



# success line

...is our regular bulletin featuring news and developments that assists your success.

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# Moving forward

By Jay Ramesh  
Managing Partner

We are thrilled and have allowed ourselves to be engulfed by all the positive vibes that the new rebranding and renaming exercise has brought in its fold. We are now Grant Thornton, in alignment with the international network of member firms. You would notice that the logo has also changed.

The logo consists of the symbol, the colour and the Grant Thornton 'word mark' together expressing a bold, confident and cohesive global organisation. The evolution of the "Möbius strip" into the Grant Thornton symbol captures the qualities of a continuous band that looks three dimensional – global, permanent, yet constantly flexible. The bright purple colour is predominantly associated worldwide with leadership, dignity and governance.

We had in previous years taken special dispensation to be referred as Grant Thornton Acumen since the Acumen name was identified more with us as a firm. Myself, our founder Raja Ram and Rajendran Varma have all become synonymous with the name of Acumen. Even today the name Acumen brings instant identification and recognition amongst the business community. We remain as energetic as before with the same ACUMEN to accompany you on your road to SUCCESS.

Our succession planning has been very successful and has delivered people with outstanding calibre. They have been retained, mentored and absorbed into our firm's policy board. They are quite well known and are none other than Dinesh Mallan, our Audit partner and Vijay Kalyanaraman, our Specialist Advisory Services partner. They are supported by other accomplished partners and directors in the persons of Joseph Makwinja, Jayaraman Karumathil, Girish Ramakrishna and our most recent partner promotee, Aswin Vaidyanathan.

Our current brigade of partners and directors enable us to forge ahead with service offerings that are wide and deep. We have strengthened and increased the size of our audit team to cater to the increasing demand on Audit services. Our Specialist Advisory Services team now comprises experts in Corporate Finance, Internal Audit and Corporate Recovery and Reorganisation. The age old traditional service lines from many years namely, accounting, taxation and company secretarial services continue functioning in their usual competent manner.

We are very proud that we have successfully climbed the ladder and are positioned as one of the two larger professional services firm in Botswana. This has been made possible only with wholehearted support of our clients and well wishers. We are pleased that we are the Only Credible Alternative to the Big 4. We are a Category of 1.

# Pension Fund – an income tax perspective

By Rajesh Narasimhan

Senior Manager Taxation team

Fund is defined in the Pension and Provident Funds Act Cap 27:03 as being “any scheme or arrangement other than an insurance company scheme but including a trust fund, the principal object of which is to provide benefits for persons who are or have been members of the scheme or arrangement upon their retirement on account of age or ill health, or upon a person completing a fixed period of service

## Superannuation fund

“Approved superannuation fund” is a permanent fund or a scheme which provides for the establishment and administration of such scheme exclusively by an insurer and in either case bona fide established for the purpose of providing such pensions annuities or other benefits as may be prescribed by the Minister

## Approved provident fund

“Approved provident Fund” is a permanent fund or scheme bona fide established for providing such benefits as may be prescribed by the Minister, other than those provided by an approved superannuation fund and

“Approved provident Fund” means a provident fund approved by the Registrar of Pensions and Provident Fund for registration or provisional registration as a provident fund in accordance with the provisions of the Pensions and Provident Funds Act”

In order for the fund to be an independent person, it has to be registered. Further, the fund should be approved by the Commissioner of Taxes in order for it to claim all the relevant provisions of the Income Tax Act.

“Approved benefit Fund” is a fund which, in respect of any tax year, the Commissioner is satisfied is a

permanent fund bona fide established for the purpose or mainly for the purpose of providing sickness accident or unemployment benefits for its members, or widows, children dependents or nominees of deceased members.

## Income tax in the hands of a contributor

### Income source

Any amount received in commutation of pension is taxed in the hands of the individual.

Where an employee elects to withdraw his contributions to an approved superannuation fund in accordance with the rules of the fund and the Income Tax regulations, the whole amount withdrawn shall be deemed to accrue to his income from employment and shall be included in his gross income for the tax year in which the amount was withdrawn.

## Taxation

Where an employer deducts from a resident employee's remuneration the employee's current contribution to an approved superannuation fund, the amount of tax to be deducted shall be calculated on the balance of remuneration remaining after deducting that contribution. Provided that the deduction for any such contribution shall be based in an annual rate not exceeding 15% of the employee's remuneration.

## Collective investment undertaking

Funds are also “collective investment undertakings” and is defined in the Income Tax Act as an undertaking (a) the principle objective of which is the collective investment of its Funds in real or personal property of whatever kind including securities and other liquid financial assets, with the aim of spreading investment risk and giving its members shareholders or unit

holders the benefit of the results of the management of the Funds; and (b) the units of which are, at the request of the holders, redeemed directly or indirectly out of those undertakings assets

Section 22 (1) of the Income Tax Act provides that a collective investment undertaking shall be charged to tax on the undistributed amount of the chargeable income and the amount of the chargeable income that has been distributed to shareholders shall retain its form and be taxed as such in the hands of shareholders.

Section 22 (2) of the Income Tax Act provides that the proceeds of a collective investment undertaking derived in the ordinary course of its business from the sale of shares and securities shall be treated as part of its business income.

The purpose of Section 22 (2) is to charge profit on sale as a revenue gain rather than capital gain, in the hands of a collective investment undertaking.

## Vocational Training

BOTA will soon establish a Vocational Training Fund (VTF) as mandated by the Vocational Training Act of 1998. The objective of this fund is to generate sufficient funds to support skills training by employers and increase skills base at the work place. To generate sufficient funds to support skills training by employers and increase skills base at the work place.

The specific goals of the VTF will be to:

1. Motivate enterprises to train their staff
2. Achieve a more equal share between enterprises in financing training activities
3. Help to bring together supply and demand for training
4. Create new opportunities in the training market
5. Support the goal of cost-sharing in skills development in Botswana

### Operation of the levy

The VTF will be funded by a levy on all employers who have a turnover exceeding P250 000.00. According to the draft regulations the levy rate will be 0.2% of turnover and it will be collected by the VAT authorities and deposited in the VTF.

### Claims procedure

Each company that pays the levy will be entitled to claim grants from the VTF for training of their staff. Such training will have to be for a duration of not more than 10 hours and must be approved training under the BNVQE. Training carried out outside the country will also be recognised provided it meets BOTA's standards.

Companies can claim all the costs of their training annually regardless of how much levy they have paid. Those companies that spend heavily on training their staff will thus be somewhat subsidized by the fund and those who spend very little or nothing on staff training will lose their levy.

# Management Buy Outs – make the leap and become a business owner

By Vijay Kalyanaraman

Partner – Specialist Advisory Services

A Management Buy Out (MBO) is a form of acquisition where a company's existing managers acquire a larger part or all of the company. Buy outs are no longer a rare occurrence in Botswana and it is becoming more and more common as the country unfolds into its boom and the market confidence is much higher than ever before.

MBO's have been quite an active way of acquisition across the world over the past few decades and it is an exciting opportunity for budding managers to become enterprising business owners. The particular nature of the MBO lies in the position of the buyers as managers of the company, and the practical consequences that follow from that. In particular, the due diligence process is likely to be limited as the buyers already have full knowledge of the company available to them. The seller is also unlikely to give any but the most basic warranties to the management, on the basis that the management knows more about the company than the parent company do and therefore the sellers should not have to warrant the state of the company.

However it is vital for the MBO team to be clear about their requirements and perform adequate base work before moving into such transaction. It is important to note that expansion of a business may not be a great challenge – it is managing the expansion which becomes the biggest challenge.

MBOs can provide management an opportunity to generate greater shareholder value, and move a business into a new phase of development. It's also an opportunity to enable the company to become better focused on its business; especially under condition where a division or a subsidiary of a larger group ceases to be a part of the overall strategy and a core activity of the firm. Private equity firms and banks are interested in backing high quality management buyout transactions.

Is the right MBO right for you – it is important to explore the following areas before the successful execution of a MBO.

### **Well balanced management team & healthy internal environment**

An ideal environment is one where the parent company has stated its intent to sell off business units and is prepared to entertain buy out offers. This provides a conducive environment for the management team to step in and make a credible offer that can be taken seriously. When the timing and circumstances are correct, both parties can focus on the primary goal: arriving at a fair price. Further there is an essential need that this should be complemented by the excellent quality of the management as vehemently pointed by the Venture Capitalists ( VC) as the “ 3 M's of VC” to be Management... Management... and again Management!

### **Commercial viability of the MBO**

Before embarking on the MBO one should critically evaluate its commercial viability- History of good performance, positive cash flows and profits are all key factors in financing the buyout. Further, this will also need tangible and intangible assets. Most importantly, it is crucial to visualize how the commercial viability can be maintained and enhanced under the new management. Strength of management team, intellectual property, and customer relationships are all important.

The management team needs to have confidence to create a unique value proposition that is sustainable.

### **Access to capital**

It is essential to test the appetite of the financiers for the transaction with particular relevance as to the perceived manner of getting the deal financed and present with the objective of translating quickly towards the transaction before even approaching the parent company.

Before even discussing the possibility of a MBO with the parent company, it is advisable to speak with commercial banks and private equity firms to understand what level of financing is possible, and at what valuation. This process provides with valuable insight into how these organizations value the business, which greatly facilitates the negotiation with the parent company. It is important in negotiations to demonstrate that the management team is offering a fair price for the business based on what the capital markets will support.

### **Ability to clinch the deal quickly**

Being prepared to consummate the transaction before going to negotiate the deal is critical. In addition to having the financing options tentatively arranged, make sure that one understands the primary deal negotiation points. It is also essential to be prepared to be flexible on representations, warranties, and indemnification.

It is also advisable to have a third party negotiate the transaction with the parent company on the management team's behalf. The primary advantage is that it allows management and ownership to maintain an amicable and positive relationship through the process. It puts the hard work on the shoulders of a third party.

Thus MBO accomplishes the Goal of Self-Actualization and appeals by motivating one to be master of one's own destiny. Management buyouts enable the management team to take control of the business and enable it to achieve its maximum potential. MBO'S inculcate a spirit of business acumen in every manager.

The management buy-out process is complex and time consuming. From the original idea to the final signature usually takes several months. The process involves not only the buy-out team, the parent company and their financial advisers, but also solicitors, bankers, venture capitalists, accountants and perhaps employees, trade unions, customers and suppliers.

As transaction advisors we can guide the buy-out team through each and every stage of the transaction. The process places huge demands on the buy-out team's time while there is still a business to run. As advisers we can alleviate some of these demands.

We provide independent advice and support to help avoid the many pitfalls and to increase the chances of a

successful conclusion to the buy-out.

Specifically we offer complete transaction management including:

- valuation of the business;
- feasibility assessment - both of the business and the proposed buy-out;
- financial structuring - to optimise the terms of the transaction;
- tax planning - to advise on corporate and personal tax planning opportunities, share incentive schemes, VAT and stamp duty;
- capital raising - selection of and approach to the best financial institutions for your needs, and help to secure the funds you require;
- negotiation - on your behalf with your financial backers and the parent company of the business;
- due diligence services - to provide the financial institutions with a complete and independent picture of your business;
- completing the buy-out - as we have been through the buy-out process many times, we are well placed to project manage the transaction to a successful conclusion.

**For more information contact:**

[vijay@grantthornton.co.bw](mailto:vijay@grantthornton.co.bw)

## The Chat line...

...features exciting developments at our firm

### New brand identity

February 19th was a memorable day in Grant Thornton Acumen diary. The new name with the rebranded logo was unveiled on that day. The firm got named to Grant Thornton. As our statement says our people, our passion and our values remain the same. With our new global identity we strive to keep up our business strategy to become a recognized leader in the chosen market and within the global profession. Our colour purple is associated with leadership, dignity and governance. Our tone of voice is threefold: bold, clear and positive.



### Congratulations

Pyoka Mfuni for his successful completion of his professional qualification CIMA. Pyoka joined as a trainee with our firm and has risen to become an Executive.

### Welcome

We would like to welcome all our new recruits who have joined the Grant Thornton family recently. Our firm currently has people with 9 nationalities. Our staff strength currently stands at 130.

### Training

Our training team has been extremely busy with the series of training sessions that have been held to update our staff with the latest Grant Thornton tools and methodologies.

### Achievements

Joseph Makwinja on being appointed to the board of directors of Local Enterprise Authority (LEA). He continues to serve in the board of National Development Bank (NDB).

Jay Ramesh has been the designated as the coordinator of Trade and Industry Sector of High Level Consultation Committee (HLCC) of BOCCIM.

You are always welcome to **contact us...**

### Gaborone

Jay Ramesh  
Acumen Park  
Plot 50370 Fairgrounds  
P O Box 1157  
Gaborone Botswana  
T + 267 3952313  
F + 267 3972357  
E jramesh@grantthornton.co.bw

### Selebi Phikwe

Jayaram Karumathil  
Susan Buildings  
2nd Floor Room 16  
P O Box 1460  
Selebi-Phikwe Botswana  
T + 267 2611860  
F + 267 2611862  
E jayaram@grantthornton.co.bw

### Francistown

Jayaram Karumathil  
Ground Floor  
Botswana Life House  
P O Box 101  
Francistown Botswana  
T +267 2418961  
F +267 2418962  
E jayaram@grantthornton.co.bw

### Editorial Panel

Jay Ramesh, Managing Partner  
Pushpa Ramesh, Marketing Manager  
Rajesh Narasimhan, Senior Manager, Tax

### Disclaimer

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