



African Footprint

Technical Newsletter of the Crowe Horwath International African firms

Issue 18 - February 2016

Horwath HTL Expands its Presence in Africa

According to the World Travel and Tourism Council (WTTC), travel and tourism in Africa contributed an estimated US\$196,8 billion to GDP in 2014 and accounted for an estimated 20,5 million jobs. The sector is anticipated to attract a forecast US\$46,8 billion in capital investment in 2025.

Since the year 2000, Horwath HTL's Cape Town, South Africa office has provided hotel, tourism and leisure-related services across the African Continent. In response to a growing demand for these services, the Horwath HTL Group is expanding its presence across the African Continent with the opening of two new offices in 2016: Kigali, Rwanda and Abidjan, Ivory Coast.

Horwath HTL is the world's largest hospitality consulting group with forty-five offices across the world providing expert local knowledge. Since 1915, the Group have provided impartial, specialist advice to clients and are recognized as the founders of the Uniform System of Accounts which subsequently has become the industry standard for hospitality accounting.

The Horwath HTL Group offer services that cover the whole life cycle of hotel real estate and the tourism and leisure industry. These services are grouped into six business lines; namely:

- Hotel Asset Management, including for example owner's representation and operator search;
- Hotel Planning and Development, including for example feasibility studies and best use of land analysis;
- Tourism and Leisure, including for example destination development strategies and project management assistance;
- Corporate Strategic Advice, including for example strategic & operational restructuring and transactional support services;
- Hotel Valuations, including short form annual valuations, feasibility studies undertaken for hotel viability purposes on new developments, conversions & existing operations and expert witness / rent reviews/ lease renewals; and

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Feedback from our Readers!

Should you wish a specific topic to be covered in our next issue, please let us know by emailing your request to our editor kent.karro@crowehorwath.co.za

- Health and Wellness, with a dedicated team specializing in three key areas: market research & feasibility, concept development and executive recruitment.

Nothing can replace judgement and advice from professionals with the experience, qualifications and international liaisons necessary for sound decision-making. Horwath HTL member firm consultants have the skills and the experience needed to focus on the important issues, decipher the complex ones, and help clients achieve results.

For more information regarding the Horwath HTL Group, visit our website (www.HorwathHTL.com) or contact the principals of our Africa-based offices:

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Captive Insurance Act

On the 11th December 2015, the Captive Insurance Act (the “Act”) was passed by the Mauritian National Assembly, with the aim of providing a specific legislative framework for the development of the captive insurance sector. Different sections of the Act come into force on dates to be fixed by proclamation.

The Act governs only pure captive insurance business, that is, the business of undertaking liability restricted exclusively to the risks of the parent and affiliated corporations. In this respect, the Act provides for the licensing process, governance and post licensing obligations of the captive insurer and relevant associated stakeholders – for instance the captive insurance agent, insurance manager, policyholder(s) and others. The captive insurance business is also extended to Global Business Category One companies.

Currently, only pure captive insurance business is regulated by the Act, while other types of captive insurance business will continue to be regulated under the Insurance Act (the “IA”). Any external insurer carrying on a category of captive insurance business immediately before the coming into operation of the Act must apply for a new licence under the Act, within 12 months of the Act coming into force.

While the Act provides for restrictions in terms of the classes or policies to be offered to potential policy subscribers, the permissible classes include a contract of insurance or reinsurance pertaining to general insurance business, an Alternative Risk Transfer (ART) policy contract and any other class or type of insurance business as may be prescribed.

The Act has also contains amendments to the Insurance Act and the Second Schedule of the Income Tax Act providing for a tax holiday on income derived by licensed captive insurers during a period not exceeding 10 years, from the date of commencement of the Act. In relation to the technical provisions applicable to pure captive insurance business, for instance minimal capital requirements and solvency margins, the Financial Services Commission (FSC) will issue Regulations or FSC Rules.

Source : FSC Mauritius

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South Africa - 2016 Tax Proposals

South Africa's current Minister of Finance, Pravin Gordhan, delivered his much anticipated 2016 Budget Speech to Parliament on 24 February. Great emphasis was placed on the need to cut down on government expenditure as he announced some spending plans and efficiency measures to be implemented. These, along with proposals to increase revenue collection, are expected to narrow the budget deficit and stabilise debt growth.

Amongst the medium-term tax policy considerations mentioned were:

- The possibility of increasing indirect taxes in future. The balance between taxes on income (direct taxes) and consumption (indirect taxes) remains important, and following the increase in marginal income tax rates in the previous year, the current tax mix suggests that there may be greater room to increase indirect taxes, such as VAT.
- Increased focus on multinational tax avoidance and evasion and working with other countries to combat base erosion and profit shifting. Government has taken the following steps in this area
- Improving the quality of information firms must provide to the South African Revenue Service (SARS), enabling it to identify aggressive or abusive tax-planning schemes.
- Taking action on transfer pricing. Large multinationals will be required to submit reports for each country in which they do business to the tax authority where their head office is located. Tax authorities will share this information starting in 2018. SARS will have access to country-by-country information on all large multinationals operating in South Africa.
- Enhancing rules on foreign companies controlled by a South African resident, so that a portion of profits earned by a South African-owned subsidiary operating in another country is taxed in South Africa if no meaningful economic activity took place in the other country.
- Introducing rules that limit excessive interest deductions.

In addition to raising revenues, the 2016 tax proposals are aligned with broader goals of reducing inequality, developing skills, encouraging environmental sustainability and promoting public health. Below is a summary of some of the more pertinent proposed changes to the tax legislation.

INDIVIDUALS

Tax rates

The maximum marginal tax rate remains unchanged at 41%. The primary rebate and the bottom three income brackets were adjusted by 1.8 per cent and 3.4 per cent respectively to reduce the impact of inflation on lower- and middle-income earners.

Retirement savings

From 1 March 2016 changes to the tax treatment of contributions to retirement savings and how they are withdrawn at retirement comes into effect. The requirement for provident fund members to annuitise has been postponed to 1 March 2018.

Bursary incentives

To support skills development, the fringe benefit tax exemption thresholds for bursaries provided to employees or their relatives will be increased. The income eligibility threshold for employees to access the relief will be increased from R250 000 to R400 000. The value of qualifying bursaries will be increased from R10 000 to R15 000 for basic education, and from R30 000 to R40 000 for higher education.

CAPITAL GAINS TAX

The inclusion rate of capital gains has increased for individuals to 40% and for companies and trusts to 80%. This will bring the effective tax rate on capital gains to 16.4% for individuals, 22.4% for companies and 32.8% for trusts.

COMPANIES

Learnership and employment tax incentives

The current incentives will expire towards the end of 2016. Government is currently reviewing data on these incentives, and may consider extending the incentives by one year.

Education based public benefit activities

A proposal was made to consider expanding the list of public benefit education and training activities to accommodate industry based training organisations, which would exempt them from tax.

Research and Development (R&D)

The Department of Science and Technology is investigating the challenges faced by businesses to access the R&D tax incentive. Proposals to enhance the initiative will be considered after April 2016.

Infrastructure investment in mining communities

The Mining Charter requires companies to invest in communities where they operate. It is typically agreed that a company will build housing, hospitals, schools and recreational facilities to benefit workers and communities. Companies can only deduct such capital expenditure if it relates directly to employees. Government proposes that the same relief be provided for community-related expenditure agreed to in a community-endorsed social and labour plan.

Encouraging the manufacture of clean fuels

Compliance with new fuel specifications will require an estimated R40 billion in capital expenditure by South African oil refineries. Government proposes to provide an accelerated depreciation allowance for a limited time, allowing qualifying capital expenditure to be deducted over a three-year period, instead of the normal five years.

Renewable energy incentives

Over the past several years, government has provided incentives to encourage investment in renewable energy through targeted accelerated depreciation allowances. Government will consider enhancing existing provisions to include some necessary indirect infrastructure costs.

TRUSTS

It is proposed that assets transferred to a trust by way of a loan to the trust are included in the assets of the founder at death and be subject to estate duty. Interest free loans may be categorised as donations and subject to donations tax. Consideration is being given to limiting the use of discretionary trusts for income splitting.

SPECIAL VOLUNTARY DISCLOSURE

South Africa's voluntary disclosure programme gives non-compliant taxpayers the opportunity to correct their tax affairs. With the advent of the automatic exchange of financial information between tax authorities coming into effect in 2017, it is proposed that the voluntary disclosure rules be relaxed for 6 months from 1 October 2016 for non-compliant taxpayers to disclose offshore assets and income.

INTERNATIONAL

Withholding tax on service fees

The previously announced withholding tax on service fees has been withdrawn. It is proposed that service fees paid to non-residents must be dealt with under the provisions of reportable arrangements.

Hybrid debt instruments

Government will implement measures, effective 24 February 2016, to eliminate mismatches associated with hybrid debt instruments where the issuer is not a South African resident taxpayer as such situations potentially result in double non-taxation.

OTHER TAXES

Transfer duty

The transfer duty rate on property sales above R10 million will increase to 13% from 11% from 1 March 2016.

Tyre levy

A tyre levy of R2.30 per kg of tyre will be implemented with effect from 1 October 2016. The levy will replace current fee arrangements for tyres.

Sugar tax

Obesity stemming from overconsumption of sugar is a global concern. Over the past 30 years the problem has grown in South Africa, which has the worst obesity ranking in sub-Saharan Africa, and led to greater risk of heart disease, diabetes and cancer. Fiscal interventions such as taxes are increasingly recognised as complementary tools to help tackle this epidemic. Government proposes to introduce such a tax on 1 April 2017 to help reduce excessive sugar intake.

Source: Minister of Finance. 2016. Budget Speech – Chapter 4: Revenue trends and tax policy [Online] Available from: <http://www.treasury.gov.za/documents/national%20budget/2016/review/chapter%204.pdf>

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Major Incident Planning and Revisiting International Accounting Standard (IAS) 37

2015 recorded major incidents across the world, from the flooding around Great Britain and hurricanes in the Western Hemisphere to major earthquakes. As businesses turn towards increased globalization, events in other countries may impact business in your territory.

Whilst most major incidents result in a negative impact to a business's financial statements, there are instances, where the impact is positive. For example, a San Francisco based Semiconductor company's shares went up when their factory in the Far East was the only one not affected by a particularly heavy downpour. The reason was that they were one of the few companies who were able to make their deliveries, on time.

However, not all companies are as lucky. As a Chartered Accountant in business, we need to consider two aspects of major incident planning. The clue of course, is in the name.

Planning is always essential for any organization. From budgets to marketing strategies, careful planning can help to mitigate risks. With adequate policies and procedures in place, companies can identify key risks and ensure they have adequate resources or insurance in place. This would provide stability and avoid the need to have a material contingent liability in the Financial Statements.

The other aspect not surprisingly, is dealing with the major incident. Those with adequate insurance cover would be likely have the need for smaller provisions, in order to deal with bringing the business back to usual.

Regardless of insurance cover, depending on the nature of the incident, provisions will also have to be made to cover staff overtime, demurrage and the list really is endless.

IAS 37 carefully sets out the definitions and criteria to determine which expenses should be provided for and those which need to be recognized as contingent.



Zayd Maniar
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Dubai

Crowe Horwath Fiduciaire des Mascareignes - New Offices

Our new office at 1 rue Roland Garros in Saint Denis de le Réunion was inaugurated on 15 December with the presence of Mr Christophe Rocard President of Crowe Horwath France and our Malagasy partner.

We were glad to share the values of our international signature to reinforce our presence for our clients' interests in the Indian Ocean and the neighbouring countries and islands.

Some VIP were present including the mayor of Saint Denis. Several guests and clients were there to share this special event for Crowe Horwath Fiduciaire des Mascareignes in Réunions island.

Omarjee Shazia
Crowe Horwath Fiduciaire des Mascareignes
Réunion



Accounting for Leases

On 13 January 2016, the International Accounting Standards Board (IASB) issued the long awaited new standard on lease accounting, IFRS 16 Leases.

The new standard introduces a single lessee model for lessee accounting, but contains little change to existing lessor accounting. The new standard requires:

- All leases to be presented on the balance sheet;
- Interest and depreciation presented separately in the income statement; and
- Cash paid split into principal (financing activities) and interest (operating or financing activities) in the cash flow statement.

The new definition of a lease is similar to the existing definition, but the guidance on "control" changes is based on the ability to direct the use and obtain the benefits from use.

The standard also contains optional recognition exemptions. These apply to:

- Short-term leases, which are leases with a term of less than twelve months; and
- Low-value asset leases, which are leased assets with a value of less than US \$5,000 such as personal computers, office furniture and mobile phones.

According to the new standard, lease assets and liabilities will be measured on a present value basis. Lease payments will:

- be those payable during a non-cancellable period plus optional periods that the lessee is reasonably certain to exercise;
- include fixed payments and inflation-linked payments; and
- exclude variable payments linked to future sales or use.

The discount rate will be the rate in the contract, or the lessee's incremental borrowing rate.

The standard contains detailed transitional requirements and full retrospective accounting is not mandatory. A modified retrospective approach will be permitted for the transition, enabling existing finance lease accounting to be carried forward, and simplifying the transition for operating leases, including no restatement of comparatives. The effective date of the standard is for periods commencing on or after 1 January 2019. Early adoption is permitted.

Matthew Stallabross, partner in the UK member firm of Crowe Horwath International, and a member of Crowe Horwath International's IFRS Leadership Group commented as follows about IFRS 16:

"This is a radical change in the accounting for leases that will have significant implications for many companies applying IFRS. For the first time operating leases, including property leases, will be recognised on the balance sheet increasing companies' assets and liabilities. IFRS 16 will also change reporting in the Income Statement with a rental expense on operating leases being replaced by an interest and amortisation charge. These changes will result in an increase in EBITDA but deterioration in gearing ratios. Companies will need to carefully assess the impact and may need to engage key stakeholders early to explain the implications, particularly if it affects compliance with banking covenants.

It is disappointing, however, that after a project lasting 10 years, the new standard is not fully converged with US GAAP. Whilst both standards bring operating leases on balance sheet, US GAAP will retain the distinction in the Income Statement, continuing to recognise a rental expense. In my opinion this treatment better aligns financial reporting with the underlying cash flows and hence gives a fairer presentation than the approach taken in IFRS 16.



The new standard, which is applicable for periods commencing on or after 1 January 2019, will require leases to be reassessed and adjustments made on transition. This will impose costs on companies, which many will not welcome given that they will have incurred costs, and processed restatements, in applying IFRS 15 Revenue in the previous year. Having two significant changes in such quick succession may impose a particular burden on smaller listed companies with fewer resources and the IASB should give this problem greater consideration when deciding effective dates for future standards."

More details about IFRS 16 can be found on the IASB's website.

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Crowe Horwath - Africa Report

Dear Crowe Horwath Colleagues in Africa,
Most of us are just back from the recent Africa and Middle-East meeting held in Johannesburg. It was a very successful meeting, especially from an African perspective. Most of our firms on the Continent were represented, and for the first time perhaps, we could really feel that we have reached a level where our footprint covers most of Africa. We had excellent growth in Africa and the Middle-East in 2015 : according to the recently published Global Survey of the International Accounting Bulletin we have moved from the 11th position in the ranking to the 9th with a global growth of more than 17% in US\$: congratulations to you all!

A few years back we were only represented in a handful of countries and we now cover the most important centres in Africa. We are still working on increasing our presence and we are hopeful to admit new member firms soon in French speaking Africa and Malawi. We are also targeting more countries where we do not yet have a presence, such as, among others, Ghana, Botswana and Mozambique.

We also felt that there was a very good momentum as far as service lines are concerned. Audit & Assurance have made much progress over the past years, and the support of Cephass Osoro has been very important. Similarly we now feel that the efforts of Kent Karro to develop tax on the Continent will really start to bear fruit, with the support of Chris Msuya, now a member of the EMEA Tax Committee and of Jiri Vanhuynegem, a member of the Global VAT Committee. Jiri, who stepped down from his position as Chairman of the EMEA Tax committee to relocate to Mauritius, and who will no doubt be an excellent asset in Africa. We hope to see many of you at the forthcoming EMEA Tax meeting which will take place in Dubai on 18 and 19 April.

MEA Conference, South Africa

Crowe Horwath in South Africa recently hosted the 4th combined Middle East and African partners meeting in Johannesburg, South Africa. The meeting was well attended with 30 odd delegates from over 15 different countries.

We were honoured to be joined by Kevin McGrath and Bernard Delomenie, both who presented important sessions on the future developments in the network. Mike Varney from Crowe LLP in the USA also presented a one day introductory course on risk consulting.

The meeting provided lots of time for networking between our colleagues and it was once again a good platform for improving the working relationships between firms in our region.

Crowe Horwath in South Africa wish to thank all the delegates for attending and making the meeting the success that it was. We also wish to thank the local team of Monique Ross and Bonnie Smith as well as Robyn Zappola and her team in the USA for all the background work in ensuring that the registrations and the conference as a whole ran smoothly.

Regarding Industry lines, we continue to develop our presence in the Not for Profit sector, under the leadership of Pesh Framjee, and with the invaluable support of Erastus Omolo and his team in Kenya. We also have a new Horwath HTL presence in Rwanda, following the relocation to Africa of Frank Mustaff. I have known Frank for many years and was happy to see that he will now be supporting Michele de Witt to develop our presence in this field in East Africa. Hopefully more will join in the future.

During this meeting Kevin McGrath, our Global CEO, gave us his first presentation about the future business design of our network from a digital perspective and its impact on brand name and brand naming conventions. These are necessary considerations as we pursue our goal of being well branded among the global networks.

To accomplish this goal, maintaining status quo is not an option. We will need to invest in developing a stronger, more cohesive, more impactful global brand. This will require that we make some collective choices as to how best to prepare for our future. We have carefully listened to your thoughts as we look to make the right choice for our network.

By always working more closely together, I am convinced that we are on the right path to becoming one of the top networks in Africa,

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