annuity, and it then it makes payments to you on a future date or series of dates. The income you receive from an annuity can be doled out monthly, quarterly, annually or even in a lump sum payment.
The size of your payments is determined by a variety of factors, including the length of your payment period.

You can opt to receive payments for the rest of your life, or for a set number of years. How much you receive depends on whether you opt for a guaranteed payout (fixed annuity) or a payout stream determined by the performance of your annuity's underlying investments (variable annuity).

Immediate fixed annuities
Immediate fixed annuities are the oldest, most common type of annuity: you pay an insurance company a lump sum up front, and in return, you receive a fixed monthly

payment for life (or some other specific time period)—a reliable stream of income you can't outlive.

Immediate fixed life annuities may make sense, in our view, if you're seeking income now and don't want to worry about market fluctuations—at least for a portion of your savings. The insurance company manages those details and makes sure you receive a fixed payment that lasts for life. As long as the insurance company is solvent, you'll receive a payment for the same amount every month

Variable annuities

In contrast to immediate fixed annuities, variable annuities with an optional GLWB rider don't require that you turn cash over irrevocably to an insurance company. Rather, the investor retains control of the money and makes withdrawals from a portfolio of investments that is held within the variable annuity.

> **GLWB :** Guaranteed lifetime withdrawal benefit.

Annuities can be useful retirement planning tools; they can also be an expensive investment because of their notoriously high expenses.

Why consider an annuity?

Annuities are also a way to systematically turn savings into income.
This may seem complicated, but it's one of the most important steps to consider when managing your retirement portfolio—how, exactly, will you create regular withdrawals from your portfolio that will last?

One reason beats all the others:
Unlike a portfolio of stocks and bonds, annuities combine characteristics of standard investments with insurance features. Most life annuities provide a reliable stream of income that you can't outlive.

More information from : ***money.cnn.com***

Retail Bonds

When an investor - an individual, a pension fund or mutual fund agrees to loan money to a company, it does so at an agreed rate of interest.
The company pledges to repay the sum it borrows on an agreed date - the 'maturity' of the bond - and to pay interest to the investor at an agreed rate - either annually or biannually, for the duration of the loan.
Because the investor knows what rate of interest he will achieve, these are often known as fixed-income investments.
The rate that a company, or the state, needs to pay to achieve borrowing is based upon its financial strength and stability and the risk that is inherent within its business; as with most investments, the greater the risk, the greater the return, so it is absolutely vital that a potential investor understands as much as he can about an individual investment before taking the plunge.

Because of the very large minimum investment required, corporate bonds have traditionally really only been accessible to institutional investors and pension funds and mutual funds

- Investing in a company's bond is a lower risk alternative to owning its equity (share).
- It promises a regular annual payment and the return of your capital at the end of the term.
- Investors can sell their bond holdings in the meantime, but the value will fluctuate according to other investors' needs.
- Issues are likely to be in the form of index linked bonds (pay interest above the rate of inflation) or conventional bonds (pays a fixed rate of interest).

What are the risks?

- Bonds available to the retail investor are not like savings accounts.
- Should the company go bust, capital could be lost.
- The companies issuing them could default on the payments
- Inflation is an enemy of bonds, because rising prices erode the value of the fixed income they pay.
- Rising savings interest rates make the fixed income from bonds less attractive, so they can lose value.

Benefits

- Bonds are not without risk when compared to cash savings/deposits, but they do offer an annual rate of income.
- If you buy them at issue and hold them to maturity, you'll get your original investment back.
- An index linked bond gets a real rate of interest after inflation.
- A conventional bond provides a regular known level of income annually.
- In the event of the company going bankrupt, you always get paid before the shareholder

www.share.com

Shares:

A share is a portion of the share capital of a public company. It entitles the owner to a share in the profits of the company. A share certificate is proof of ownership of a share. The person who owns the share is called the shareholder. The share certificate will indicate the type and number of shares held by the shareholder.

If a company is registered with a share capital of say R500,000 , it may be broken down into shares of , say R5,00 each. Then there will be 100 000 shares available to the public to buy.

Activity 4.7

Look at the situation above.

1. What if the shares were priced at R2,00? How many shares are available?
2. What if they were priced at R100,00?
3. A company is registered with 200 000 shares of R4 each. What is the share capital?

Shares as an investment:

A shareholder may buy a share because he wants to collect dividends. He is an investor.

He may also but the share in order to sell later on (hopefully at a higher price) to profit from the increase in the price of the share. He is them a speculator.

Trading in shares takes place in South Africa at the Johannesburg Securities Exchange. Here shares are traded daily by **brokers.**

Broker : licensed member of the stock exchange who trades in shares and other securities.

Types of shares:

Shares may be divided into ordinary and preference shares.

Ordinary shares :

- Have no special rights
- Have no guaranteed rate of dividend
- Get paid last after other classes have been paid.

Preference Shares:

- They are paid before others
- They are promised a fixed dividend
- They do not vote at meetings.

Preference shares are typically less volatile than ordinary shares and offer investors a steadier flow of dividends. Also, preference shares are usually callable; the issuer of the shares can redeem them at any time, providing investors with more options than common shares.

Some of the types of preference shares are:

- *Ordinary preference* - dividends only when there of profits
- *Cumulative preference* - unpaid dividends are paid before ordinary shareholders are paid
- *Non cumulative* – no claim for unpaid dividends
- *Participating preference* – paid extra dividend when the situation arises.

PreferenceShares ***http://www.investopedia.com/terms/p/ preference-shares.asp#ixzz4KPYTOOTI***

Why invest in shares?

- Their returns are usually higher than that from bank deposits
- Value of shares usually increases over time
- They can be easily converted into cash
- Protects against inflation.

There is also the risk that the share prices can fall and investors may lose large amounts of money.

Activity 4.8

Angela Mbeki invested R2000 in shares from Anglo Paper Ltd. They are priced at R5,00 per share. At the end of the year, the company declared and paid a dividend of 9 c per share.

1. How many shares did Angela buy?
2. How much did she receive as dividend?
3. Do you think she received a good return on her investment? Explain your answer.

   What advice would you give her regarding her investment?

Unit trusts

This investment suits those who do not have large amounts of money to invest and are not willing to be exposed to high risk. They are not able to buy shares in blue chip companies as individuals, but they can buy units of shares, combined into a portfolio; these are offered by management companies for unit trusts.

The management company buys shares on the JSE on behalf of investors. When this is divided into equal units and sold to investors. The management company manages the investment on behalf of the investors.

Why invest in Unit trusts?

- Ease of purchase - anyone can purchase unit trusts.
- Provides medium to long term opportunities
- Management is in the hands of professionals.
- Units can be easily sold within a few days
- Returns are less risky than an investment in shares; it will depend on the performance of the company.

> We work hard every day to build and maintain our clients' trust and confidence in us.
> We look closely at businesses. We buy shares we think are undervalued and sell them when we think they have reached their worth, regardless of popular opinion.
>
> Allan Gray

Allan Gray answers some questions:

> When you invest, you buy units in unit trusts of your choice. These units belong to you until you decide to sell them.
>
> Your money is combined with that of other investors who have bought units in that unit trust.
>
> Experienced investment managers use the pool of money to buy shares, property, bonds, cash or a combination of these, on local or foreign markets, depending on the type of unit trust.
>
> How much your investment grows depends on the performance of these assets.
>
> You can buy more units whenever you want to
>
> You can leave your units to grow.
>
> We send you a statement once a quarter showing how many units you have in your account, and what the rand value is.

www.allangray.co.za

Stokvels are invitation only clubs of twelve or more people serving as rotating credit unions or saving scheme in South Africa where members contribute fixed sums of money to a central fund on a weekly, fortnightly or monthly basis. The name “stokvel” originated from the term “stock fairs”, as the rotating cattle auctions of English settlers in the Eastern Cape during the early 19th century were known.[1][2]

Stokvels generally have a constitution which dictates the size of the contributions, when the accumulated money is to be paid out and the roles and responsibilities of the members. Each month a different member receives the money in the fund, which was collected during that period. Defaults on contribution are quite rare as other members will know if you haven’t paid your contribution, and also because the regular meetings are a reminder of what you will gain when it is your turn. Depending on the type of stokvels, the members can use the collected fund for their own use, for payment or investment purposes.

It is estimated that one in every two black adult South Africans is a member of at least one of 89 000 stokvels. Black adult South Africans invest approximately R12 billion in stokvels a year.

Contribution Stokvels

Traditional savings scheme in which members contribute a fixed amount of money to a common pool weekly, fortnightly or monthly. Members would receive the lump sum on a rotational basis, and they are free to use the money for any purpose.

Basic Stokvels

Differ from the contributions stokvel in that it functions as a savings scheme that pays out for specific events, such as for a death, or at Christmas.

Grocery Stokvels

Collects the grocery or cash coupons that members receive from supermarket chains when they buy provisions for the stokvel parties throughout the year, and distributes these coupons at the end of the saving period.

Purchasing Stokvels

Collects pool money on a regular basis and uses it to purchase big items that can be used by the group to generate an income for example, a marquee that could be rented out to the community for use on special occasions.

Family Stokvels

Invest the pooled money in formal bank accounts or financial services. The money is paid out according to the needs of the family, but generally the funds are used for buying land or cars, for business investments, or for deposits on bank loans.

Investment Group

Invests money in order to benefit from the interest. When an investment pays out, the money is split but, in some cases, part of it will be kept back for reinvestment.

Party Stokvels

Arranges street or jazz parties, often with live entertainment. An entrance fee is charged, and food and drink is sold. Members then share in the profits. Some of these stokvels have grown into sophisticated businesses

Borrowing Stokvels

Loans money at high monthly interest rates (between 20% and 50%) to members and sub-members from its regular pool money.

Property Portfolios

Another investment vehicle is property (fixed property). People invest in property by purchasing a house or flat for example, because they consider it safer than most other investments. Furthermore the value of property usually rises and there is opportunity for capital gain. In the meantime you are able to earn an income from rentals.

Activity 4.9

Read the article below (***from www.primelocation.com***) and answer the questions that follow:

Working lives have changed and fewer employees can rely on a job for life or a pension.

September 2, 2014 00:00

Add to this a period of volatility in the markets and a loss of faith in financial services, and it's easy to understand why so many people are pinning their pension hopes on property.

Acquiring and managing one property can be hard enough, but when your venture grows into a portfolio of properties, you need to be on the ball at all times and plan every detail carefully to maximise your chances of success.

Where to begin

Many people begin with a renovation project. They might buy a rundown property at a discount, do it up and sell it at a profit, which they can then invest in the next project. As the developer becomes more experienced, they might keep one of the properties they've renovated and let it. They then remortgage to buy their next property, using the rent to fund the project, and so on..

The aim is to add value to any house or flat so that it provides both an income and long term capital appreciation. The, location is still the keyword. Even if the property itself needs work, the rental yields and capital appreciation will depend on it being in the right place, close to transport, schools and shops.

There are companies which specialise in investing in property on behalf of members of the public. These can be a good option for people who don't wish to do it themselves, but thorough research is advised.

Next steps

Another smart way of tapping into the market is to buy off-plan, before a development is even built. The benefits are that there are some exceptionally good discounts to be had. Additionally, by the time the property is built, it is likely that there will have been some capital appreciation already

Once you have a mini portfolio and a positive cash position, your options widen and you can

Finance

It will be necessary to run the portfolio along sound business principles. Finance strategies need to be tailored across the property portfolio. Banks have a number of special loan and mortgage accounts which may be appropriate. It is also important to factor in maintenance costs, which can be considerable across a number of properties.

www.primelocation.com

Questions:

1. What does the title tell you about the need to invest?
2. Why are investors turning to property instead of financial instruments?
3. Where do the authors recommend you begin?
4. What do you understand by "capital appreciation?"
5. What does "off plan" buying mean to you? How do you gain in this way?

Activity 4.10

Now look at the following heading taken from SA Property News Sept 2016 (Adapted)

House Price inflation slows once more:

The FNB National House Price Index rose by 6.6 percent in August. This represents a slowing in the pace of growth from a revised 7 percent in July, and the third consecutive month of slowing since the 7.4 percent revised 2016 high reached in May.

The index's rate of inflation has slowed from its 0.71 percent 2016 high point in May to 0.46 percent in August. This comes after a prior mini-surge in house price inflation in the months leading up to May

Questions :

1. What does house price inflation mean?
2. What does the article say about the rate of increase?
3. When was it the highest?
4. What does this mean for the investor?
5. What does this mean for the house buyer?

SUMMARY OF LEARNING UNIT ONE

In the first part of this unit you learnt about net worth. You use this to measure whether you have made progress in your life if you compare it with your net worth at a later stage. This will serve as a basis for your understanding when you compare the net worth of businesses later on in your study of Accounting.

The second part of thus unit dealt with banking and the various options available to you. With the advancement in banking technology, it is almost impossible to not be involved in one or more of banking products. This section indicates the various products that banks were able to afford their clients ; your studying of this section should have given you some idea how important it is to make the right choices so that you can make your money work for you.

The third part of this unit dealt with the important concept of simple and compound interest, so that you are able to understand the time value of money, and, through calculations, compare various packages being offered to clients. Thereafter you were introduced to some of the popular types of investments, so that you are able to make informed decisions when you have to make choices.

ASSESSMENT UNIT ONE

Question 1:

Each one of the following statements/questions is followed by four options. Choose the correct option ans indicate this by writing the letter next to the number e.g.

1.9 (a)

1.1 Which one of the following is an example of <u>insurance</u>?

(A) Whole Life

(B) Limited Life

(C) Endowment

(D) Storm Damage

1.2 ________________________ is the payment from an insurance company following a claim.

(A) Rebate

(B) Compensation

(C) Premium

(D) Redress

1.3 A person who is a part owner in a company is called a/an ______________.

(A) debtor

(B) creditor

(C) intermediary

(D) shareholder

(9)

Question 2

Match the descriptions in column A with the terms in column B. Write only the number and the letter corresponding to the correct answer:

e.g. 2.1. (N)

COLUMN A	COLUMN B
2.1. Total assets minus total liabilities	A Bank Charges
2.2. Account where the rate is low but the money can be withdrawn at any time	B Electronic Banking
2.3. Payment to the bank for using their services	C Simple
2.4 Use of the computer to carry out banking transactions	D Net worth
2.5 Interest is calculated only on the principal amount	E Savings
	F Compound
	G Current

5x2 = 10

Question 3

Each of the following statements are either TRUE of FALSE. Indicate TRUE if you think the statement is true. If false, then indicate FALSE and correct the underlined portion to make the statement true.

3.1 A portion of the interest on <u>RSA Savings bond</u> may be exempt from tax.

3.2 Investing in a company's <u>bonds</u> are safer than the shares.

3.3 <u>Contribution</u> Stokvel pays for specific events only.

3.4 <u>Tax</u> is payment to the shareholder for his contribution

3.5 <u>Insurance</u> payments are guaranteed.

(13)

Question 4 : Calculations

4.1 Use your calculator to determine:

4.1.1 R2 000 invested for 8 years @ 8% interest compounded annually.

4.1.2 R1 500 invested for 6 years @ 12% compounded annually. (12)

4.2 Lerato Mbali invested R 3 000 in RBM Company . She purchased ordinary shares.

She paid R2,00 per share.

4.2.1 How many shares did she purchase? (3)

4.2.1 The company paid a dividend of 7c per share. How much will she receive? (3)

What do you think of the investment? (6)

4.3 ABC company Limited is registered with a share capital of R 500 000. It is broken down into ordinary shares worth R300 000 and the balance as Preference shares.

4.3.1 What is the <u>value</u> of the Preference shares? (3)

4.3.2 How many Preference shares were offered if they were priced at R5,00 each? (3)

4.3.3 How many Ordinary shares were offered if they were offered at R3,00 ? (3)

Question 5

Write notes on:

Retirement Annuities 10

Unit Trusts 10

My Notes

Use this space to write your own questions, comments or key points.

- Leave this blank for students to fill in their own comments

Suggested sources of additional information

UNIT 2

DEBT CONTROL

Introduction:

The debt collection industry generates billions of rand and gets most of its income from those individuals who fall behind in their payments, on:

- Medical bills
- Mortgage repayments
- Vehicle financing
- Credit card amounts outstanding
- Other overdue accounts.

Debt collector:

Agency whose business is to collect debts .

When the creditor realises he may lose out on the outstanding debt, he may seek the help of a **debt collector**.

Debt collectors include collection agencies or lawyers who collect debts as part of their business. There are also companies that buy past-due debts from creditors or other businesses and then try to collect them. These debt collectors are also called *debt collection agencies, debt collection companies, or debt buyers*.

In order to protect the consumer from unscrupulous debt collectors as well as from reckless lending, two pieces of legislation have been passed. They are:

The National Credit Act

The Consumer Protection Act

We will be studying these aspects as follows:

2.1 Debt Management –

- Debt collectors,
- Provisions of NCA,
- Provisions of the CPA

After completing this section you will be able to:

2.1.1 Explain the need for debt management

2.1.2 Discuss the advantages and disadvantages of debt collectors.

2.1.3 Evaluate the use of debt collectors

2.1.4 Evaluate the effectiveness of the NCA

2.1.6 Evaluate the use of the CPA

2.1 Debt Management

2.1.1 The need for debt management.

‘With more than 10 million South Africans over-indebted and struggling to repay their monthly bills, it seems that we have become more dependent on using debt to fund their lifestyles. Although many choose to avoid talking about their financial crises, they can’t avoid the reality of debt collection. This is a process many South Africans might have experienced and will still experience, but sadly, most still remain ignorant as to how it works and what their rights are,’

Nowhere is the notion of “Knowledge is Power” more important than in the realm of debt collection. The less knowledgeable someone is about a consumer’s rights under the law, the more likely debt collectors will take advantage of a delinquent borrower to repay an overdue obligation.

Debt Counselling:

Debt counselling is a service to assist over indebted consumers to develop a repayment plan which is affordable and also acceptable to the credit providers. It concerns:

- Advice on budgeting
- Negotiations with credit providers
- Restructuring of debts.

Debt rescue:

Around 11 million South Africans are behind in their payments.

Debt rescue is a service operated by professionals and is offered because:

- Cases are treated with confidentiality
- It uses specialised attorneys in debt collections
- Operated by professionals

Debt consolidation:

Debt consolidation means combining several unsecured debts — *credit cards, medical bills, personal loans, payday loans*, etc. into one bill and paying all of them with a single loan. Instead of having to pay 5–10 creditors every month, you consolidate bills into one payment, and make one payment.. This helps eliminate mistakes that result in penalties like incorrect amount or late payments.

There are several types of debt consolidation These are not quick fixes, but rather long-term financial strategies to help you get out of debt. When done correctly, debt consolidation can:

- Lower your interest rates
- Lower your monthly payments
- Protect your credit score
- Help you get out of debt faster

What Is The Best Way to Consolidate Debt?

There are several ways to consolidate debt, depending on how much you owe.

- The best way to consolidate credit card debt could be to get a zero-percent interest credit card and transfer balances from high-interest credit cards over to it.
- You also could look at a personal loan to pay off your balances. You could get a home equity line of credit, a home equity loan or a second mortgage on your home, or refinance your existing mortgage.
- Other options include borrowing against a whole life insurance policy and borrowing against you retirement savings.
- The best way to consolidate a large amount of credit card debt without taking on a new loan, is to enrol in a Debt Management Plan.

The most-recommended DMPs are run by non-profit organizations. They start with a credit counselling session to help determine how much money you can afford to pay creditors each month. The non-profit agency can help you get a lower interest rate from creditors and reduce or waive late fees to help make your monthly payment affordable. You send one payment to the agency running the DMP and they split it among all your creditors. Utilizing a debt management plan could affect your credit score. However, at the end of the 3-to-5 year process, you should be debt free, which definitely improves your score

www.debt.org/consolidation

Blacklisting:

Most people only realise they are blacklisted when they apply for credit. A credit provider is very unlikely to provide further credit if you have unpaid bills. The word "blacklisted" can mean a variety of things, from having an account in arrears to having a judgment against you.

It is important to understand what financial situation you are facing. The thing to understand is even if you pay your debts, your negative listing will remain on your record for at least two years and, in some cases, as long as five years.

Tips to avoid blacklisting

- To avoid getting blacklisted, you should not avoid unpaid bills with your creditors. Instead, if you are unable to make a payment, rather than let a debit order bounce, or not pay your account at all, make contact with the creditor.
- Communication and transparency can prevent blacklisting. Explain what's happening to your creditors, and make sensible and affordable arrangements to try and achieve an up to date account.
- When you make contact with your creditor and explain a serious situation to them, most of the time they will be willing to help you handle an emergency. This is especially the case if your account is generally in good standing and they can see it's an exception. On the other hand, leaving the situation by ignoring phone calls and messages from your creditors is not the way to go if you want to avoid getting blacklisted and losing a healthy credit score.

2.1.2 The advantages and disadvantages of debt collectors.

Debt Collection refers to an attorney, a person who is an agent of an attorney or a registered debt collector, collecting on behalf of a credit provider, an outstanding amount plus lawful interest, admin costs and collection fees, which by law is capped to certain amounts.

Example:

Consider the service below:

Collecting a debt in South Africa can seem impossible. Language and cultural barriers, foreign laws and customs, and sheer distance all impose serious challenges.

Debt recovery is simpler when you use a collection agency fluent in the laws and customs of the country where the debtor resides. We offer on-the-ground representatives in South Africa who understand the debt collection practices that work to support full recovery of your funds.

We are dedicated to servicing all consumer and commercial debt. We have become industry leaders through our ability to skip trace and locate your customers and negotiate payments quickly and effectively. Being a full-service business law firm allows us to handle consumer and commercial debt from the collection process throughout any necessary litigation.

Thanks to our newly updated online client portal, you will be given 24/7 access to view your accounts. You can review notes in real time and interact with the case manager directly! We believe transparency is key to developing a strong relationship with our clients.

www.debt.org/consolidation

One of the advantages as stated by the company is that, if there is no collection there is no payment.

2.1.3 The use of debt collectors:

What is the role of the debt collector?

It is important to know exactly what the role of the debt collector is. They are tasked with collecting money and usually have no interest in your circumstances. It's simple; your account has been handed over to them to recover the money you owe the credit provider. They are paid a percentage of the amount collected, while charging service fees for doing so.

Not all debt collectors however, work in the same way.

What are methods of operation that make debt collectors unpopular?

- They make threatening calls – to arrest you, sue you, or garnish your wage.
- They contact family and neighbours in an attempt to get more information about you.
- Pretend to be debt collectors – (fake) – asking for personal details; they should be able to provide details of the creditor and your details also
- Target the elderly
- Make harassing phone calls- call at inconvenient times; outside business hours, place of work,
- Call you when you are represented by an attorney – provide the details of the attorney and direct all queries to him/her.

The Black Sash offers the following advice:

Section 27 of the Constitution

"Everyone has the right to have access to social security, including, if they are unable to support themselves and their dependants, appropriate social assistance. The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of each of these rights"

Your Rights

Who Is Allowed To Collect Debts?

Section 8 of the Act says an attorney, or his or her agent, or a registered debt collector may act as a debt collector. A registered debt collector is a person registered with the Council for Debt Collectors.

What Debts Can They Collect?

A debt collector can only collect the capital amount of the transaction; lawful interest; and his or her administration fee and expenses. The fees are structured by the National Council for Debt Collectors.

Do Debt Collectors Have To Follow A Code Of Conduct?

YES! Section 15 of the Act tells us what conduct would be considered "improper" or unethical. **A debt collector is NOT allowed to …**

- Use force or threats against a debtor or any other person who has ties with the debtor;
- Use intimidation against a debtor or any other person who has ties with the debtor;
- Make fraudulent or misleading representations including:
- Making or using fraudulent legal or official documents;
- Represent themselves as a police official, sheriff, officer of the court or any person other then a debt collector.
- Practice as a debt collector if he or she is convicted of an offence that has an element of violence, dishonesty, extortion or intimidation;
- Spread or threaten to spread false information concerning the creditworthiness of a debtor;
- Violate the provisions of the code of conduct.

How Do I Deal With An Unethical Debt Collector?

You must report any unethical behaviour to the Council for Debt Collectors which is obliged to investigate any charge (as stipulated under section 15 of the Act).

If the Council finds the debt collector guilty of misconduct, then one or more of the following sanctions will be applied:

- He or she may have their registration withdrawn;
- he or she may be suspended;
- he or she may receive a fine;
- he or she may be reprimanded;
- he or she may be ordered to reimburse the person to an amount set by the council.

Can I Bring a Criminal Charge Against a Debt Collector?

YES! Section 15 of the Act provides for a procedure to deal with unethical behaviour or misconduct which does NOT exclude criminal prosecution

SUMMARY

- An individual previously convicted of an offence involving extortion, violence, or dishonesty, may not become a debt-collector
- You can bring criminal allegations against a debt-collector
- All debt-collectors must be registered with the National Council for Debt Collectors
- Debt collectors are forbidden from spreading malicious rumours about the credit status of a debtor
- Any violations of the debt-collector code of conduct must be reported to the National Council for Debt Collectors

Black Sash February 2013 Adapted

Activity4.11

1. Write brief notes on the following:

Debt counselling

Debt collection

Debt rescue

Blacklisting

Debt consolidation

2. Who is a debt collector?
3. Why are debt collectors unpopular?
4. Which is the national body to control debt collections?
5. Name the recent Acts that protect the consumer against becoming over indebted.

Avoiding Debt

It would make sense if you avoid debt instead of getting into debt and then finding a way out. Here are some simple tips to avoid getting into debt.

Insert article

A

2.1.4 The National Credit Act

SUMMARY OF THE NATIONAL CREDIT ACT 34 2005

The new National Credit Act (NCA) came into operation on 1 June 2006. It protects consumers from reckless lending, high interest rates and places greater responsibility on credit providers. The NCA may have some important implications for practitioners as service providers sending out regular accounts to patients for payment. It is not possible to discuss all the implications of the Act in this contribution; some important aspects are highlighted.

The NCA replaces the Usury Act (governing money lending transactions) including Exemption Notice in terms of which micro lenders operate and the Credit Agreements Act (governing installment sale or "hire purchase" agreements). Some provisions of the old acts will still apply until all the sections of the new National Credit Act come into effect.

The NCA will be implemented in three stages:

- Most of the Act’s administration provisions came into force on 1 June 2006
- On September 1, 2006 the National Consumer Tribunal came into force protecting consumers against unfair practices by credit bureaus;
- New and improved consumer rights came into force on 1 June 2007.

NCA provides for various transactions

The NCA will apply to all credit agreements entered into if goods or services are delivered or rendered and payment is deferred and a charge is levied on such deferred payment.

The NCA applies to an incidental credit agreement, where goods are provided on an open account and interest is payable on default or where low prices are quoted with this price applicable on early settlement.

If goods are provided on account and the seller provides ownership of the goods will be retained until full payment is received, and default is subject to interest payment, the NCA applies as a secured loan. It is clear that the NCA applies to a wide ranger of transactions.

The new NCA applies to every type of credit agreement which includes:-

- Credit facility;
- Credit transaction;
- Credit guarantee;
- Any combination of the three

Credit Facility

These include:-

- if services and goods are supplied and the consumer is given time to pay and bills are sent out periodically;
- a fee or interest is payable by the consumer on any deferred payment; or
- if the amount billed is not paid within the time provided.

Practitioners who offer long term treatment and fees are payable in installments together with interest or some other type of administration charge, the NCA would apply.

If no charge or any interest or other costs for late payment is levied, then no credit facility is provided.

Credit Transaction

These include:-

- Pawn or discount transaction;
- Incidental credit agreement [an agreement where charge is levied for payment of an invoice after a specified date, or where two prices are quoted to the consumer , the lesser applying if payment is made before a certain date and the higher payment if made thereafter i.o.w. an extra charge is levied for 'late payment';
- Installment agreement
- Mortgage agreements
- Lease of movable property
- Other agreements which is not a credit facility but where payment is deferred and any fee, charges or interest is payable. This includes any loan bearing interest.

Credit Guarantee

This is an agreement in terms of which a person other than the consumer or patient treated by practitioners undertake or promises to satisfy the patient's obligation under a credit facility or transaction offered by practitioners.

All credit agreements must be in writing.

What is excluded from definition of credit agreements?

- Policies of insurance;
- Lease of immovable property;
- Stokvel transactions;
- Ordinary sales and provision of service on credit or on account if no interest or fee is charged for late payment;
- Where consumer [borrower] is a juristic person [most companies, close corporations, partnerships and trusts] if the asset value or turnover equal or exceed R1million.

- Where the agreement is a large agreement for a value above R250 000.00 and the consumer [borrower] is a juristic person whose asset value or turnover does not exceed R1 million;
- Where Credit provider is SA Reserve Bank; and
- Credit provider is outside the Republic.

National Credit Regulator

The NCA creates a regulatory body which will control all credit providers in the Republic.

All credit providers will have to be registered with the regulator which is compulsory if they have:-

- concluded 100 or more credit agreements; or
- total principal debt of all outstanding credit agreement exceeds R500 000.00.

Failure to register can result in the credit agreement being declared unlawful and unenforceable. All credit bureaus and debt counselors must be registered. All credit providers and credit bureau must register within 40 days of 1 June 2006.

The Regulator will establish a National Credit Registry on which all credit agreements will be recorded. Any lender must enter their credit agreement on the register and before lending money they must look on it to find if out if as consumer you are tied into other credit agreements.

Consumer rights

The Act deals extensively with consumer rights. These are:-

- credit providers cannot discriminate against consumers when deciding whether to grant credit or not;
- right to reasons for credit being refused;
- right to information in official language
- right to receive information free of charge.
- consumers are entitled to reasons for denying credit.

A credit provider must provide a quotation valid for 5 days to the consumer before a credit agreement is entered into. It must spell out the interest rates and other costs that will apply. A copy of the agreement must be delivered in paper or in electronic format.

Credit providers are required to ensure that customers understand the nature of the credit agreement and they can afford to repay the loan.

There can be no differentiation between the costs of goods or services purchased/rendered on credit versus cash. In other words credit providers may not offer goods at a lower price if they are paid for in cash than goods purchased on credit. This must not be confused with allowing a discount, which is permissible.

A credit provider is required to provide monthly statements of account and on request provide the consumer free of charge, a statement showing:-

- current balance;
- amounts credited;
- any amounts overdue;
- any amount currently payable.

Such statements may be provided orally by telephone, via e-mail, sms or fax. Statements must be furnished at least within 3 months of the last statement.

A consumer is entitled to terminate any credit agreement by:-

- paying the settlement amount;
- surrendering the goods to the credit provider;
- paying the remaining amount if the goods are sold by the credit provider and the sale price is not sufficient to satisfy the outstanding debt.

A consumer may settle an amount due under a credit agreement without advance notice to the credit provider by paying the unpaid balance, interest, charges and other fees payable.

The new Act gives all consumers the right to check their records held by a credit bureau once every year and they may not be charged a fee for doing so. Consumers are entitled to receive credit information in at least two official languages and such documents must be provided free of charge. Consumers will be entitled to challenge the information and credit bureau is required to investigate the challenge. This personal information may only be used for a legal purpose and may only be released or reported to other under specific conditions such as if there is a court order or the National Consumer Tribunal orders it.

A credit provider may not harass consumers into a credit agreement, nor may a credit provider enter into a credit agreement with you after cold calling on you at your home.

The new Act also requires that interest rates and other costs must be spelt out in any advertisements in a format that is prescribed by the National Credit Regulator.

The Act aims to stamp out reckless lending and predatory practices. You are considered as having too much debt (being over indebted) if it is unlikely that you will be able to meet all your debit obligations timeously. The reckless granting of credit is prohibited under the Act. Reckless credit is when a credit provider gives you a loan or other credit without assessing whether you can repay the loan and even if you do not understand or appreciate the risks, costs or obligations under the credit agreement or if the granting of the credit leads to you becoming over indebted.

The new Act also allows consumers to apply to a debt counselor to have their debts restructured if they have taken on too much debt.

If the debt counselor finds that you are over-indebted then he or she can recommend to a Magistrate's Court that your debts be restructured to suit you and then your creditors.

Later regulations

From 1 June 2007, if you cannot repay your debts and are taken to court, it will be the lender’s responsibility to provide information that they did not lend money knowing that consumers could not replay their debts. If the lender is guilty of reckless lending, court can force the lender to restructure the loan so customers can repay the debt.

The NCA will make it more difficult for credit provider s to blacklist you if you default on your payments. New regulations will force the credit provider to raise arrear problems first and refer you to a debt counselor.

Regulations under the NCA which will specify maximum interest rates and transaction fees that can be charged on credit agreements or loans are still being finalized. These maximums was only be implemented from 1 June 2007.

The draft regulations propose an interest rate ceiling of 48% per annum or 4% per month for small loan up to R5000.00 and repayable over 4 months.

Regulations also place a cap on the initiation fee that may charged and spells out conditions when levying maximum initiation fee which range between R150.00 plus 5% of the loan of more than R1000.00 up to a maximum of R350.00 depending on the type of credit.

The maximum monthly service charge is also capped at R50.00 per month or R600.00 per year. Presently, the Usury Act limits interest rate on loans of R10 000.00 and under to 20% a year and loans over R10 000.00 to 17% per year.

If interest charged is pegged to a variable rate such as the prime rate, then every time this rate changes, a notice must be supplied to the consumer recalculating the total interest payable, monthly interest and the date change took effect.

Sureties

People who stand surety for others' debt will be protected against over-indebtedness and reckless credit by the new Act. It gives credit guarantors the same status and protection as it does credit consumers.

These were the people who stood surety for the debt or obligations of others, often through "emotionally-transmitted debt" or "sexually-transmitted debt". The former referred to parents assisting their children with student loans while sexually-transmitted debt to one spouse acting as surety for the other.

Company directors who, sometimes unwittingly, accepted liability for debts run up on the company credit card, and small business owners who made themselves personally liable for the credit facilities of the business, would also be protected under the new Act.

Chief of these was the use by banks of universal (unlimited) surety ship agreements. Often signed by a consumer as a matter of routine, these agreements entitled the bank to hold the surety liable for any of the debts of the person for whom they stand as surety in the event of that person's default, no matter how or when the debts were incurred. The types of unlimited surety ships will draw to a close.

Another problem area of surety ships the Act would address was requiring customers to waive their common law defenses and remedies. The Act would prohibit this practice.

Summarized from the National Credit Act,

Act No 34 of 2005,

Appearing in the Government Gazette 28619 dated 15 March 2006.

The question remains: is the National Credit Act effective?

A survey by UNISA concluded as follows:

In summary, it is evident that the introduction of the National Credit Act managed to curtail reckless lending that was happening in the Pre-NCA period

However in the Post-NCA period it was evident that the debt a household had was a major determinant in both the long run and short run.

It is evident in this analysis that the National Credit has managed to stem reckless lending, however currently the unsecured lending book for the South African banks has increased as banks seek to circumvent the stringent lending criteria laid out in the NCA.

Thus future research should seek to investigate the impact of unsecured lending and how innovative credit lending has circumvented the stringent lending regulations in NCA.

More so the Credit Regulators should look into strengthening the NCA to cover these new innovative lending products that seek to circumvent the NCA strict granting procedures.

http://uir.unisa.ac.za

Note:

The NCA was subsequently amended with respect to the following:

Capped interest rates

Affordability assessments

More info at : citypress.com

Activity 4.12

List five important provisions contained in the National Credit Act.

2.1.5 The Consumer Protection Act

Consumer Protection Act No 68 of 2008

The rationale underpinning the CPA is that given South Africa's international obligations, to:

- " promote and protect the economic interests of consumers;
- improve access to, and the quality of, information that is necessary so that consumers are able to make informed choices according to their individual wishes and needs;
- protect consumers from hazards to their well-being and safety;
- develop effective means of redress for consumers;
- promote and provide for consumer education, including education concerning the social and economic effects of consumer choices;
- facilitate the freedom of consumers to associate and form groups to advocate and promote their common interests; and
- promote consumer participation in decision-making processes concerning the marketplace and the interests of consumers. "

Accordingly government found it desirable to promote an economic environment that supports and strengthens a culture of consumer rights and responsibilities, business innovation and 'enhanced performance'. The CPA came into full force and effect on 1April 2011.
For it to become fully operation several statutory bodies will have to be in place, e.g. a "National Consumer Commission" which is then tasked with implementing and enforcing the Act.

The Act replaced existing provisions from five Acts, including the

- Consumer Affairs (Unfair Business Practices) Act of 1988,
- Trade Practices Act of 1976,
- Sales and Service Matters Act of 1964,
- Price Control Act of 1964, and
- Merchandise Marks Act of 1941 (specifically sections 2-13, and 16-17).

source:
http://www.law24.com/Saber+Ahmed+Jazbhay/500-Consumer-Protection-Act-No-68-of-2008.html

As mentioned previously the consumer Protection Act was the second act that was passed to protect the interest of consumers.

Briefly the act deals with the following:

Chapter 1 Interpretation, Purpose and application

Chapter 2: Fundamental consumer rights: this includes the right to:

- equality
- privacy
- choose
- disclosure of information
- fair and responsible marketing
- fair and honest dealing
- fair, just and reasonable terms and conditions
- fair value, good quality and safety

Supplier accountability to consumers

Chapter 3: Protection of Consumer Rights and Voice

- dispute resolution
- complaint to commission

Commission investigation

Redress by court

Civil Society support

Chapter 4: Business Names and Codes of Conduct

Names

Codes of conduct

Chapter 5 Institutions

National and provincial Cooperation

Establishment of National Consumer Commission

Functions of NCC

Chapter 6 : Enforcement of Act

Powers in support of investigations

Offences and Penalties

Miscellaneous

Chapter 7: General

Key implications of the Consumer Protection Act

More importantly, entrepreneurs need to be aware of the impact the Act has on the way they operate their businesses. They should ensure that they comply with the legislation. Here are some of the practical implications of the Act. It is advisable that you seek legal advice to ensure that your company complies with the CPA.

1. Terms and conditions

Many businesses protect themselves by having customers sign standard terms and conditions. This is in order to prevent future disputes and give the business essential protection against non-payment, product or service liability.

The Act makes many of the terms previously included illegal or unenforceable, so businesses need to obtain a new document to properly protect their business interests and avoid administrative fines.

2. Fixed-term consumer agreements

The maximum period for fixed-term consumer agreements is 24 months from the date of signature by the consumer, unless otherwise specified. Longer periods are only permitted if the consumer agrees and there is a demonstrable financial benefit to the consumer.

3. Competition entries

The cost for consumers to submit and entry to a competition should not exceed R1,50. This includes the total cost for all subsequent electronic communication to the consumer regarding that entry.

4. Contacting customers

Companies are prohibited from contacting customers at certain times, including Sundays or public holidays, Saturdays before 9am and after 1pm, and between 8pm and 8am the following day during the week. Direct marketers can’t send material to consumers unless they have confirmed (in writing) that no pre-emptive block was registered.

5. Defective products

The Act stipulates that a consumer is no longer required to prove negligence against the importer, producer, distributor or retailer of a product when claiming damages arising out of defective products. This includes a product failure, defect in any goods or even inadequate instructions or warning provided to the consumer. This will affect the level of indemnity insurance required by businesses.

6. Money-back guarantees

All goods sold are subject to an automatic warranty that they are suitable for the intended purposes, are of good quality and free of defects. If a product does not live up to these standards, the consumer is entitled to return the product for a refund, replacement or repair, within six months of the transaction. Companies that in the past agreed to exchanges but not refunds can no longer do so. A sale is only really a sale after six months. There is also a ten-business-day window for consumers to return goods which they have not had the opportunity to examine beforehand.

7. Delivering goods

Products must be delivered within a reasonable time after the agreement is entered into or as agreed between the parties. If there is going to be a delay in the delivery, the supplier needs to inform the consumer and arrange a new date. The consumer is, however, entitled to cancel the deal and go elsewhere. If goods are incorrectly delivered, the supplier runs the risk of the goods being declared 'unsolicited', in which case their ownership can pass to the person to whom they were delivered.

8. In plain language

The Act states that everything must be in plain language – all agreements must be easily understandable. Suppliers may not use false, misleading or deceptive representations to win over consumers to their products. They must also make full and honest disclosure about products, including their price. Sales that advertise goods 'while stocks last' can no longer use the same tactics, for example, if a TV is advertised for R1 000 and the consumer arrives to buy the TV as advertised, the supplier cannot offer a different TV for a different price in its stead. ***www.entrepreneurmag.co.za***

Consider the advice below from www.mondaq.com

How will the Consumer Protection Act affect terms and conditions of supply to consumers?

The Consumer Protection Act is expected to widely impact our law of contract,

- by regulating the content of consumer agreements

- the manner in which notices or documents are provided or displayed to consumers
- provisions where suppliers seek to limit their exposure in relation to quality claims will be curtailed
- the Courts are given wide powers to declare that a transaction or agreement is unjust, unreasonable or unfair and
- to compensate the consumer for losses or expenses relating to the transaction or agreement, amongst other things.

How will a consumer enforce his or her or its rights?

- The consumer has a number of avenues available to him or her including
- referring complaints to alternative dispute resolution foray,
- referring a complaint to a particular ombudsman identified in the Consumer Protection Act
- referring a matter to the National Consumer Commission.
- The National Consumer Commission may also investigate matters relating to consumer complaints or any contravention of the Consumer Protection Act - in much the same way as the Competition Commission enjoys similar powers in respect of competition matters.

Careful analysis of the definitions in the Consumer Protection Act must be undertaken in order to determine whether or not their company's business falls within the scope of the Consumer Protection Act.

If the Consumer Protection Act is applicable to its transactions, a review of the business' terms and conditions of supply, marketing material and practices and agreements with suppliers, will be required.

A risk assessment procedure for each business in light of the increased product liability risk is also recommended.

www.mondaq.com

Activity 4.13

1. List five consumer rights. Explain any two of them.
2. Where can you complain if you have to?

SUMMARY OF LEARNING – UNIT TWO.

In this unit you concentrated on managing your debt. There were a number of terms attached to this process like:

- Debt collection
- Debt consolidation
- Debt counselling
- Debt rescue
- Blacklisting

Thereafter you briefly studied two of the pertinent Acts concerning debt :

- The National Credit Act
- The Consumer Protection Act

ASSESSMENT UNIT TWO

Question 1

Distinguish between:

1.1 The Consumer Protection Act and the National Credit Act (12)

1.2 Debt counselling and Debt rescue (8)

Question 2

State whether the following statements are TRUE or FALSE. If true write TRUE, but if false write FALSE, and correct the underlined word/words to make the statement true.

2.1 Even after paying, the blacklisting remains for at least two <u>months</u>. .

2.2 Debt collection <u>can</u> lower your interest rate.

2.3 You <u>cannot</u> bring a charge against a debt collector

2.4 Insurance policies are <u>excluded</u> from the definition of credit agreements.

2.5 Interest rates <u>must</u> be disclosed in advertisements.

2.6 Cost of competition entries may not exceed <u>R5,00</u>.

(15)

Question 3

3.1 How can you avoid being blacklisted? (6)

3.2 List FIVE of the unethical tactics employed by debt collectors. (10)

3.3 List FIVE consumer rights according to the CPA (10)

Summary Assessment

Questions for assessment of this sub-topic

(*Solutions to assessment questions to be included in the "Solutions" section, at the end of the workbook*).

Suggested sources of additional information

www.debt.org/consolidation
www.news24.com
www.debtrescue.co.za
city-press.news24.com
www.blacksash.org.za
http//uir.unisa.ac.za
cedarfinanacial.com
debtsafe.co.za
debt.org
www.nolo.com

UNIT 3

INSURANCE – PERSONAL

Introduction:

In this section we deal with the all important question of the possibility of loss or damage and ways to eliminate or reduce it.

We commence with a brief discussion of Personal Assurance and discuss only three types of policies, which will lead us to Business Insurance and how to overcome it.

We will be studying this aspect as follows:

3.1 Insurance Personal

3.2 Insurance Business

As an introduction we may ask: what is the need for insurance? This can be answered as follows:

- The breadwinner can ensure his family is secured after his death
- Businessmen can insure against financial losses
- Businessmen are protected from financial losses
- Employers are protected against claims from employees
- Debtors can use the policies as security and raise loans
- Insurance serves as savings.

3.1 Personal Assurance

After completing this section you will be able to

3.1.1 Describe the following types of policies:

- Life
- Endowment
- Funeral.

Before attempting this section you may save some confusion if we clarified the use of the terms <u>assurance</u> and <u>insurance</u>.

Assurance refers to a contract to pay an amount to the insured on the happening of a certain event <u>which is bound to happen,</u> which, in this case, is <u>death</u>. Insurance, on the other hand refers to the payment of an amount <u>if and when</u> the event takes place, for example, fire damage. If the fire takes place and the insurance company admits liability, then the payment will be made. If the fire does not take place, than there will be no payment.

Further, there are a number of terms that will be used in the discussions following.

Some of them are:

Insured	Person or business that seeks the protection
Insurer	Company that offers the service
Premium	The amount agreed upon by the insurer and the insured for the service , paid usually monthly or yearly.
Contract	The terms and conditions agreed upon by the insurer and the insured captured in writing.
Beneficiary	The person who will receive payment when death takes place.
Indemnity	The undertaking to place the insured in the same financial position as before the happening of the event
Excess	The amount for which the insured is liable when making a claim
Over insurance	Insuring an asset for more than the actual value. Because nobody is allowed to make a profit from insurance, only the market value of the claim will be paid.
Under insurance	Insuring an asset for less than the correct value. In the event of a claim the full value
Cession	Passing over the insurance contract to a financial institution for security against a loan.

3.1.1 Types of policies:

A life assurance policy is a long term contract that pays the beneficiary an amount after the death of the insured.

For many people, investing in life insurance is a wise choice to protect assets and support family members when the policyholder dies. The proceeds from the policy provide coverage for your funeral expenses and give your family members an added bit of financial support during a difficult time.
Collectively, life insurance policies share some similarities in coverage characteristics. Your beneficiary does not pay tax on the death benefit received.

Some types of policies:

Whole Life

A Whole life policy, sometimes called permanent life insurance, is the accumulation of cash value besides providing a death benefit. The contract detailing a whole life insurance policy may allow the policyholder to take out a loan against the cash value accumulated. Premiums for whole life policies are generally set and cost more than term life policies with comparable death benefits.

Example: the breadwinner of a family may take out an insurance contract on his life and nominate his spouse as his beneficiary. On the death of the breadwinner, the payment is made to his spouse.

www.get-insured.co.za/Business

Endowment :
An endowment policy is essentially a life policy which, apart from covering the life of the insured, helps the policyholder save regularly over a specific period of time so that he/she is able to get a lump sum amount on the policy maturity in case he/she survives the policy term. This maturity amount can be used to meet various financial needs such as funding one's retirement, children's education and/or marriage or buying a house.

A life insurance endowment policy pays the full sum assured to the beneficiaries if the insured dies during the policy term or to the policy holder on maturity of the policy if he/she survives the term.

As the policyholder, you choose how much you want to save each month and when you want the policy to mature. Based on your monthly contributions, you're guaranteed a certain payout, called an endowment, when the policy matures.

You can then use this endowment for your child's college tuition, fees, books, living expenses and other costs. If you should die before the policy matures, your child will receive the payout as your death benefit and will still have the anticipated money for college

.
The endowment life policy promises a risk-free, guaranteed return on a guaranteed date as long as you make the fixed monthly payments

https://www.reference.com/business-finance/benefits-whole-life-term-life-insurance-aeb249fe561a9159?qo=contentSimilarQuestions

Funeral Policy

Funeral expense insurance is an insurance policy that pays the costs associated with your funeral. There are several different forms of these policies available to you to assist you with planning for your end of life costs.

Funeral expense insurance can be used to pay for the cost of the funeral alone, or it can cover additional final expenses such as outstanding medical bills, legal costs, or any other debts that you owe, such as credit card bills.

The different types of funeral insurance policies include:

- **Preneed Funeral Insurance:** This is directly or indirectly linked to a funeral service provider. It has instalment payment plans. Licensed insurance agents who work for the funeral home sell these policies which are often in the form of a whole life insurance policy. In some cases the funeral home is the named beneficiary, which provides the benefit directly to the funeral home in order to cover the funeral or cremation costs.

- **Final Expense Insurance:** This type of policy is not linked to a funeral service provider and tends to be cheaper than preneed funeral insurance. It can consist of either a term or a permanent life insurance policy.

Burial Insurance: This type of policy is usually a term life insurance policy with lower death benefits.. The death benefits are paid to a named beneficiary who can use the death benefits in any manner. Your need for burial insurance depends on your individual situation; in particular, your financial status and your family's budget will likely be factors taken into account. You might want to consider a burial insurance policy if:

- You have no life insurance coverage
- You have no other means of paying for a funeral
- You want to cover your entire family
- You have limited savings with no other means to pay for your funeral expenses and outstanding debts
- You want a separate policy to specifically cover your final expenses

▪ ***www.trustedchoice.com***

Example of a funeral Policy:
A typical funeral policy from a funeral service provider is given below:

Premium for **standard cover**: Ranges from R15 p.m. (under 63yr) to R30 (over 86yr)

Premium for **executive cover** : Ranges from R60 p.m. (under 60yr) to R80 (over 75yr)

The executive plan covers:

- Cost of casket
- Removal and Storage
- Priest to conduct rites
- Cremation/ Cemetery fees
- Hearse and Family car
- Death Registration
- Transport
- Marquee and Chairs
- Flowers
- Water

The standard cover (which is cheaper) covers the same but to a lesser extent and with limitations.

Activity 4,14

1. Distinguish between whole life and endowment cover.

2. Which would you use if you are planning to purchase a house?

3. Match the terms in column B with the descriptions in column A

Write only the number anf the letter of the correctanswer

e.g. 3.9 N

COLUMN A	COLUMN B
3.1 The person nominated to receive the proceeds of an insurance contract	A. Premium
3.2 The one that carries the risk	B. Insurer
3.3 The amount paid regularly to the insurance company	C. Risk
3.4 Cover against an event that is certain to take place	D. Beneficiary
3.5 Cover that helps to pay when the insured passes away	E. Compensation
3.6 The possibility of loss or damage	F. Security
3.7 The person who requires the protection	G. Insured
3.8 The payment made by the insurance company	H. Funeral insurance
	I. Assurance
	J. Insurance

3.2 Insurance - Business

All businesses face risk. That is one of the chances the entrepreneur has to take.

To reduce or eliminate the risk businesses take out insurance. Not all risks are insurable, though. Some of t hose that are not insurable, include:

- Price stability – prices as you know are the result of demand and supply. Because these market forces are changing constantly. It affects the price,. You cannot insure against this. (Example petrol price)
- Changes in Fashion – Customers will buy what is in fashion. When the fashion changes, then they will purchase those new goods that are in fashion, which sometimes leaves the stockists of the older goods in financial problems.

What do retailers do to prevent this from happening?

- New inventions – when new production methods and machinery are developed, it leaves some older manufacturers behind. They will need to update or face financial losses.

Other risks are insurable, that is, you may take out cover against them to reduce the loss or damage suffered. Risks may be either reduced or shifted.

By *reducing* risks you take precautions to minimise the loss or damage suffered for example installing burglar alarms to reduce the risk.

By *shifting* we mean passing the risk to someone else, for example the risk of goods going out of fashion is passed on from the wholesaler to the retailer. You shift the risk of losses from fire onto insurance companies.

Compulsory and non compulsory insurance

After completing this section you will be able to:
- Distinguish between compulsory and non compulsory insurance
- Briefly describe the provisions of the RAF, UIF and COIDA.

Some insurances are compulsory while others are not. Non compulsory means you may take them out if you wish to; if the event happens (e.g. fire) then you will bear financial loss if you are not insured. Other are, however, required by law. We shall be studying the following :

- RAF (Road Accident Fund)
- UIF (Unemployment Insurance Fund0
- COIDA (Workmens Compensation)

Examples of <u>non compulsory</u> insurance:

Fire Insurance:

This is cover against losses resulting from a fire.

The client fills in a proposal form and sends it to the insurer. The insurer inspects the premises to determine the risk and then quotes a premium. The higher the risk, the higher the premium. If the client is satisfied with the premium and the terms and conditions laid down in the contract, he signs it. It now becomes a binding contract as long as all the information was disclosed with utmost honesty. If anything was withheld and may have affected the risk, the insurance company will contest the claim when it is made. It is therefore important to be honest as well as read all the clauses properly.

Over and under insurance :

If you have insured the property for *less* than the correct value (e.g. R80 000 instead of R100 000) then the insurance company will apply the average clause and pay only a portion of the claim.

Example:

Goods valued at R 200 000 were insured for R 140 000. Fire caused damage estimated at R40 000. What will the insurance company pay?

This is calculated as:

R 140 000/ R200 000 x R 40 000 = <u>R 28 000.</u>

This means the insured will get <u>R28 000</u> instead of <u>R40 000</u>.

On the other hand the goods could have been <u>over insured.</u> Say the same goods were insured for R250 000 instead of its correct value of R200 000. The insurance company will pay the market value of the loss and <u>not</u> the inflated value.

Other Examples of Non Compulsory Insurance:

- Vehicle
- Fire
- Storm damage
- Public liability
- Plate glass
- Property insurance
- Burglary / theft
- Business interruption
- Political risk/ Strikes/ Riots
- Fidelity

3.2.1 The Unemployment Insurance Fund:

The Unemployment Insurance Act was passed to assist those who were in danger of losing their job , and thereby receive no income as a result of various causes like retrenchment, illness pregnancy or death.

It applies to the all workers and employers except the following:

- workers working less than 24 hours a month for an employer;
- learners;
- public servants;
- foreigners working on contract;
- workers who get a monthly State (old age) pension; or
- workers who only earn commission.

Domestic employers and their workers are included under the Act since 1 April 2003.

The fund provides benefits for the following:

Unemployment benefits : you may claim benefits for up to six months. The claim has to be lodged within six months.

Maternity Benefits: claimants are entitled to 121 days leave. . These benefits are separate from ordinary unemployment benefits.

Illness benefits: you may claim if you are unable to work for more than 14 days. The contributor must agree to receive treatment.

Adoption benefits: payable if adoption involves taking unpaid leave for caring for the child

Dependents benefits: - Payable if the person supporting the household dies. The spoue is entitled to claim.

The benefits received from any of the above are not subject to tax.

Road Accident Fund:

The RAF provides compulsory cover to all users of South African roads, citizens and foreigners, against injuries sustained or death arising from accidents involving motor vehicles within the borders of South Africa. This cover is in the form of indemnity insurance to persons who cause the accident, as well as personal injury and death insurance to victims of motor vehicle accidents and their families.

The RAF covers drivers and passengers for any bodily injuries or death sustained as a result of negligent driving by another driver.

To finance this fund, a levy is included in ten fuel price, so every motorist is indirectly contributing to the fund. The fund protects both the injured party as ell as the negligent driver.

The fund provides for

- claims by injured drivers and passengers of another vehicle
- claims for injury/death as well as loss of income, but not for property
- next of kin of people killed in road accidents
- claims based on the seriousness of the injury
- medical expense claims that are payable at public health centre rates
- maximum amount for death which is R 160 000
- payment with the right of recovery of
    - the vehicle was stolen
    - the driver was under the influence of liquor
    - the driver did not possess a valid drivers licence

www.westerncape.gov.za advises as follows:

Who Can Claim?

- A person who was injured in the accident (except the driver who caused the accident).
- Drivers (excluding the driver who caused the accident), passengers and pedestrians involved in the accident.
- If you were the driver in the accident but are not the owner of the car and the accident was caused by the owner's negligence (for example, if they didn't fix the brakes) and you are injured, then you can claim from the fund.
- A child, spouse or other person who depended on the income of the person who died in the accident.
- A close relative of the dead person who paid for the funeral
- A claimant under the age of 18 years must be assisted by a parent or legal guardian.

When Can You not Claim from the Fund?

- A person who caused the accident cannot claim from the fund. There is only a claim if the accident was caused by someone else's negligent driving.
- You cannot claim if you were the only person and vehicle involved in the accident.

What Can You Get Compensation For?

- Medical expenses.
- Funeral expenses.
- Compensation for pain and suffering.
- Lost earnings if you were unable to work.
- Loss of support. Dependents of the main income provider of the household who was killed in the accident as a result of someone else’s negligence can claim loss of support.

How to Claim from the Road Accident Fund:

You can claim from the Fund yourself or you can get a lawyer to claim for you but you will have to pay for their services.

You must make the claim within three years of the date of the accident, if you know who caused the accident. If you don't know who the driver or owner of the vehicle was that caused the accident, you need to claim within two years.

You Will Need the Following to Make a Claim:

- The name of the police station where the accident was reported, the case number, a copy of the police report, a charge sheet and a sketch of the accident scene.
- Receipts, accounts and vouchers to prove medical claims and expenses.

- A medical report and a letter from your doctor stating the amount you will pay in the future for medical expenses as a result of the accident.
- A letter from your employer stating the amount you lost as a result of unpaid wages.
- A written letter that gives permission for the hospital to hand over your medical records to the RAF.
- A sworn statement and statements from any witnesses to the accident.

www.westerncape.gov.za

The RAF was amended in 2005 with minor changes mainly removal of exclusions.

COIDA

The Act (Compensation for Occupational Injuries and Diseases) was passed to provide security for workers.

The act protects workers who;

- become ill
- become disabled
- are injured
- are killed

as a result of an accident at the workplace.

Site inspections are carried out to ensure that machinery and equipment satisfy safety requirements.

Excluded are:

- Members of the defence force
- Members of the SAPS
- Workers found guilty of wilful misconduct

Employees rights:

- Compensation in case of death or injury of employee
- Compensation for medical expenses in case of diseases contracted at work
- Wages while the employee is not working
- Disability payment if the employee is disabled
- Death benefit if the employee dies.

Claims Procedure

- If a worker is injured at work, he should inform their employer as soon as possible.. No claims will be considered if they are not reported within twelve months after the occurrence.

- The employer must then report the injury to the State within seven days of receiving notice of an accident. An employer who fails to do this will be guilty of an offence.
- All employees and employers must submit any relevant information about the incident, and workers must be medically examined by a doctor appointed by the State
- A claim for compensation is lodged on behalf of the employee.
- The State will assess the claim and, if necessary, a formal hearing will be held. If a hearing is held, only legal representatives are entitled to fees.
- Compensation amounts will vary from case to case, and are based on the earnings of the employee at the time of the accident, the severity of the injury, and the minimum and maximum payments allowed by the State.

http://ossafrica.com/esst/index.php?title=Summary_of_the_Compensation_for_Occupational_Injury_and_Diseases_Act%2C_no._130_of_1993_(With_Amendments)

Activity 4.15

1. Briefly describe five benefits paid by the IUF

2. Regarding the RAF:

2.1 What can you not claim for?

2.2 What can you claim for?

3.

3.1 What are the employee's regarding COIDA ?

3.2 Briefly describe the COIDA claims procedure.

Suggested sources of additional information

www.get-insured.co.za
www.investopedia.com
www.reference.com
www.westerncape.gov.za
www.ossaafrica.gov.za

SUMMARY OF LEARNING UNIT 3

This section was studied in two parts: Personal and Business.

It commenced with a discussion of the benefits of being insured. The first section on personal assurance was discussed after distinguishing between the terms assurance and insurance. After this a host of insurance terms were defined and clarified to make further discussions easier.

Three types of assurance was discussed- whole life, endowment and funeral. It looked at how they operate and the benefits of taking out these policies. Three types of funeral policies were also briefly described.

This was followed by a discussion of Business Insurance. This also distinguished between risks that were insurable and those that were not, as well as compulsory insurance and non compulsory insurance.

After this, three types of compulsory insurance was discussed in some detail – COIDA, RAF and UIF. The claims procedure was also included.

For non compulsory insurance, Fire Insurance was discussed to illustrate the terms over insurance and under insurance.

ASSESSMENT Unit 3

Question 1:

Each of the following questions/statement is followed by four possible answers. Choose the correct one and indicate this by placing the letter next to the number

e.g. 1.5 (b)

1.1 A funeral policy covers

(a) cost of casket

(b) hearse and family car

(c) death registration

(d) all of the above

1.2 Which one of the following is an example of non compulsory insurance?

(a) UIF

(b) RAF

(c) COIDA

(d) Burglary

1.3 Which one of the following is not excluded from COIDA?

(a) Workers who become ill

(b) Member of the Defence Force

(c) Workers guilty of misconduct

(d) SAPS (9)

Question 2

Match the terms in column A with the descriptions in column B. Write the number and the letter of the correct answer only (10)

e.g.

2.1 (M)

2.1 Excess	A. The undertaking to place the insured in the same financial position as before the happening of the event
2.2 Insurer	B. The person who will receive payment when death takes place.
2.3 Premium	C. The terms and conditions agreed upon by the insurer and the insured captured in writing
2.4 Contract	.D. Insuring an asset for less than the correct value.
2.4 Beneficiary	E. Company that offers the service
2.5 Under insurance	F. The amount for which the insured is liable when making a claim
	G. The amount agreed upon by the insurer and the insured for the service , paid usually monthly or yearly.
	H. Insuring an asset for more than the actual value.
	i. Passing over the insurance contract to a financial institution for security against a loan
	.

Question 3

State whether the following statements are TRUE or FALSE. If true write TRUE, but if false write FALSE, and correct the underlined word/words to make the statement true.

3.1 The premium for whole life policies is generally <u>less</u> than that of term policies.

3.2 An <u>endowment</u> policy is a form of savings.

3.3 Funeral Expenses policy benefit is paid over to a beneficiary.

3.4 The UIF is financed from a petrol levy.

3.5 The person who causes the accident cannot claim from the RAF (13)

Question 4

Distinguish between the following with examples:

4.1 Insurance and assurance (8)

4.2 Shifting and reducing risk (6)

4.3 Over and under insurance payouts. (10)

Question 5

5.1 List FIVE advantages of insurance. (10)

5.2 Not all risk are insurable. Name and explain three of such risks. (9)

5.3 Briefly describe the claims procedure in the case of COIDA. (10)

Suggested sources of additional information

www.get-insured.co.za
www.investopedia.com
www.reference.com
www.westerncape.gov.za
www.ossaafrica.gov.za

UNIT 4 CONTRACTS.

Introduction:

Today most business transactions are concluded by signing a contract. In the contract both parties make a list of their obligations and responsibilities in order to get something done or not done. It is therefore important to make sure all the provisions are carefully thought out as omissions can be contested later.

We shall be studying this sections as follows:

4.1 Home contracts

4,2 Business contracts**.**

Essentials of contracts

A contract is an agreement between two or more persons in which the one promises to do (or not to do) something in return for a consideration. For a contract to exist, the following elements must be satisfied:

- The parties must have <u>intended</u> to get into agreement
- They must have <u>legal capacity</u> to get into agreement
- One makes an <u>offer</u> and the other must indicate his <u>acceptance</u>
- There must be a <u>consideration</u>
- The activity must be <u>legal.</u>

Activity 4.16

1. How do you indicate that you <u>intended</u> to get into agreement?
2. Give one example of someone who does not have <u>legal capacity</u>
3. Give one example of how one of the parties can indicate his <u>acceptance</u>.
4. Give an example of a consideration.
5. Give one example of a legal contract.

Breach:

Not doing what you were supposed to do.

One of most common mistakes in drawing up a contract is that the terms are not clearly specified and it will be difficult to prove later on the there is **breach of contract.** This occurs when one of the parties does <u>not do</u> what is expected of him, to the satisfaction of the other and this can only be proved if you have provided, in the contract, a clear indication of what you <u>wanted</u> and the result is <u>not what you expected</u>.

Activity 4.17

You are a painting contractor. Assume I hired you to paint my house.

1. List at least four items on which we should be clear before commencing the job.

2. Give three examples of non performance (not doing what is expected) in the above example.

Act of God: sometimes a contract may not be enforced because of circumstances outside of what the parties considered. For example:

I hired you to paint my retainer wall and a storm damaged the wall before you can start painting.

When a contract contains doubtful terms and conditions, it is best to consult a lawyer.

4.1 Home contracts:

After completing this section you will be able to:

Describe typical home contracts like:

- Instalment Sale
- Entertainment
- Cellular phone

Many contracts are signed by householders regularly; it is a very common practice. What is recommended, however, is that the buyer read the contract carefully and query any items that he may not be comfortable with. Once the agreement is signed, it would be difficult to contest it later.

Instalment sale agreements

An instalment sale agreement (previously called hire- purchase agreement) is a sale where the seller makes it possible for the buyer to pay off the cost of the item purchased (example refrigerator) in equal monthly instalments in a certain period (for example 24 months). The monthly payment is calculated so as to include the cost of the item as well as the interest charged on the outstanding amount.

Today most households use this method to acquire necessary household items like furniture, appliances, equipment and so on. A deposit is required upfront and the balance is paid off in instalments. The buyer takes possession of the item immediately but the ownership will pass on to the buyer <u>only when the last instalment is paid</u>.

There are several advantages and disadvantages for buyers as well as sellers. Some of them are listed here:

For the buyer

- Has immediate possession of the article and can use it while paying for it
- Can afford large items which can improve his lifestyle
- Can manage payments spread over a period much easier instead of one lump sum
- He has to pay interest on the amount owing
- He has to insure the goods which implies further cost

For the seller

- Sellers usually have more customers because of the easier payment terms
- Sellers can charge for interest on the amounts outstanding
- Keeping track of debtors implies more administrative work.
- Sellers can lose when the buyers defaults or vanishes

An instalment sale agreement should cover the following minimum details:

- Details of seller (address and other contact details)
- A breakdown of the costs (including the purchase price, , other costs included (extras) , the interest charged which gives the total amount to be financed.
- Monthly service fees (if any)
- Payment schedule indicating deposit and regular instalment as well as the first and final instalment.
- Banking details
- Insurance requirements
- Marital details (for ownership)
- The terms and conditions (which will include your rights and obligations)

Activity 4.18

Find an instalment sale agreement for one of the items you purchased. Examine it thoroughly. Answer the following questions:

1.

- How much did you pay as deposit?
- What was each instalment?
- Calculate the total amount you paid (deposit and all the instalments).

2. What do you discover?

3. Comment on the outcome.

Other contracts:

Entertainment :

DSTV

There are many types of entertainment contracts. One example we shall be discussing is that for pay channel. A good example will be DSTV.

How does it work?

The service came to South Africa in 1986, by Naspers, then later launched Multichoice and finally DSTV in 1995. The entertainer offers 14 packages consisting of a group of channels per package to suit various viewing tastes.

Subscribers pay for the packages according to the differing rates. Subscribers are able to view their chosen channels with the use of a decoder, which is also supplied by DSTV.

Presently the following packages are available. . They are adjusted when the need arises:

Premium
Extra
Compact
Family
Access
Easy view

http://www.dstv.com/topic/compare-packages-20150713

Activity 4.19

In the entertainment contract above:

Who is the seller (offeror)?

Who is the offeree?

What is the service?

What is the consideration?

What do you think are the duties of the offeror?

Cellular telephones – (Cellphone Contracts)

A cell phone contract is a contract by a cellular company to provide cellular network services to its subscribers at a fee. Charges are levied for:

- Voice calls
- Data
- Messaging services

For this service, the subscriber pays a monthly fee determined by the service provider and this depends on the specific package designed for the subscriber.

There are presently five such service providers.

Activity 4.20

Name the service providers at present.

What is your observation about the cost of the services in general?

What are the types of contracts available?

4.2 Contracts - Business

The section above has prepared you for business contracts. If we as individuals are bound by contracts in order to conduct our daily lives, imagine how important this is for the business who has to interact with so many outsiders in order to be successful. For example it has to deal with *suppliers* with *customers* with *service providers* to name a few. It would be impossible to regulate such relationships without the use of contracts.

Here we are selecting *leasing* and *franchising* as examples of contracts that need to be signed, to regulate ownership.

After completing this section you will be able to explain the relevance of:

4.2.1 Leasing

4.2.2 Franchising

4.2.1 Leasing:

Leasing is a method of acquiring the use of an asset (moveable property as well as immovable property, like a dwelling) without purchasing the asset. The asset is leased from the lessor for a certain period of time. The **lessor** is the person who leases the asset and the **lessee** is the person who uses the service. The lessee pays leasing charges for the use of the asset.

The lease agreement should contain the following:

For a moveable asset :

- Names of the persons entering the lease agreement
- Duration of the lease
- Cost – regular monthly payments
- Other costs like maintenance and insurance.

For immoveable property:

- Use of the property
- Duration of the lease
- Rent

At the end of the lease period, the asset once again is returned to the owner, (unless, for moveable assets the agreement states otherwise).

For immovable property, the following formalities apply and are included in the agreement:

- Names and addresses of tenant and landlord
- Lease period
- The description of the dwelling to be leased
- The rent, allowing for escalation
- The frequency of the rental payments (e.g. monthly)
- The amount of the security deposit
- Notice period

The landlords duties

- Deliver the property (make it available)
- Ensure the acceptable condition of property at beginning and the end
- Maintain the property
- Ensure that the tenant has undisturbed use of property

Implications of leasing (Lessee:)

- Keep the asset in good order
- Pay charges on time
- Refrain from making alterations without the consent of the landlord (immovable)

For this he has the following rights:

- To occupy the property/use the asset
- Maintain property in good condition

4.2.2 Franchising:

A business idea, for example *supply of motor vehicle spares*, *food outlet* or *baking of bread*, can be sold. This process is called franchising. There will be many outlets but they are distinctly identifiable from the design and colour, and they are all engaged in the same line of business.

- The person who developed the idea and owns the rights to trade under a specific trade name is the franchisor.
- He sells the rights to a franchisee.
- The franchisee conducts the business under the same name at a different outlet.
- The franchisor offers knowledge and expertise of the product, pricing, shop layout and financing to the franchisee.
- The franchisor charges a fee (royalty) for his services.

When buying a franchise, a franchising agreement needs to be signed. This document clearly sets out the rights and duties of each party.

- A typical franchise agreement covers the following:
- The duration of the franchise and renewal if allowed
- The investment required
- The obligations of both parties
- The support offered (training, financing etc)
- The territory allocated to the trading
- Royalties payable and payment due dates
- Advertising policy
- Taxation
- Selling or transferring the franchise

Although fast food is the first thing that comes into your mind when you hear the word franchising, there are many other branches. Further information may be found at :

www.franchisedirect.co.za

SUMMARY OF LEARNING UNIT FOUR

This section also, was handled in two parts, Home and Business. The purpose was to emphasize that householders are just as much involved in contracts as the Business.

The discussion of three home contracts was done in some detail. They were Instalment sale, Entertainment (DSTV as example) and cellphone contracts. These are everyday activities but lead to great stress because of lack of knowledge on the specific operations of each.

The calculations involved in instalment sale agreements were designed to make the householder aware of interest and other charges that are included in the sale price of items.

Following on home contracts, two business contracts were discussed, that is, Leasing and Franchising. Leasing covered moveable as well as immoveable property. Franchising explored the concept as well as the obligations of the parties involved as this type pf ownership is fast becoming the order of the day.

ASSESSMENT UNIT FOUR

Question 1

What are the elements required in order for a contract to be valid? (10)

Question 2

In an instalment sale :

2.1 List three advantages to the buyer

2.2 List two disadvantages to the seller. (10)

Question 3

3.1 List the duties of a landlord (8)

3.2 What would you include in a contract between the landlord and the tenant?(10)

Question 4

What points would you include in a franchise agreement? (10)

Suggested sources of additional information

www.ilrg.com

www.investorwords.com

www.en.wikipedia.com

www.lawhandbook.org.au

UNIT 5 TAXATION

Introduction :

From your earlier studies especially in Economics , you would have learnt that the state performs many functions. You also know this depends on the type of government that is in place.

In order to do perform these functions, it requires finances. Modern states will require large sources of finance to carry out these functions effectively. One of the main sources of finance for the state is taxes. The section will be handles as follows:

5.1 PAYE and SITE

5.2 VAT

After completing this section you will be able to:

5.1.1 Explain the procedure involved in PAYE

5.1.2 Perform calculations of PAYE and SITE

5.1.3 Refer to Electronic Filing (eFiling).

Taxes are compulsory payment made to the state by individuals without receiving any direct benefit from it. We distinguish between the following types of taxes:

- Income tax
- **Customs** duties /**Excise** duties
- Licensing
- Import surcharges
- Fuel levy

Taxes are compulsory payments made to the state without receiving any direct benefit.

Excise Duty: The duty that is levied for goods manufactured inside a country

Customs Duty : The duty that is levied on goods imported from a foreign country

The following information s provided by

www.treasury.gov.za

National tax revenues are derived from three major taxes:

- personal income tax (PIT),
- corporate income tax (CIT) and
- value-added tax (VAT).

Combined, these account for around 80 percent of total (national) budget revenue, with the fuel levy, excise and customs duties accounting for around 12 to 14 percent of total national budget revenue.

The number of taxpayers registered as individuals, companies and trusts for income tax and employers for pay-as-you-earn (PAYE) and vendors for VAT exclude an estimated 4 million formal employees (standard income tax on employees (SITE)-only taxpayers) earning an annual taxable income below R60 000 from employment only, who are not required to register with SARS.

5.1.1 PAYE and SITE

Income tax is a tax levied by the government on all income earned by individuals, companies and other entities. Workers are expected to complete a return at the end of the year so that the Receiver of Revenue can calculate the actual amount of tax that is due by the workers.

PAYE

In order to make it easier for the workers to pay their taxes, the system of PAYE and SITE was introduced. The employer uses a tax table supplied by the Receiver of Revenue to calculate and deduct the taxes which the employee will be liable for on a monthly basis. This amount is handed over to the Receiver of Revenue during the course of the year so that the employee accumulates a tax credit. These decisions are approximations and are not accurate as the final calculation takes into account may other items such a medical aid contributions and expenses, travelling expenses pension deductions as well as additional income like interest earned on investment.

When the final calculation is done, the amount is compared with the amounts already paid by the employee monthly. If he has paid more than the calculated amount, he is given a refund or if the amount paid is less he is required to pay the difference to the Receiver.

www.treasury.gov.za

PAYE is paid by individuals.

5.1.2 SITE

The introduction of the Standard Income Tax on Employees (SITE) in March 1988 was a major amendment to income tax legislation.

SITE was designed to improve the final tax deduction system and 'virtually' eliminate any tax refunds. It was also aimed at simplifying the administration of income tax collection.

Under the SITE system, employers, using a table drawn up by the Receiver of Revenue, calculate a certain amount of an employee's tax as the minimum amount to be paid. As such it constitutes a final or minimum liability for income tax and is not refundable, except in certain stipulated circumstances.

Who pays SITE?

All employees who derive a net remuneration that does not exceed a certain annual limit (determined from time to time by the receiver) are subject to SITE. Net remuneration is the amount earned from employment, less deductible pension fund and retirement contributions,). If your income falls below this limit, you are not required to submit a tax return. If your net remuneration exceeds this prescribed limit, you have to register as a taxpayer and submit a tax return. The following types of remuneration are excluded from SITE:

- Taxable remuneration such as lump-sum payments from pension, provident or retirement annuity funds and gratuities paid by employers;
- Remuneration in which the production expenditure exceeds one per cent of such amounts, for example, where a person earns a commission.

How SITE is calculated

SITE is calculated by means of a table that is periodically revised by the Receiver of Revenue. It is determined by your period of employment known as your 'tax period'. SITE is calculated at the end of this 'tax period', which usually runs from one 12-month period to the next. Employees earning less than the annual limit prescribed by the tax authorities pay only SITE and no other income tax.

When you earn more than the annual limit, the SITE portions of taxes contributed must be identified on the IRP5 forms issued by employers. The balance of the amount contributed is regarded as pay-as-you-earn tax (PAYE). If you are entitled to a tax refund, this will be made from the PAYE portion, and not from the site portion of your contribution. Site is also payable on annual payments such as bonuses, outstanding leave pay, long service awards and other income in terms of a formula provided by the Receiver of Revenue.

(http://www.ftomasek.com/rates.html)

Note : Tax tables for deduction are available from www.sars.gov.za

Activity 4.21

1. How does the PAYE system work?

2. Do you think it is useful to the employee? Why or why not.

3. Use a tax table (consult the address above) and identify your tax deduction code. Read off from the table what amount of tax should be deducted from you salary/wage. Compare with the amount being shown on your salary slip. How does it compare?

5.1.3 Tax Returns.

Tax returns are filled in by all taxpayers who are registered for tax purposes. In South Africa, (in 2016), incomes of under R 120 000,00 do not require the employee to be registered for tax returns. All those earning above this amount will have to complete the tax return (the “buff form”) and submit it to the Receiver of Revenue.

Taxpayers need to submit a tax return to SARS so they can calculate the tax liability based on the income you declare and the tax-deductible expenses you have incurred for a year of assessment. In some cases it may result in a refund.

The annual Tax Season is when you will be required to submit a return. For most taxpayers this runs from July to November every year.

5.1.4 Electronic filling of forms.

With the advent of technology, SARS has introduced e filing, which means that all the details can be capture and submitted to SARS electronically.

SARS eFiling is a free, online process for the submission of returns and declarations and other related services. This free service allows taxpayers, tax practitioners and businesses to register free of charge and submit returns and declarations, make payments and perform a number of other interactions with SARS in a secure online environment.

Taxpayers registered for eFiling can engage with SARS online for the submission of returns and declarations and payments in respect of taxes, duties, levies and contributions.

To enjoy the full benefits and convenience of eFiling, you need to first register to gain secure access to your own tax information. To register as an eFiler go to the SARS eFiling website www.sarsefiling.co.za and click on the REGISTER button. You will be guided through a six-step process, which will take between five and ten minutes to complete. You will be given a Username to login to your profile.
Note: Registration for and the use of eFiling is free. All you need is internet access.

To complete the registration process you will need at hand:

- Your tax registration number/s
- Your ID number
- Your personal details

SARS advises as follows: To enjoy the full benefits and convenience of eFiling, you need to first register to gain secure access to your own tax information. Registration for and the use of eFiling is free. All you need is internet access. To complete the registration process you will need at hand: • Your tax registration number/s • Your ID number • Your personal details eFilers will register as

- individuals
- tax practitioners or
- organisations

eFiling offers the facility to submit a variety of tax returns including VAT, PAYE, SDL, UIF, Income Tax, STC and Provisional Tax through the eFiling website.

Online Services

Currently, the following services are available:

- Pay-As-You-Earn (EMP201 return)
- Skills Development Levy (included on the EMP201 and EMP501 return)
- Unemployment Insurance Fund (included on the EMP201 and EMP501 return)(Note: UIF filing is done separately via www.ufiling.gov.za)
- Value Added Tax (VAT201)
- Provisional Tax (IRP6)
- Secondary Tax on Companies (IT56)
- Personal Income Tax(ITR12)
- Trusts (IT12R)
- Advanced Tax Ruling (ATR)
- Additional Payments
- Request for Tax Clearance Certificate
- Request for Tax Directive
- Transfer Duty
- Stamp Duty
- Tax Calculators

www.sars.gov.za

Suggested sources of Additional Information:

www.sars.gov.za

http://www.ftomasek.com/rates.html

5.2 VAT

Introduction:

VAT stands for Value Added Tax. This is a system of tax collection

Value Added Tax (VAT) was first introduced in South Africa on 29 September 1991 at a rate of 10%. Currently VAT is set at 14%.

Value Added Tax (VAT) is a broad tax on the supply of goods and services that is charged upon purchase. VAT must be paid irrespective of whether or not it is a capital good or trading stock so long as the vendor uses the goods in his/her enterprise. It's compulsory for a business to register for VAT when the value of taxable supplies in a 12-month period exceeds or is expected to exceed R1 million. (2016)

After completing this section you will be able to:

5.2.1 Describe the meaning of VAT

5..2 Explain the workings of VAT collection.

5.2.1 How is VAT collected?

Previously, GST (general Sales Tax) was the system of collection. In this system, the end user (consumer) was liable for the payment of GST. With the introduction of VAT, the same amount is collected, but from different participants.

An example will clarify this.

Victor Mbuli purchases an article from Maya's Furnishers for R200. He pays GST at 14%. The amount payable under GST is therefore R28. This is the only payment made for the sale.

Note in the above:

The final seller (Maya's Furnishers) is the only one to collect and hand over the GST.

The buyer, (Victor Mbuli) is the only one who pays.

Who pays	**Calculated On**	**Amount to Receiver**
Mbuli	R200	28.

Now assume we use the VAT system to make the collection. What do we know?

The final amount (selling price) was R200. But it came from a line of other participants, until it became R200. Tracing it back we assume as follows:

- Manufacturer bought the wood from the farmer for 60.
- The manufacturer converted it to furniture, now worth R80.
- He sold it to the wholesaler for R80.
- The wholesaler sold it to the retailer for R120
- The retailer sold it to the consumer for R200.

Vat payments

The manufacturer bought the raw materials (wood) for R60 from the farmer. He pays VAT at 14% which amounts to R8,40) to the farmer. The farmer pays this amount to the Receiver of Revenue.

The manufacturer changes it into furniture in his factory and it is now valued at R80,00. He has added R (80-60 = 20) to the value.. This is sold to the wholesaler for R80. He charges and collects R 11,20 from the wholesaler. He pays over (11,20 – 8.40 = 2,80) to the Receiver.

The wholesaler paid R80 for the furniture. He then marks it up to R120 to sell to the retailer. The wholesaler charges the retailer VAT at 14% which amounts to R16,80. He then pays (16,80- 11.20 = 5,60) to the Receiver.

The retailer(Maya) then sells the furniture to Mbuli for R200. She charges Mbuli VAT which amounts to R 28,00. He then pays over R(28-16,80 = 11,20) to the Receiver.

Let us see how much the Receiver has received from each of the participants:

Farmer paid	R8,40
Manufacturer paid	R2,80
Wholesaler paid	R5,60
Retailer paid	R11,20
Total Received by Receiver of Revenue	**R28,00**

Activity 4.22

1. Compare the amount received under GST, with the amount received under VAT.
What do you notice?
What then is the difference in the collection?

2. Look at the value added in the table below. Complete the table using the first line as an example.

Participant	Value added	Amount	VAT 14%
Farmer	From 0 to 60	60	8,40
Manufacturer	From 60 to 80		
Wholesaler	From 80 to 120		
Retailer	From 120 to R 200		
Total			

What do you notice?
Now explain why it is called VALUE ADDED tax.

Accounting and VAT :

As far as accounting is concerned, these very same figures are used but they appear in accounts.
They appear in VAT input and VAT output accounts.
This aspect will be dealt with in further Accounting studies.

References - sites consulted:

www.standard bank.com

secure.rsaretailbonds.gov.za

www.businessdictionary.com

www.consumer.ftc.gov.

www.absa.co.za

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www.sars.gov.za

SUMMARY OF LEARNING - UNIT FIVE

This section focussed on Taxation.

From a definition of taxes, you were exposed to different types of taxes imposed by the tax authorities presently, and some idea as to how important each was as far as contributing to tax revenue.

From this you progressed to the two types of collections for personal taxpayers, SITE and PAYE. A brief discussion of each followed.

After this discussion you went on to tax collection – how you submit returns to the receiver of Revenue, who submits and when they submit. A brief explanation of electronic filing (eFiling) followed.

The second part focussed on VAT (Value Added Tax). This section explained how the system is implemented and how it differs from the previous GST system that was discontinued.

ASSESSMENT UNIT FIVE

Question 1

1.1 List five types of taxes. (10)

1.2 Distinguish between PAYE and SITE. (12)

1.3 What do you understand by eFiling? (10)

Question 2

Use an example to illustrate how the VAT is calculated and paid. (15)

Product : 1 Mens/Ladies formal shirt.

Final Price :	R 550,00 to consumer	
Farmer/producer:	200 (value when leaving)	
Manufacturer	350	“
Wholesaler	450	“
Retailer	550	“

SOLUTIONS TO ACTIVITIES SECTION FOUR

Activity 4.1

Answers :

1. Total assets 600 000+85 000+400 000+44 000 = R 1129 000

   Total Liabilities 140 000 + 17 000 + 75 000 = R 232 000

   Net Worth is total assets minus total liabilities

   =R 1 129 000 – 232 000

   = R897 000

2. He is in a good financial position. he

While this is so, he does not have much liquid cash, only 44 000. Which means he will have to accept finance and this will cause him to be indebted to the extent of the balance. He already has an outstanding amount on vehicles.

Assessment: pay special attention to the comment.

Activity 4.2

Note to tutor: this is a practical exercise. The learner will choose his own bank and his answers will be more or less the same as others.

Answers :

Most of the banks offer similar packages. There are some that are peculiar to a bank and that is to make them different from other banks.

Interest rates also for the accounts will be around the same.

Some banks offer interest on current account.

Some banks are quite lenient on their bank charges to make them more appealing to customers and draw new customers to the bank.

The fixed deposit rates are also similar around 5% presently (2016) for 12 months.

Assessment: See how observant the learner is about the competition between banks.

Activity 4.3

Answers :

You can do it from the convenience of your cellphone, without having to visit the bank. No banking hours.

It is relatively safe because banks have invested money in the safety of their clients money.

Banks maintain they employ a high level of security.

Some banks promise to refund you losses from fraud 100%.

You are able to pay bills, check balances and move money around.

Assessment: learners will have their own preferences with respect to safety and convenience.

Activity 4.4

Answers :

1. 600 x 8/100 x 3 = R144.

   600 + 144 = R744,00.

2. R 1 530,00.

   8 500 + 1 530 = R10 030.

Activity 4.5

Answers :

The final amounts are different;

Under simple interest the amount was R 296,00.

With compound interest it amounted to R314,69.

The compound interest amount is <u>more</u>.

2. simple interest it was R(24+24+24+24) = <u>R96.</u>

Under compound interest it was R(24 + 26,88 + 30,10 + 33,71) = R114,69

Each year the amount increased.

Activity 4.6

Note to tutor: learners may use the formula or the tables if available.

Answers :

1. $R2000(1,05)^5$

   = **2 552,56**

2. $R2000(1,08)^5$

   = 2 938,65

3. 2000 x 8/100 x 5

   = 2 800.

   The difference is R138,65.

Activity 4.7

Answers :

1. There will be 250 000 shares of R2,00 each.
2. There will be 5 000 shares of R 100 each.
3. The share capital is 200 000 x 4 = R 800 000

Activity 4.8

Note to tutor: the answers to question 3 could be personal to the learner's experience. Take note.

Answers :

1. She bought 400 shares. (2 000 / 5)
2. She received 400 x 9c = R36,00.

3. The return is 1,8%. This is a low return. Before making a decision consider how much it paid in the last three to five years.

Considering the savings account which offers around 3% to 4% and others at the bank offering more than this, the return in too low. Unless there is possibility of the share price rising for capital gain, or better return in the future, she should consider changing the investment.

Assessment: comments are relative to the learners experience. Consider the merits of the argument.

Activity 4.9

Note to tutor: ensure that learners have some idea of the passage. Some explanations may be necessary for this exercise to be successful.

Answers :

1.   It emphasizes that jobs are not for life and even the pension dos not last forever. Therefore there is need to look elsewhere for an income.

2. The markets have been volatile that it is fluctuating from day to day; not stable and it makes investment risky.

3. They recommend you begin with a renovation project- old, house requiring much work and bring it back into condition for resale.

4. Besides the income that you expect regularly, the capital (house, flat etc) will increase in price (value) with time, and can be sold at a profit later.

5. Off Plan means looking at the plan and buying a house that is not already built.

Assessment:

This is a good exercise requiring an understanding of investment and the risks involved. Discussion may be required after the completion.

Activity 4.10

Note to tutor:

Impress on learners this may be a temporary stage and can change in the next cycle**.**

Answers :

1. It means the rate at which house prices are increasing.

2. It notes that the increase has slowed down from .71% to .46%

3. Highest point in May.

4. It is good for the investor- he can buy cheaper if he is investing.

5. For the house buyer, this is also good. He can purchase his dream home cheaper.

Activity 4.11

Answers :

Debt counselling

Debt counselling is a service to assist over indebted consumers to develop a repayment plan which is affordable and also acceptable to the credit providers. It concerns:

Debt rescue

Debt rescue is a service that uses specialised attorneys in debt collections where cases are treated with confidentiality

Blacklisting

The word "blacklisted" can mean a variety of things, from having an account in arrears to having a judgment against you.

Debt consolidation:

Debt consolidation means combining several unsecured debts — credit cards, medical bills, personal loans, payday loans, etc. into <u>one bill</u> and paying all of them with a <u>single loan</u>.

2. . A debt collector is tasked with collecting money ; to recover the money you owe the credit provider. They are paid a percentage of the amount collected, while charging service fees for doing so.

3. They are unpopular because they engage in the following:

They make threatening calls – to arrest you, sue you, or garnish your wage.

They contact family and neighbours in an attempt to get more information about you.

Pretend to be debt collectors – (fake) – asking for personal details; they should be able to provide details of the creditor and your details also

Target the elderly

Make harassing phone calls- call at inconvenient times; outside business hours, place of work,

Call you when you are represented by an attorney – provide the details of the attorney and direct all queries to him/her.

4. The council for Debt collectors.
5. National Credit act and the Consumer Protection Act.

Activity 4.12

Answers :

Five Provisions contained in the National Credit Act.

Explanation of any of the following:

Credit transactions – inclusions.

Agreements must be in writing

Exclusions

National Credit regulator

Consumer Rights

Sureties

Activity 4.13

Answers :

1.

- equality
- privacy
- choose
- disclosure of information
- fair and responsible marketing
- fair and honest dealing
- fair, just and reasonable terms and conditions
- fair value, good quality and safety

Elaboration on any two.

What are Consumer Rights?

The Bill of Rights enshrines the rights of all South Africans – including consumer rights. The Consumer Protection Act further outlines these key consumer rights, of which all South African consumers should be aware. These include the following:

1. *Right to Equality in the Consumer Market and Protection Against Discriminatory Marketing Practices;*

2. *Right to Privacy;*
3. *Right to Choose;*
4. *Right to Disclosure of Information;*
5. *Right to Fair and Responsible Marketing;*
6. *Right to Fair and Honest Dealing;*
7. *Right to Fair, Just and Reasonable Terms and Conditions;*
8. *Right to Fair Value, Good Quality and Safety; and*
9. *Right to Accountability by Suppliers.*

Consumer Right No. 1 *Right to Equality in the Consumer Market and Protection Against Discriminatory Marketing Practices*

Your right to free and unlimited access to goods and services

- Suppliers are not permitted to limit **access** to goods and services.

Your right to high-quality goods and services

- Suppliers are not permitted to vary the quality of their goods and services in a discriminatory manner.

Your right to fair pricing of goods and services

- Suppliers are not permitted to charge unfair prices for the same goods and services.

Your right to lodge complaints

- Consumer complaints may be filed with the National Consumer Commission, the latter of which is required to refer such complaints to the Equality Court, if they appear to be valid.
-

Consumer Right No. 2 *Right to Privacy*

Your right to restrict unwanted direct marketing

- Consumers have the right to refuse unwanted sms's, telephone calls, letters or 'spam' e-mail**.**

Your right to discontinue receipt of direct marketing at any time

- Consumers have the right to opt out of receiving unsolicited direct marketing services by blocking the relevant supplier/marketer.
- Consumers have the right to accept, restrict or refuse unwanted direct marketing.
- Companies and suppliers are not permitted to continue any unsolicited direct marketing of goods and services, once consumers have opted out.

Consumer Right No. 3 *Right to Choose*

Your right to select the supplier of your choice

- Consumers have the right to shop around for the best prices, goods and services.
- Suppliers are not permitted to force consumers to enter into agreements with third-parties, unless the suppliers can prove the benefits of these additional goods or services.

Your right to cancel or renew a fixed-term agreement

Your right to request pre-authorisation for repairs or maintenance services

- Consumers have the right to request written cost estimates/quotations from suppliers, prior to the suppliers executing any repairs or maintenance services.

Your right to cancel direct marketing contracts within the cooling-off period

- Suppliers are required to include a 'cooling-off period' in direct marketing transactions – cooling-off periods generally span five (5) business days.

Your right to cancel advance reservations, bookings or orders

- Consumers have the right to cancel any advance reservations, bookings or orders.

Your right to return goods and seek redress for unsatisfactory services

- Consumers have the right to return unsafe or defective goods and request a full refund for such goods, provided this is done within a reasonable period.

Your right to retain and not pay for unsolicited goods or services

- Consumers have the right to return unsolicited goods or services, at the risk and expense of the suppliers.

Consumer Right No. 4 *Right to Disclosure of Information*

Your right to information in plain and understandable language

- Consumers have the right to demand contracts/agreements in easily-understood and plain language.

Your right to disclosure of prices of goods and services

- Suppliers are required to display the prices of goods and services, in full view of consumers;

Your right to product labelling and trade description

- Suppliers and service providers are required to display labelling and trade descriptions of products, which do not mislead consumers about the contents of the packaging or goods attached to the products.

Your right to clear disclosure of reconditioned or grey market goods

- Suppliers are required to display notice that 'grey' market goods have been reconditioned, rebuilt or remade.

Your right to sales records

- Consumers have the right to demand confirmation of purchases made, in the form of receipts or invoices.

Your right to disclosure by intermediaries

- Intermediaries, such as brokers, sales representatives and estate agents, are required to disclose their associations or affiliations with the entities/persons they represent.

Your right to identification of deliverers, installers and others

- Deliverers, installers and others are required to visibly display name badges or similar identification, to the satisfaction of consumers, when delivering or installing goods/products.

Consumer Right No. 5 *Right to Fair and Responsible Marketing*

Your right to protection against bait marketing

- Suppliers are not permitted to mislead consumers in respect of pricing, the nature, properties, advantages or uses of goods or services advertised, if such goods or services are not actually available for purchase or procurement in accordance with these standards.

Your right to protection against negative option marketing

- Suppliers are not permitted to promote any goods or services or automatically enter consumers into agreements for the supply of goods or services, i.e. if consumers receive unwanted or unsolicited goods or services, they are under no obligation to pay for these goods or services.

Your right to protection against direct marketing
- Suppliers or service providers that directly market any goods or services to consumers must inform them of their right to cancel the agreements within the cooling-off period of five (5) business days.

Your right to protection in catalogue marketing

Catalogue marketing refers to an agreement entered into by telephone (initiated by the consumer), fax or postal order, where the consumer is not given the opportunity to inspect goods.

Your right to protection in terms of trade coupons and similar promotions
- Persons are not permitted to make promotional offers with the intention of not fulfilling them, or fulfilling them in a manner other than as offered.

Your right to protection in customer loyalty programmes
- Persons must not offer participation in a loyalty programme, or offer any loyalty credit or award with the intention of not providing it or providing it in a manner other than as offered.

Customer loyalty programmes are loyalty credits or awards, which are a legal medium of exchange when offered or tendered as consideration for any goods or services offered, or transactions contemplated, in terms of such loyalty programmes/credits/awards.

Consumer Right No. 6 *Right to Fair and Honest Dealing*

Your right to protection against unconscionable conduct
- **Suppliers are not permitted to use physical force against consumers, coercion, undue influence, pressure, duress, harassment, unfair tactics or any other similar conduct**

Unconscionable conduct refers to behaviour that is unethical or improper.

Your right to protection against false, misleading or deceptive representations
- Suppliers are not permitted to, directly or indirectly, provide consumers with false, misleading or deceptive representations regarding goods or services; and

Your right to protection against fraudulent schemes and offers
- Persons are not permitted to initiate, sponsor, promote or knowingly participate in communication or activities, with the intent to defraud others.

Your right to protection against pyramid and related schemes

Persons are not permitted to, directly or indirectly, promote or knowingly join, enter into or participate in the following schemes:
- Multiplication schemes (offering interest rates of 20% and above the South African Reserve Bank-regulated repo rate);
- Pyramid schemes (receiving compensation, primarily from the respective recruitment of other participants);
- Chain letter schemes (actively solicit or recruit participants, and obtain compensation for new recruits); or

Your right to assume that suppliers are entitled to sell goods
- Consumers have the right to assume that suppliers have the legal right or authority to supply goods or products that are on sale or promoted by the suppliers.

Procedure for sales by auction
- Suppliers are required, when auctioning goods or products in lots and unless otherwise stated, to auction lots separately, via separate transactions.

Your right to changes, deferrals and waivers, and substitution of goods
- Suppliers are required, in the event of deferrals, waivers and substitutions to original agreements, to treat these as changes to existing agreements and not as grounds to enter into new agreements.

Your right to protection against over-selling and over-booking
- Suppliers are not permitted to accept payment or other consideration for any goods or services, if:They have no intention of supplying those goods or providing those services; and
- They intend to supply goods that are materially different from the goods or services, for which payment was accepted.
- Suppliers are required to honour the supply of goods or services on specified dates, times and other particulars, if committing to such arrangements in reservations or bookings.
- Consumers have the right to demand refunds for full amounts paid in respect of commitments or reservations, together with interest, at prescribed rates, from the dates of payment until the dates of reimbursement.

Consumer Right No. 7 *Right to Fair, Just and Reasonable Terms and Conditions*

Your right to protection against unfair, unreasonable or unjust contract terms
- Suppliers are not permitted to market, supply or enter into an agreement to supply goods or services at prices or terms that are unfair, unreasonable or unjust.

Your right to obtain notice for certain terms and conditions
- Suppliers are required to provide consumers with prior written notice of clauses in agreements that may constitute a potential risk or liability to consumers.

Your right to obtain free copies of agreements/contracts
- Consumers are entitled to obtain free copies or free electronic access to copies of agreements/contracts, irrespective of whether consumers have entered into such agreements/contracts.

Your right to refuse prohibited transactions, agreements, and terms or conditions
Suppliers are not permitted to make a transaction or agreement if the terms and conditions:
- Are contrary to this Act;
- Mislead or deceive consumers;
- Subject the consumers to fraudulent conduct;
- Directly or indirectly deprives consumers of rights in terms of this Act;
- Avoid suppliers' obligations or duties in terms of this Act;
- Limit or exempt suppliers of goods or services from liability for any loss, directly or indirectly attributable to the gross negligence of the suppliers or any persons acting for or controlled by the suppliers;
- Constitute an assumption of risk or liability by the consumers for a loss;
- Impose an obligation on consumers to pay for damage to, or otherwise;
- Require the consumers to enter into supplementary agreements;

- Falsely express an acknowledgement by the consumers that before the agreement was made, no representations or warranties were made in connection with the agreement by the supplier or a person on behalf of the supplier; or
- Require the consumers to forfeit any money to the supplier.

Your right to approach the Court to ensure fair and just conduct, terms and Conditions

- If consumers are not satisfied with the outcomes of the National Consumer Tribunal's investigation into alleged unconscionable, unjust or unfair conduct on the part of the suppliers, they may approach the Court for its further consideration of these matters.

Consumer Right No. 8 *Right to Fair Value, Good Quality and Safety*

Consumers are entitled to the following, when entering into agreements/contracts with suppliers:

- Timely performance and completion of those services;
- Timely notice of any unavoidable delays in the performance of the services;
- High-quality services, which consumers are entitled to expect; and
- Use, delivery or installation of goods that are free of defects and of a quality that persons are generally entitled to expect, if any such goods are required for performance of the services.
- Suppliers are required to remedy any defects in the quality of services performed or goods supplied; or refund the consumers a reasonable portion of the price paid for the services performed and goods supplied, in the event of these being sub-standard.

Your right to safe, good quality goods

- Consumers are entitled to receive goods or services that are of good quality, in good working order and free of any defects, and that comply with any applicable standards set under the Standards Act, No. 29 of 1993 or any other public regulation.

Your right to implied warranty of quality

- In any transaction or agreement pertaining to the supply of goods to consumers, it is an implied provision that the producer or importer, distributor and retailer each warrant that the goods comply with the requirements and standards of being safe, of good quality and durable.
- Consumers are permitted to return goods to suppliers, without penalty and at the suppliers' risk and expense, within a period of six (6) months after delivery of such goods, if the goods are of inferior quality, unsafe or defective.
- Suppliers are obliged to refund, repair or replace the failed, unsafe and defective goods.

- Suppliers are obliged to replace goods or refund the consumer the price paid for the goods within a period of three (3) months after repairs have been done, if the repaired goods are found to be defective, have failed or are considered unsafe.

Your right to a warranty on repaired goods

- Suppliers are obliged to warrant every new or reconditioned part installed during any repair or maintenance work, and the labour required to install it, for a period of three (3) months after the date of installation or a longer period, as the supplier may specify in writing.

Warranties are null and void if consumers are found to be misusing or abusing goods or property, while under warranty.

Your right to receive warnings on the fact and nature of risks

- Suppliers are obliged to make consumers aware of any risks of an unusual character or nature, risks of which consumers could not reasonably be expected to be aware, or which ordinarily alert consumers could not reasonably be expected to contemplate, depending on the specific circumstances or risk that could result in serious injury or death.

Your right to recovery and safe disposal of designated products or components

Your right to have products monitored for safety and/or recalled
- Industry codes will make provision for the return/recall of hazardous, unsafe or defective goods.

Your right to claim damages for injuries caused by unsafe/defective goods
- **Producers, importers, distributors or retailers of any goods are each liable for any harm caused wholly or in part, as a consequence of the following:**
- Supplying any unsafe goods;
- Product failure, defect or hazard in any goods; or
- Inadequate instructions or warnings provided to the consumer pertaining to any hazard arising from or associated with the use of any goods, irrespective of whether the harm resulted from any negligence on the part of the producers, importers, distributors or retailers, as the case may be.

Consumer Right No. 9 *Right to Accountability from Suppliers*

Your right to protection in lay-bye agreements

Consumers are entitled to the following, in lay-bye agreements:
- Purchase goods and services via lay-bye agreements. In this case, if the suppliers fail to deliver any goods, these suppliers must, at the discretion of the consumers, supply equivalent or superior products;
- Full refund of money paid, plus interest; and
- Keep their deposits in an interest-bearing account.

Your right to protection with regard to prepaid certificates, credits and vouchers, and access to prepaid services and service facilities

Suppliers in possession of any prepaid certificates, credits, vouchers, membership fees or other money belonging to the consumers, must do the following:
- Not treat such property as theirs;
- Exercise care, diligence and skill; and

Assume liability for any losses suffered by consumers in this regard.

2. Where can you complain?

The Consumer Protection Act aims to promote consumer activism, by making provision for the accreditation of consumer groups tasked with lodging complaints on behalf of consumers, as well as making available support for activities, such as consumer advice, education, publications, research and alternative dispute resolution through mediation or conciliation.

As such, the Act gives rise to the establishment of the National Consumer Commission, a body assigned to investigate consumer complaints, as well as the National Consumer Tribunal, the latter of which was created by the National Credit Act in September 2006, and is responsible for the adjudication of violations and transgressions of the National Credit Act and the Consumer Protection Act.

Consumer Help Line, via
- **the dti** Customer Contact Centre: 0861 843 384

- **the dti** Office of Consumer Protection (OCP) : (012) 394 1436 / 1558 /1076
- E-mail: contactus@thedti.gov.za
- **the dti** Website: www.thedti.gov.za
- National Consumer Tribunal (NCT): (012) 663 5615
- NCT E-mail: Registry@thenct.org.za
- NCT Website: www.thenct.org.za

Activity 4.14

Answers :

1. In a whole life cover, you pay the premiums until death.

In an endowment cover, there if a fixed term to pay for after which you will receive a payout.

2. You should consider an endowment as it is savings and you will receive the payout before death. This can be used for the purchase of the house.

3.

3.1 D

3.2 B

3.3 A

3.4 I

3.5 H

3.6 C

3.7 G

3.8 E

Activity 4.15

1.

Unemployment benefits : you may claim benefits for up to six months. The claim has to be lodged within six months.

Maternity Benefits: claimants are entitled to 121 days leave. . These benefits are separate from ordinary unemployment benefits.

Illness benefits: you may claim if you are unable to work for more than 14 days. The contributor must agree to receive treatment.

Adoption benefits: payable if adoption involves taking unpaid leave for caring for the child

Dependents benefits: - Payable if the person supporting the household dies. The spoue is entitled to claim.

2.

2.1 When Can You not Claim from the Fund?

- A person who caused the accident cannot claim from the fund. There is only a claim if the accident was caused by someone else's negligent driving.
- You cannot claim if you were the only person and vehicle involved in the accident.

2.2 What Can you claim for?

- Medical expenses.
- Funeral expenses.
- Compensation for pain and suffering.
- Lost earnings if you were unable to work.
- Loss of support. Dependents of the main income provider of the household who was killed in the accident as a result of someone else's negligence can claim loss of support.

3.

3.1 Employees rights:

- Compensation in case of death or injury of employee
- Compensation for medical expenses in case of diseases contracted at work
- Wages while the employee is not working
- Disability payment if the employee is disabled
- Death benefit if the employee dies.

3.2 **Claims Procedure**

- If a worker is injured at work, he should inform their employer as soon as possible.. No claims will be considered if they are not reported within twelve months after the occurrence.
- The employer must then report the injury to the State within seven days of receiving notice of an accident. An employer who fails to do this will be guilty of an offence.
- All employees and employers must submit any relevant information about the incident, and workers must be medically examined by a doctor appointed by the State
- A claim for compensation is lodged on behalf of the employee.
- The State will assess the claim and, if necessary, a formal hearing will be held. If a hearing is held, only legal representatives are entitled to fees.

- Compensation amounts will vary from case to case, and are based on the earnings of the employee at the time of the accident, the severity of the injury, and the minimum and maximum payments allowed by the State.

Activity 4.16

Answers

1. The contract usually commences with a summary which indicates the parties are willing to get into agreement.

2. Minors may not enter into agreement. Or:

    Those lacking mental capacity to understand the conditions (mentally unstable)

    Those intoxicated (alcohol or drugs)

3. The person signs the agreement. It indicates he was willing to abide by the terms and conditions.

4. a consideration is usually an <u>amount</u> for example if property is sold, the amount of the consideration is mentioned , like R 1,2 million Rand.

5. Contract of employment,

Others:

    Purchase and sale

    Alterations and additions

    Security

    Maintenance etc.

Activity 4.17

Answers :

1.

- The area to be painted
- The time to complete the work
- What is included and what is excluded (extent of work)
- The amount payable
- The quality of paint to be used (if not supplied)
- Responsibility for damage (e.g. pipes, cables etc).

2.

- The painter can not complete on time
- Not prepare the area well before painting
- Not use the correct quality paint
- Not clean up after painting
- Request more money for extra work
- Cause damage

Activity 4.18

Answers :

The answers will depend on the contract.

1.

Deposit is indicated on the contract.

The instalment is clearly indicated.

The total amount will have to be calculated if not indicated. Total of instalments and the deposit.

2. You will discover that you paid much more than the cash price.

3. The difference between the two prices is the cost of financing, that is, the interest you paid because you did not pay cash. There are other charges e.g. insurance added to the contract. Also administration fees etc. you become the owner only when you paid the last instalment.

If you had the cash, you should rather pay for it or wait until you have the cash.

Activity 4.19

Answers :

The offeror is DSTV

You are the offeree

Entertainment – viewing

The consideration is a monthly charge depending on the package chosen.

The offeror must do everything possible to ensure that viewer is able to view whenever he feels like it. If there is a problem, he must attend to it.

Activity 4.20 .

Answers

The service providers are :

- Vodacom
- MTN
- Cell C
- Telkom Mobile
- Virgin Mobile

There is general consensus that the cost is high, especially data. Several initiatives were commenced to look into the cost structure and recommendations made.

This will depend on the service provider. Each has its own combinations.

Activity 4.21

Answers

1. The employer uses a table supplied by the receiver of revenue and deducts an approximated amount from the employee's salary and hands it over to the receiver.

These amounts are accumulated and the employee receives a tax IRP 5 certificate from the employer at the end of the year. The employee, if he exceeds the limit (for no submission) will have to submit returns to the receiver at the end of the tax year. The receiver calculates the correct amount payable and compares it with the amount already paid. If he has paid more, he receives a refund. If he has paid less he will have to pay the outstanding amount.

2. Yes it is useful to the employee. Instead of facing a bill at the end of the year, he makes the payment easier by contributing , in instalments, during the year.

3. The learner will make his personal comparison.

Activity 4.22

Answers

1. The amounts are the same.

2. The difference is as follows:

In GST the onus was on the retailer to collect the full amount and pay it over to the receiver. The amount was the same, but the responsibility changes under VAT.

VAT requires all the different participant along the chain to pay their share (tax on the value they add) separately.

There more persons responsible for the payment, and the receiver is more sure of receiving the amounts due to him.

3.

Participant	Value added	Amount	VAT 14%
Farmer	From 0 to 60	60	8,40
Manufacturer	From 60 to 80	20	2,80
Wholesaler	From 80 to 120	40	5,60
Retailer	From 120 to R 200	80	11,20
Total		**200**	**28,00**

The tax is calculated only on the value the participant adds.

SOLUTIONS TO ASSESSMENT

SECTION 4

UNIT 1

Question 1

1.1 D✓✓✓

1.2 B ✓✓✓

1.3 D ✓✓✓ 9

Question 2

2.1 D ✓✓

2.2 E ✓✓

2.3 A ✓✓

2.4 B ✓✓

2.5 C ✓✓ 10

Question 3

3.1 True ✓✓

3.2 True ✓✓

3.3 False ✓✓– Basic ✓

3.4 False ✓✓– Dividend ✓

3.5 False ✓✓– Assurance ✓ 13

Question 4

4.1.1 $2000\ (1+r)^n$ ✓✓

$2000(1.08)^8$

= **<u>R3 701.86</u>** ✓✓✓✓

4.2.2 $1\ 500\ (\ 1.12)^{6}$ ✓✓

= **<u>2 960.73.</u>** ✓✓✓✓ 12

4.2

4.2.1 3 000 /2 = 1 500 shares. ✓✓✓

4.2.2. 1 500 x 7c = R 105,00. ✓✓✓

COMMENT : the return is 7 / 200 x 100 % 3.5%.

Ordinary savings accounts return around the same. Shares should return more. ✓✓✓

She should get the advice of brokers whether she should sell the shares or not. The sale may produce a profit on the sale price or loss. Traders will know. Also they will advise whether she should wait for better dividends in the future depending on the dividend history of this particular business. ✓✓✓

4.3

4.3.1 The value is R 500 000 – R300 000 = <u>R200 000</u> ✓✓✓

4.3.2 200 000/5 = 40 000 preference shares. ✓✓✓

4.3.3 300 000/3 = 100 000 ordinary shares. ✓✓✓

Question 5

Retirement Annuities :

An annuity is an insurance product that pays out income, and can be used as part of a retirement strategy. Annuities are a popular choice for investors who want to receive a steady income stream in retirement.

You make an investment in the annuity, and it then it makes payments to you on a future date or series of dates. The income you receive from an annuity can be made out monthly, quarterly, annually or even in a lump sum payment.
The size of your payments is determined by a variety of factors, including the length of your payment period.

You can opt to receive payments for the rest of your life, or for a set number of years. How much you receive depends on whether you opt for a guaranteed payout (fixed annuity) or a payout stream determined by the performance of your annuity's underlying investments (variable annuity). 10

Unit trusts:

This investment suits those who do not have large amounts of money to invest and are not willing to be exposed to high risk. They are not able to buy shares in blue chip companies as individuals, but they can buy units of shares, combined into a portfolio; these are offered by management companies for unit trusts.

The management company buys shares on the JSE on behalf of investors. When this is divided into equal units and sold to investors. The management company manages the investment on behalf of the investors.

Why invest in Unit trusts?

- Ease of purchase - anyone can purchase unit trusts.
- Provides medium to long term opportunities
- Management is in the hands of professionals.
- Units can be easily sold within a few days
- Returns are less risky than an investment in shares; it will depend on the performance of the company. 10 max

UNIT TWO

Question 1

1.1

The National Credit Act

The new National Credit Act (NCA) came into operation on 1 June 2006. It protects consumers from reckless lending, high interest rates and places greater responsibility on credit providers.

The NCA replaces the Usury Act (governing money lending transactions) including Exemption Notice in terms of which micro lenders operate and the Credit Agreements Act (governing installment sale or "hire purchase" agreements.) any 3 x 2 = 6

THE Consumer Protection Act

The Consumer Protection Act (the CPA) 68 of 2008 was published on 29 April 2009.
Effective from 1 April 2011
It aims to, inter alia
1. To promote a fair, accessible and sustainable marketplace for consumer products and services
2 to establish national norms and standards relating to consumer protection,
3. to provide for improved standards of consumer information,
4. to prohibit certain unfair marketing and business practices,
5. to promote responsible consumer behaviour,
6. to promote a consistent legislative and enforcement framework relating to consumer transactions and agreements, any 3 x 2 = 6

1.2

Debt counselling X Debt rescue

Debt counselling is a service to assist over indebted consumers to develop a repayment plan which is affordable and also acceptable to the credit providers. It concerns:

- Advice on budgeting
- Negotiations with credit providers
- Restructuring of debts. Any 2 x 2 = 4

Debt rescue is a service operated by professionals and is offered because:

- Cases are treated with confidentiality
- It uses specialised attorneys in debt collections
- Operated by professionals Any 2 x 2 = 4

Question 2

2.1 False ✓✓ – it remains for two years (2-5) ✓

2.2 True✓✓

2.3 False ✓✓– you can report to the National Council for Debt Collectors. ✓

2.4 True ✓✓

2.5 True ✓✓

2.6 False ✓✓– it may not exceed R 1,50✓

15

Question 3

Question 3

3.1

You should not avoid unpaid bills with your creditors. Instead, if you are unable to make a payment, rather than let a debit order bounce, or not pay your account at all, make contact with the creditor.

Communication and transparency can prevent blacklisting. Explain what's happening to your creditors, and make sensible and affordable arrangements to try and achieve an up to date account.

When you make contact with your creditor and explain a serious situation to them, most of the time they will be willing to help you handle an emergency. This is especially the case if your account is generally in good standing and they can see it's an exception. On the other hand, leaving the situation by ignoring phone calls and messages from your creditors is not the way to go if you want to avoid getting blacklisted and losing a healthy credit score. 3 x 2 = 6

3.2 List FIVE of the unethical tactics employed by debt collectors. (10)

1. They make threatening calls – to arrest you, sue you, or garnish your wage.
2. They contact family and neighbours in an attempt to get more information about you.
3. Pretend to be debt collectors – (fake) – asking for personal details; they should be able to provide details of the creditor and your details also
4. Target the elderly
5. Make harassing phone calls- call at inconvenient times; outside business hours, place of work,
6. Call you when you are represented by an attorney – provide the details of the attorney and direct all queries to him/her.

Any 5 x 2 = 10

3.3 Consumer rights (10)

10. Right to Equality in the Consumer Market and Protection Against Discriminatory Marketing Practices;
11. Right to Privacy;
12. Right to Choose;
13. Right to Disclosure of Information;
14. Right to Fair and Responsible Marketing;
15. Right to Fair and Honest Dealing;
16. Right to Fair, Just and Reasonable Terms and Conditions;
17. Right to Fair Value, Good Quality and Safety; and
18. Right to Accountability by Suppliers.

Any 5 x 2 = 10

UNIT THREE

Question 1

1.1 D✓✓✓

1.2 D ✓✓✓

1.3 A ✓✓✓ 9

Question 2

2.1 F ✓✓

2.2 E

2.3 G

2.4 B

2.5 D 10

Question 3

3.1 False✓✓. They are usually more. ✓

3.2 True ✓✓

3.3 False✓✓ Burial Insurance ✓

3.4 False ✓✓– the RAF✓

3.5 True ✓✓

13

Question 4

4.1

Insurance is the cover against risk of loss of damage from a situation that may or may not happen.

Example fire- if the fire takes place, the insurer will compensate for the loss. If it does not then no compensation is paid. 4

4.2

Assurance is the payment for a situation that is bound to take place for example death.

When death takes place, the benefits are paid out. 4 8

Shifting a risk refers to the movement of the risk of loss/damage from the insured to the insurer on the payment of the premium ✓✓. E.g. fire insurance ✓

Reducing a risk is the act of minimising risk of loss or damage by taking precautions ✓✓ .Example installing a burglar alarm. ✓

6

4.3

Over insurance – the insured insures for more than the book value. The premium is higher. When damage/loss takes place, only the actual (market) value of the loss is paid out. The insurer loses out. ✓✓✓✓✓

For under insurance:

The insured insures for less than the actual value. When damage/loss takes place, then the average clause applies. Only a portion of the claim is paid out. (Formula may be given also) ✓✓✓✓✓

10

Question 5

5.1 Advantages of Insurance:

The breadwinner can ensure his family is secured after his death ✓✓

Businessmen can insure against financial losses ✓✓

Businessmen are protected from financial losses ✓✓

Employers are protected against claims from employees ✓✓

Debtors can use the policies as security and raise loans ✓✓

Insurance serves as savings. ✓✓

Any 5 x 2 =0

5.2 Non Insurable Risks

Price stability – prices as you know are the result of demand and supply. Because these market forces are changing constantly. It affects the price,. You cannot insure against this. (Example petrol price) ✓✓✓

Changes in Fashion – Customers will buy what is in fashion. When the fashion changes, then they will purchase those new goods that are in fashion, which sometimes leaves the stockists of the older goods in financial problems. ✓✓✓

New inventions – when new production methods and machinery are developed, it leaves some older manufacturers behind. They will need to update or face financial losses. ✓✓✓

5.3 Claims for COIDA

If a worker is injured at work, he should inform their employer as soon as possible.. No claims will be considered if they are not reported within twelve months after the occurrence. ✓✓

The employer must then report the injury to the State within seven days of receiving notice of an accident. An employer who fails to do this will be guilty of an offence. ✓✓

All employees and employers must submit any relevant information about the incident, and workers must be medically examined by a doctor appointed by the State ✓✓

A claim for compensation is lodged on behalf of the employee. ✓✓

The State will assess the claim and, if necessary, a formal hearing will be held. If a hearing is held, only legal representatives are entitled to fees. ✓✓

Compensation amounts will vary from case to case, and are based on the earnings of the employee at the time of the accident, the severity of the injury, and the minimum and maximum payments allowed by the State. ✓✓

Any 5 x 2 = 10

✓(UNIT FOUR

Question 1

What are the elements required in order for a contract to be valid?

1. The parties must have intended to get into agreement ✓✓
2. They must have legal capacity to get into agreement ✓✓
3. One makes an offer and the other must indicate his acceptance✓✓
4. There must be a consideration ✓✓

5. The activity must be legal. ✓✓

10)

Question 2

2.1 *Advantages* to the buyer

Has immediate possession of the article and can use it while paying for it ✓✓

Can afford large items which can improve his lifestyle ✓✓

Can manage payments spread over a period much easier instead of one lump sum ✓✓

To the seller.

Disadvantages

Keeping track of debtors implies more administrative work. ✓✓

Sellers can lose when the buyers defaults or vanishes ✓✓ 10

Question 3

3.1 Duties of a landlord

Deliver the property (make it available) ✓✓

Ensure the acceptable condition of property at beginning and the end ✓✓

Maintain the property✓✓

Ensure that the tenant has undisturbed use of property✓✓ 8

3.2 What would you include in a contract between the landlord and the tenant?(10)

1. Names and addresses of tenant and landlord ✓✓
2. Lease period ✓✓
3. The description of the dwelling to be leased ✓✓
4. The rent, allowing for escalation ✓✓
5. The frequency of the rental payments (e.g. monthly) ✓✓
6. The amount of the security deposit ✓✓
7. Notice period ✓✓

Any 5 x 2 = 10

Question 4

Points you would include in a franchise agreement.

1. The duration of the franchise and renewal if allowed✓✓
2. The investment required✓✓
3. The obligations of both parties✓✓
4. The support offered (training, financing etc) ✓✓
5. The territory allocated to the trading ✓✓
6. Royalties payable and payment due dates ✓✓
7. Advertising policy ✓✓
8. Taxation ✓✓
9. Selling or transferring the franchise ✓✓

Any 5 x 2 = 10

UNIT FIVE

Question 1

1.1 List five types of taxes. (10)

1.2 Distinguish between PAYE and SITE. (12)

1.3 What do you understand by eFiling? (10)

Question 2

Use the following example to illustrate how VAT is calculated and paid. (15)

Product : 1 Mens/Ladies formal shirt.	
Final Price :	R 550,00.
Farmer/producer:	200
Manufacturer	350
Wholesaler	450
Retailer	550

(15)

1.1 Types of Taxes

Income tax

Customs duties /Excise duties

Licensing

Import surcharges

Fuel levy

1.2 PAYE and SITE

PAYE

The employer uses a tax table supplied by the Receiver of Revenue to calculate and deduct the taxes which the employee will be liable for, on a monthly basis. This amount is handed over to the Receiver of Revenue during the course of the year so that the employee accumulates a tax credit. These decisions are approximations and are not accurate as the final calculation takes into account may other items such a medical aid contributions and expenses, travelling expenses pension deductions as well as additional income like interest earned on investment.

When the final calculation is done, the amount is compared with the amounts already paid by the employee monthly. If he has paid more than the calculated amount, he is given a refund or if the amount paid is less he is required to pay the difference to the Receiver.

The system of PAYE was introduced In order to make it easier for the workers to pay their taxes, 6 max

SITE

SITE was designed to improve the final tax deduction system and 'virtually' eliminate any tax refunds. It was also aimed at simplifying the administration of income tax collection.

Under the SITE system, employers, using a table drawn up by the Receiver of Revenue, calculate a certain amount of an employee's tax as the minimum amount to be paid. As such it constitutes a final or minimum liability for income tax and is not refundable, except in certain stipulated circumstances.
All employees who derive a net remuneration that does not exceed a certain annual limit (determined from time to time by the receiver) are subject to SITE If your income falls below this limit, you are not required to submit a tax return. If your net remuneration exceeds this prescribed limit, you have to register as a taxpayer and submit a tax return.

6 max

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E-filing:

SARS eFiling is a free, online process for the submission of returns and declarations and other related services. This free service allows taxpayers, tax practitioners and businesses to register free of charge and submit returns and declarations, make payments and perform a number of other interactions with SARS in a secure online environment.

Taxpayers registered for eFiling can engage with SARS online for the submission of returns and declarations and payments in respect of taxes, duties, levies and contributions.

To enjoy the full benefits and convenience of eFiling, you need to first register to gain secure access to your own tax information. To register as an eFiler go to the SARS eFiling website www.sarsefiling.co.za and click on the REGISTER button. You will be guided through a six-step process, which will take between five and ten minutes to complete. You will be given a Username to login to your profile.
Registration for and the use of eFiling is free. All you need is internet access.

To complete the registration process you will need:

- Your tax registration number/s
- Your ID number
- Your personal details

10

Question 3

The explanation will be based on the following calculations.

	Value added		VAT @14%	PAID charged and paid over	Actual payment
Farmer	1- 200	200	28	28 – 0 =	28
Manufacturer	200-350	150	21	49 – 28	21
Wholesaler	350- 450	100	14	63 – 49	14
Retailer	450 – 550	100	14	77-63	14
Consumer	550		**77**		77

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