

The Cane Grower

The Newsletter of the South African Cane Growers' Association
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Update on Legislation

By OCM Finnemore – Director: Economic Services

In previous newsletters, information has been provided on the new Companies Act as well as SARS' changes to PAYE requirements. This article serves to update growers on further developments with tax legislation relating to Pay As you Earn (PAYE).

Companies Act:

After some delay, the Companies Act 2008 has been approved by President Zuma, and comes into effect on 1 May 2011. Companies have a two year period to comply with the new Companies Act, starting 1 May 2011. There are a number of differences between the "old" Companies Act, 1973 and the new Act. The effect of these changes on growers operating a CC or Company will be circulated in a number of short communications in The Cane Grower.

Under the new Companies Act, close corporations will continue to exist for the foreseeable future. However, no new close corporations may be registered after 1 May 2011. If a grower had sent in an application to register a close corporation prior to 1 May 2011, these applications will be processed.

PAYE:

In the August 2010 issue of The Cane Grower, it was reported that SARS had implemented new changes to the legislation dealing with PAYE.

With effect from 3 June 2011, SARS will implement administrative penalties for taxpayers who do not comply with the new PAYE changes. These penalties will apply to employers who do not submit their annual EMP501 declarations by that date. Penalties will also be applied where incorrect, incomplete and inaccurate data has been submitted. The administrative penalty is equal to 10% of the total PAYE paid for the period of non-compliance. However, there will be provision for an employer to request the remission of the penalty, says SARS.

In response to questions raised by employers, SARS has

published replies, a sample of which are highlighted below. Anyone who would like the full list of questions as well as the information sent by SARS, please contact Olivia Finnemore on ofinnemore@canegrowers.co.za.

Employer: "We employ contract workers during the year and pay their UIF to SARS monthly but do not have their details to register them for income tax. How will I be able to reconcile my UIF account without registering them?"

SARS: *You would have to provide an IT3A to such employees because they are in receipt of remuneration which is probably below the tax threshold where only UIF is payable and they need to have that detail. So you cannot get away with not having details of the employees. So exactly the same detail is required to be had on these employees and you need to register them in terms of the process. So it does not depend on whether a person is liable for tax or not whether you are going to register them.*

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The consequences of under-loading: Sezela case study

By W Gillham and K Cole

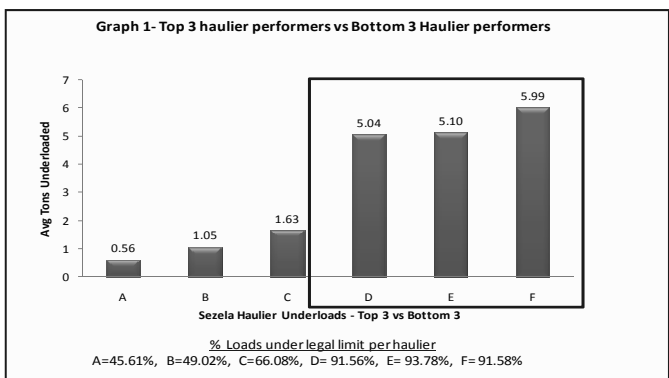
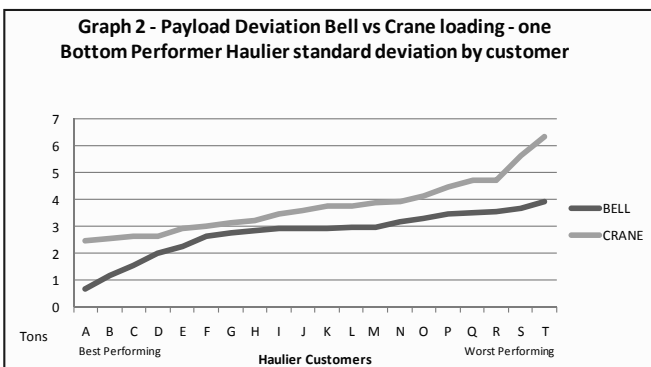
During the last 24 months, great progress has been made with regard to implementing overload strategies and regulations as a result of the adoption of Road Transport Management System (RTMS). Whilst there has been a dramatic decline in the number of over-load tons recorded over mill weigh-bridges, as mentioned in The Cane Grower November 2010 issue, the focus of growers and hauliers should now shift to dealing with the economic issue of under-loading. This article will examine the extent of underloading at Sezela and the associated costs and provides some advice to minimizing under-loading.

Standard Deviation between Hauliers: The difference in the weighted average standard deviation per load between top and bottom performers is 4.07 tons. This difference can equate to one load saved for every seven and a half loads hauled which will impact on vehicle utilisation. *Based on an average payload of 30 tons*

Payload Standard Deviation – Bell loader vs Crane loader: When comparing the standard deviation between bell and crane loading for one of the bottom performer hauliers (no load cells), it is evident that loading with a bell produced better results. It should be noted that there are instances in the industry where accurate loading is achieved with crane loading by recording and managing stack weights and knowing the legal loading capacity of specific haulage vehicles. Therefore large hauliers who dispatch vehicles with different configurations to customers exacerbate the problem of incorrect load mass unless loading is carefully managed at the zone all of the time..

Table 1: Extent of under-loading at Sezela 2010:

Tons Cane	No Loads	Ave.% loads under Code (max. legal carrying cap.)	Ave. Extent Under-loads per load—tons
133 725	37 500	82.8	3.56



In noting graph 1 and table 1:

	Top Performers	Bottom Performers
Load Cells	✓	
Bell loading only	✓	
Small Customer base	✓	
Bell and Crane loading		✓
Large Customer base		✓

The top performers recorded fewer under-loads while the bottom performers recorded loads consistently below the code (above 90%). In 2008, 66% of loads delivered to Sezela were under-loaded, which increased to 82.8% during 2010. In 2008 the average extent of under-loads was 3.53 tons per load, which increased marginally to 3.56 tons in 2010. While this average is almost the same, the range of the average extent of under-loads has increased with top performers (with load cells), performing a lot better than in 2008, and the bottom performers (without load cells), performing a lot worse than in 2008.

Monitor and Evaluate: Education of growers and hauliers about the cost of under-loading as well as the importance of careful zone management, will contribute to reducing costs and improving cane haulage efficiency. Transport or efficiency committees in the mill areas should consider a reporting structure to provide relevant information to hauliers and growers enabling a “real time” decision and action process to limit or reduce under-loading. In4me2 does exactly that, it provides real time information to hauliers to effect immediate action (www.in4me2.com). There are a number of variables which will affect payload and all these require is better management which will result in reducing under-loads as well as over-loads.

Considerable opportunities exist at Sezela to reduce under-loading and achieve reduced costs and improved efficiency. Hauliers and growers need to drive the elimination of under-loading by the:

- Introduction of load cells (if not yet in use).
- Choice of loader.
- Close monitoring and management of the loading operation.

Given that the average cost of transporting one ton of sugarcane over an average distance of 36km is

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All employees must register for tax.”

Employer: “We employed a Zimbabwean with only a 3-month asylum seeker temporary permit from Home Affairs. How do we obtain a tax number for this person?

SARS: *We require that person to be registered as well. In most instances such asylum seekers do have a passport, so they can register.”*

Employer: “Do employers who do not have employees paying PAYE and paying UIF directly to UIF office have to do IRP5s on e@syfile?

SARS: *The fact that an employer pays the UI to the UIF Commissioner does not exempt the employer from submitting an IRP3A to SARS. So they still have to do that. They don't get away from doing that even though they are paying the UI to the UIF Commissioner, they are accountable to SARS to tell us how much wages a person got in the year.”*

Employer: “Will employees (e.g. Zimbabwean nationals under the tax threshold with a passport) who do not need to pay tax also be included in the employee registration update from SARS?

SARS: *Yes, if they provided the data to us. The onus is on the employer to make sure they have the correct data on their employees, such as address, ID number or passport number etc. We want to ensure that all people who are economically active have their details on our PAYE system.”*

As can be seen from the above, there are a number of onerous requirements to comply with SARS legislation. Growers are advised to discuss these requirements with their accountants to ensure that they are not liable for the penalty enforced by SARS. ●

DISCLAIMER

The Cane Grower is the official newsletter of the South African Cane Growers Association [CANEGROWERS]. Articles included in the newsletter are published with the intention of generating interest and debate in the various issues and to provide information to our readership. Contributions are welcome, but the right to edit any contribution is reserved. The opinions expressed in any published article or insert do not necessarily reflect the opinion of CANEGROWERS.

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approximately R49.25, the theoretical financial loss due to un-used capacity at Sezela is estimated to be R6 586 000 per annum, or R4.04 per ton on a total crop of 1 629 000 tons.

A further benefit would be the reduction of the required transport fleet by an estimated 3-4 vehicles. This will translate into substantial capital and operational cost savings in the region of R7m of capital investment and R3.45 of operational costs.¹ ●

¹Acknowledgment is given to R Giles of Crickmay and Associates and V Thornhill of Illovo Sugar Sezela for assistance with statistical data.

²Acknowledgement to K Cole and PW Lyne for Loading Results and The Effect of Variety on Payload—2009.

Drought Relief

CANEGROWERS' leadership has actively interacted with Government and related organisations to obtain access to finance for growers for drought relief needs. Constructive discussions with the Land Bank have culminated in a facility being made available for agriculture to assist farmers affected by floods and drought. A concessionary interest rate of 3.5% will apply to funds loaned through this facility.

CANEGROWERS has negotiated with Land Bank Management that its resources be utilised to assist the Land Bank to process growers' applications for funding in terms of this relief scheme. It is intended that the funds accessed will be utilised to finance farm infrastructure or replanting programmes that are required as a result of the drought conditions experienced during the past season.

Details of the requirements to support an application by an individual or a legal entity for a loan in terms of this facility will be available in due course from the Land Bank's and CANEGROWERS' regional offices. CANEGROWERS has obtained a special dispensation for growers affected by drought conditions regarding the requirement of farming in a proclaimed drought area. It must be noted that applicants must comply with the Land Bank's standing credit requirements in order for a loan to be approved.

At this stage, the total funds available for the agricultural sector has been capped at R250 million. Growers who wish to avail themselves of this opportunity are encouraged to have their application and supporting documents/requirements submitted for processing as soon as possible.

For further information, please contact:

Your Regional Office or Dr Stuart Ferrer
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Looking ahead

With all mills, apart from the Umzimkulu mill, open for the crushing of cane at this time, it is apparent that there are differing expectations by growers for the 2011/12 season. In those areas ravaged by the drought of 2010/11, it is hoped that the recent rains will go some way towards resuscitating the cane crop and allow the areas of lost and damaged roots to be replanted. It is clear, however, that any recovery in the crop and grower finances will not be achieved in one season. Careful crop and financial management will be required. In those mill areas that saw a normal crop last season, the expectation is for a similar level of crop this year. The crush in the early months of the 2011/12 season will give an indication of the cane quality and yields that will be experienced this year. ●

Productivity Surveys

By Dr SD Ferrer—Manager: Economic Research

Surveys continue to be a vital source of information for CANEGROWERS. The reliable and credible data obtained from the surveys are used by a number of stakeholders. In this issue, the results of the 2009/10 Large-Scale Grower Cost Survey are highlighted. In the July 2011 issue the results of the Labour Productivity Survey will be published.

The cost trends of Large-Scale Growers (LSG) are monitored on an annual basis. Growers support the survey by returning the survey forms that are mailed to them during the course of each season. A total of 285 survey forms, financial statements and CaneFarms year end reports were received and analysed for the 2009/10 financial year. This represents 18% of the 1577 registered large-scale growers and 29% of the 306 867 hectares of LSG Area Under Cane as at 1 April 2009.

Figure 1 depicts a summary of the cost survey results from 2000/01 to 2009/10. Real (inflation adjusted) Gross Income (GI) per hectare increased by 8.5% and real Operating Expenditure (OE) per hectare decreased by 2.3% in 2009/10. Growth in real GI/ha is attributed to a 12% increase in the RV price together with a small increase in sample yield per hectare. The decline in OE/ha is attributed primarily to a 20% decrease in per hectare expenditure on fertilizer and an 18% decrease in per hectare expenditure on fuel and lubricants. The combination of these factors caused a substantial increase in real Net Operating Income (NOI) of 76.9% in nominal terms or 65.1% in real terms. Due to favourable growth in real NOI/ha, the estimated profitability of sugarcane farming in the 2009/10 season increased to above the 10-year average.

Figure 2 represents the proportions of operating expenditure measured for the 2009/10 season. Significant variability in mechanical expenditures amongst survey respondents was evident, reflecting various methods used by the survey respondents to account for mechanical activities. In general, survey respondents with relatively higher per hectare expenditure on contractor services tend to have lower per hectare expenditure on cane transport, mechanical maintenance and fuel.

Farm Staff and mechanical costs continue to dominate the average grower's budget, together accounting for 52% of OE. This overall proportion is marginally higher than in 2008/09 due to above inflationary growth in expenditure on farm staff. Fertilizer expenditure declined from 23% of operating expenditure in 2008/09 to 18% in 2009/10, but remains higher than in 2007/08. Notably, expenditure on services and irrigation grew by 24% from 2008/09 to 2009/10. ●

Price of Recoverable Value (RV) in Cane

MAY 2011—RV PRICE FOR 2011/12 SEASON

The Sugar Association has declared the MAY 2011 RV price for cane delivered in APRIL 2011:

RV PRICE: R2 817.05 per ton of RV
"d" factor 0.377205

The price is based on a crop of **16 472 288** tons of cane which converts to **1 922 428** tons of sugar at a cane to sugar ratio of **8.57**. The average RV content is **12.30%**.

EXTENSION SERVICE LEVY

The average regional levy (excl. VAT) payable by participating growers for Extension Services for cane delivered during the 2011/12 is:

R0.73 per ton of cane

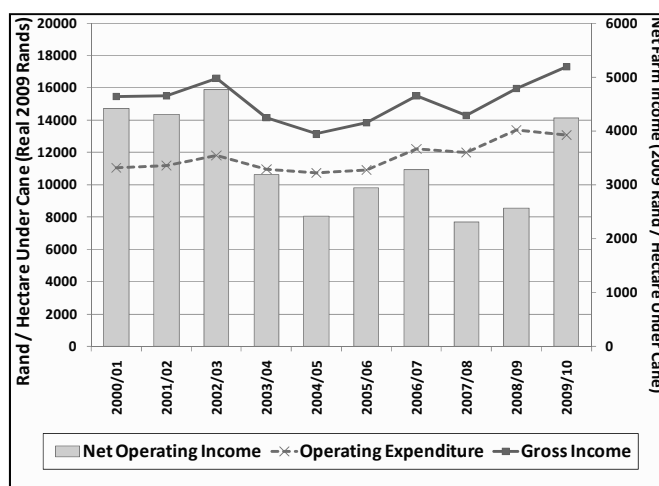


Figure 1: Cost Survey Results—2000/01 to 2009/10

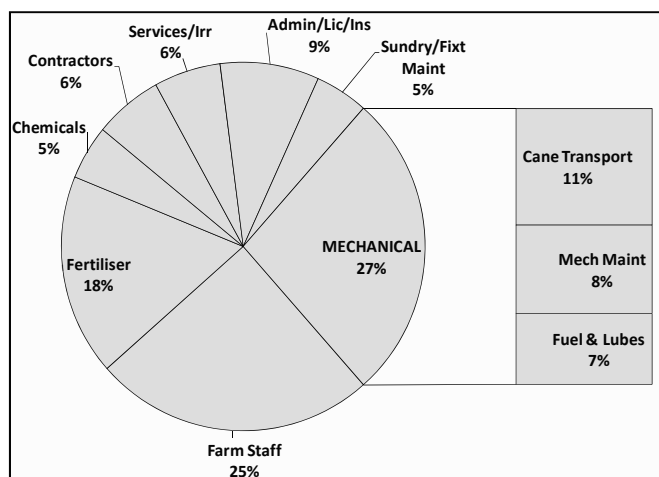


Figure 2: Cost Survey Proportions of Operating Expenditure—2009/10