

Contents:

- e-research
- Share Incentive Schemes
- Remuneration Internship Programme
- Sabbatical Policies
- SARA Events Programme 2006
- GRP Graduates
- GRP Programme 2006
- Reward Research Topics
- Live Membership Database
- IMPSA Award 2006
- Learnership Required
- KwaZulu Natal Branch News
- WorldatWork Courses
- Employment Opportunity
- Website Postings
- Upcoming Events
- New Members
- Editor's Note

e-research

The latest e-research from e-reward has been posted in the library on the SARA website. These reports are for paid-up SARA members and can only be accessed with a password. To view these informative documents go to: [e-research](#)

Issue 38 - Case Study: Elan Computing Relaunches Benefits to Increase Take Up

In this case study, written and researched by e-reward, we see how a relatively small but rapidly growing organisation sought to secure better value from its benefits spend and re-orientate the package so it would be more appealing to its predominantly young and single workforce. Elan Computing was founded in London in 1987 and is now one of the largest information technology and telecommunications recruitment companies in the world. Its current annual turnover is £500 million. Although the company says it provided a substantial benefits package, the workforce had little knowledge or understanding of what was available. The reward strategy for this sales-oriented company is also outlined, as is the way recognition is used as a powerful motivator for both sales and back office staff.

Issue 37 - The e-reward Performance Management Toolkit

Performance management is a strategic and integrated process which delivers sustained success to organisations by improving the performance and capabilities of the people who work in them and by developing the capabilities of individual contributors and teams. The purpose of this e-reward performance management toolkit is to provide practical advice and guidance to anyone in an organisation which wants to review existing performance management systems and processes or develop new ones.

Issue 37A - Sample Documents A – Northern Foods

Issue 37B - Sample Documents B – Teva

Issue 37C - Sample Documents C – Amicus

Issue 37D - Sample Documents D – Groundwork

Issue 37E - Sample Documents E – British Council

Share Incentive Schemes

Tax Implications for Employees Arising from Share Incentive Schemes

This article is part of a series that aims to highlight the increased tax complexities and current trends in the design of share incentive schemes.

Recent developments that include amendments to tax legislation, the adoption of IFRS 2 (Share-based payments) and regulatory requirements calling for improved disclosure and corporate governance have all contributed to a highly complex environment that demands both the re-assessment of existing share schemes as well as careful review of proposed schemes.

Whilst these articles will focus primarily on the tax considerations, the implementation of a successful share incentive scheme should involve a holistic approach that addresses the accounting, regulatory, tax, legal and business strategy of the company. Prior to promulgation of the Revenue Law Amendment Act, No 32 of 2004, the provisions governing the tax treatment of share schemes were housed primarily in section 8A of the Income Tax Act. Whilst these provisions were relatively simple, they did result in a myriad of share incentive schemes ranging from the vanilla share options through to the deferred delivery schemes.

The 2004 amendments essentially introduced two new sections into the Act. Section 8B offers limited tax-free incentives for shares acquired in terms of a “broad-based employee share plan”, whilst section 8C aims to address the weaknesses prevalent in the existing section 8A by extending the basis on which gains and losses are determined and taxed.

The application of sections 8A, 8B and 8C that now govern the normal tax treatment of share incentive schemes as well as the resulting capital gains tax consequences, will be discussed later in greater detail.

For companies, share incentives have historically not impacted on reported earnings, with the result that their only consequence was a dilution in shareholders’ value. International Financial Reporting Standards – particularly IFRS 2 -- now requires the

recognition, through a charge to reported earnings, of the fair value of services that are rewarded through share-based payments.

It is this dilution in earnings that presents a challenge to companies of achieving an alignment of the accounting and tax treatment so as to minimise the after-tax cost of reporting under this new accounting standard.

The 2004 tax amendments also introduced some limited tax incentives for companies where shares are issued to employees in terms of a broad-based share plan.

Implications for Employees

This article focuses on the tax implications for employees arising from share incentive schemes and in particular the application of section 8A in light of the recent amendments to the Income Tax Act.

The taxing of share incentives is not a new concept. Section 8A was inserted into the Act way back in 1969 and has undergone significant amendments over the years. Section 8A still applies to "...any right to acquire any marketable security if such right was obtained by the taxpayer before 26 October 2004". As this section is more lenient than its successor, section 8C, it may be critical to establish the exact date of when a right has been obtained, and whether it falls to be dealt with under section 8A or under the new dispensation.

In this regard the term "obtained" would seem to imply a bilateral agreement having been concluded before 26 October 2004 whereby there has been an offer (by an employer) and an acceptance (by the employee) in respect of a right to acquire the marketable security.

The preferred tax treatment under section 8A is derived from its mechanics which determines and taxes a gain at the time a right is exercised, ceded or released. Where a right is exercised, the taxable gain is determined as the difference between the market value of the share at that time and the consideration paid by the employee for the right and the share.

Any restrictions on the employee's right to dispose of the share only impact on when the gain is then included in income and subject to tax. This tax treatment is totally reworked in section 8C, which extends the determination of the gain until such time as all restrictions on the employee's right to deal in the share have been lifted and the share vests. Draft legislation, released for comment prior to promulgation, contains significant amendments to rights currently held under section 8A.

In essence, where an employee holds a "section 8A right", which is then ceded or released on or after 26 October 2004 in exchange for a "new right", that "new right" will be subject to the provisions of section 8C. As this may impact dramatically on the employee's tax position, any proposed alterations to existing share schemes should be carefully reviewed prior to implementation.

Broad-Based Employee Share Plans

Essentially a broad-based plan is one where at least 90 per cent of full-time employees qualify to participate in a scheme to acquire equity shares. Furthermore, employees

must not be required to pay more than the minimum consideration required by the Companies Act and must be entitled to all dividends and full voting rights in respect of the shares.

Other requirements include an exclusion of employees from participating where they already participate in another employer share scheme. Employees may also not be restricted from disposing of their shares except in certain circumstances that include a minimum holding period extending no longer than five years beyond grant date. The grant of shares under a broad-based plan will be exempt from tax in the hands of the employee where the market value, in the current and two immediately preceding tax years, does not in aggregate exceed R9 000. This limit is applied as a three-year rolling average and it is only shares falling within this limit that will be exempt from tax.

Section 8B is effectively a taxing section in that it triggers a tax liability for the employee should he dispose of those shares within five years from grant date. As income from the disposal of these shares is regarded as remuneration, this places an onus on the employer to withhold employees' tax.

The practical difficulties of complying are evident, particularly where an employee is no longer in employ and the company is then reliant on information from that employee regarding a disposal within the five-year period. Assuming an employee holds the shares for five years, any disposal thereafter will be subject to capital gains tax. The capital gain (or loss) is the difference between the proceeds on disposal and the cost incurred on acquisition.

Because a broad-based plan requires that an employee pay no more than the minimum required by the Companies Act, this base cost should either be nil or a nominal amount. The underlying objective of section 8B is to encourage employees to participate in broad-based ownership and to create wealth through retention of those shares for a minimum period of five years.

Welcome Amendments

Section 11(IA) allows an employer to deduct the market value of equity shares issued to employees where those shares are issued in terms of a broad-based plan and the market value of all such shares issued in the current and two immediately preceding tax years does not in aggregate exceed R9 000. The deduction in terms of this section is limited to R3 000 for each employee in any one tax year. To the extent that market value exceeds this annual threshold, the excess may be carried forward and deducted in a subsequent tax year but once again subject to the R3 000 annual limit.

The Draft Revenue Amendment Bill 2005 proposes an amendment to this section whereby the deduction to the employer is reduced by any consideration given by the employee for the share. As a requirement of a broad-based plan, the employee is to pay no more than the minimum required by the Companies Act, and this should not have any material effect on the employer's deduction.

A further welcome amendment contained in the Bill is an exemption from donations tax for employers granting shares to employees under a broad-based plan. The amendment is not retrospective and only applies to shares granted on or after 8 November 2005. It should be noted that the donations tax exemption only applies to shares falling within the

three-year limit of R9 000, the inference being that shares issued in excess of that amount will not be exempt from donations tax.

The underlying objective of these tax incentives is to encourage employers to empower employees to participate in broad-based ownership. The market value tax deduction also achieves some alignment with the accounting treatment, which requires the fair value of shares issued to employees to be reflected in the company's reported earnings.

Brigitte Keirby-Smith is tax director at Ernst & Young KZN.

Remuneration Internship Programme

Remuneration Internship for Previously Disadvantaged Individuals

As part of the South African Reward Association's ongoing commitment to developing remuneration skills for Previously Disadvantaged Individuals, we have partnered with 21st Century Business & Pay Solutions to develop a comprehensive internship programme within the remuneration profession. Remuneration Consulting Firms and Corporates are invited to participate in SARA's Remuneration Internship Programme and have the opportunity to place the intern in their organisation at the end of the internship period. An investment of R55 000 will enable SARA members to participate in this exciting development and will go towards covering the costs of the intern for the period of the internship.

The sponsoring organisation will have the first right to appoint the candidate but will not be obliged to hire the candidate at the end of the internship. In the event that the sponsoring company is not in a position to offer employment to the candidate, the candidate's CV will be distributed to the SARA membership base in order to find a suitable position for the person.

The internship programme is to work as follows:

- a) Three PDI candidates, with a minimum qualification of an Honours degree, will be recruited from Universities in Johannesburg and surrounding areas. Candidates must be unemployed, have little or no work experience, and have transport to and from the 21st Century offices in Rosebank on a daily basis. It is preferable that they are proficient in the MS Office suite.
- b) 21st Century Pay Solutions Group will oversee the training and mentoring of the 3 candidates for a 9 month period (from 1 March to 30 November 2006) and will also conduct a final assessment of the candidates at the end of the period.
- c) During this period, candidates will follow the proposed curriculum below which covers all aspects of the rewards portfolio:
 - Remuneration policy and strategy:** What this is and how to develop it.
 - Basic Pay:** Job evaluation; Broadbanding; Salary structuring. Tax and total package.
 - Short term incentives and variable pay:** Incentive scheme design. Variable pay.

Long term incentives: What the LTI options open to South Africans are. What the essence is of the tax and accounting changes

- d) Candidates will attend all SARA functions, workshops and GRP courses presented over this period – valued at +/-R50 000 - free of charge.
- e) In addition to the theoretical aspect, practical exposure will be gained by partnering with consultants in various Consulting houses, and visiting a selection of different organisations, during this period. The purpose of these visits is to understand how remuneration practices and processes are designed and implemented in varying industries and organisations.
- f) The candidates will be paid a Total Package of R5 000 per month for 9 months (R45 000) and the balance (R10 000) will be used to cover materials and overhead costs.

The SARA Exco and 21st Century are very excited about this venture and look forward to receiving confirmation that you will be participating in this process which aims to promote a more diverse reward profession.

Please contact **Gillian le Cordeur** (011 789 1384) from SARA or **Rozanne Finnemore** (011 447 0306) from 21st Century should you require more information about this internship program, or wish to confirm your investment.

Sabbatical Policies

Information provided by Alexander Forbes Financial Services

Much research has been conducted in the public sector and amongst tertiary institutions on the value or worth of sabbatical leave to their employees or members of staff. The research suggests that it is common practice to ensure that employees understand that sabbatical leave is a privilege, not a right, and is granted against an approved plan of research. In addition, sabbatical leave is not granted if adequate replacement arrangements cannot be made.

With more and more employers striving to ensure that the benefits offered are competitive, thereby attracting and retaining the best in the market, it is not surprising that the role of sabbatical leave as an employee benefit in the private sector is being explored by some organisations.

If we look to the international market for insight and guidance on the role that sabbatical leave can play as an employee benefit, we see a similar application of the benefit to that found in South Africa i.e. sabbatical leave is most common as a benefit within a tertiary environment.

Our research reinforces the findings of the research conducted by Nedbank earlier this year, in that South African organisations generally do not have formal sabbatical leave policies and many do not intend implementing such a policy (the financial institutions being the only ones indicating that they may have a need). Other organisations

indicated that requests for such leave would be considered on a case by case basis and that it is a small price to pay to keep a good employee. Outlined below we have indicated the most common administration practices found in organisations that provide for sabbatical leave:

- Sabbatical leave is most often taken as unpaid leave.
- Specific criteria are put in place, e.g. a minimum of 10/15/20 year service with the company, a maximum of 6 months sabbatical leave.
- Companies that do grant sabbatical leave, encourage employees to exhaust their annual leave first. Thereafter they would be offered a sabbatical leave.
- Employees who take sabbatical leave would not accrue further annual leave or sick leave during their sabbatical period.
- Some companies continue to pay company contributions towards pension or provident arrangements and risk cover.

Whilst the idea of sabbatical leave may currently not be common practice amongst South African organisations, we see this picture may change with organisations striving to be the employer of choice and as organisations become more globalised.

SARA Events Schedule 2006

SARA Meetings & Function Schedule 2006			
Date	Function	Venue	Time
7 February	Committee Meeting	Randburg	16:00 – 18:00
February	Medical Aid Function (5 th Quadrant)	TBC	
2 March	Tax Update Function	TBC	
3 May	Legal Tax & Governance Function (Martin Hopkins & Mark Bussin)	TBC	
9 May	Committee Meeting	Randburg	16:00 – 18:00
18 May	EMG Function – National vs International	TBC	
7 June	WorldatWork Cocktail Party		
16 July	WorldatWork Feedback Function	TBC	
3 August	Rem Committee Panel Function	TBC	
15 August	Committee Meeting	Randburg	16:00 – 18:00
September	Masters Students Function		
6 October	SARA AGM & Function	TBC	
25 October	SARA EMG Function	TBC	
9/10 November	SARA Conference	TBC	
11 November	SARA Banquet	TBC	
14 November	Committee Meeting	Randburg	16:00 - 18:00

* A full schedule of EMG Events will be added in the near future.

SARA wishes to acknowledge the following individuals who have successfully graduated as Global Remuneration Professionals. Congratulations on your achievement.

- Sam Hlabati - PPC Cement
- Edward Harris - Department of Public Service and Administration
- Nicky Hurlimann - First National Bank

GRP Programme 2006

The GRP Programme for 2006 is listed below. Anyone requiring further information can contact Gillian at: Gillian@vdw.co.za

Date	City	Course	Module
6-8 March	Cape Town	GR1	Total Remuneration
9-11 March	Cape Town	GR2	Quantitative Methods
13-15 March	Johannesburg	GR1	Total Remuneration
16-18 March	Johannesburg	GR2	Quantitative Methods
29-31 May	Cape Town	GR3	Methods Job Analysis
1-3 June	Cape Town	GR4	Base Pay Management
5-7 June	Johannesburg	GR3	Methods Job Analysis
8-10 June	Johannesburg	GR4	Base Pay Management
14-16 August	Cape Town	GR5	Performance Management
17-19 August	Cape Town	GR6	Variable Pay
21-23 August	Johannesburg	GR5	Performance Management
24-26 August	Johannesburg	GR6	Variable Pay
13-15 November	Johannesburg	GR7	International Total Remuneration
16-18 November	Johannesburg	GR8	International Benefits
20-22 November	Cape Town	GR7	International Total Remuneration
23-25 November	Cape Town	GR8	International Benefits

Reward Research Topics

The area of reward, remuneration and performance has grown in stature over the past decade with organisations increasingly trying to get value from their swelling salary and wage bills. To counter the lack of South African empirical research to assist with decision making, SARA has decided to develop a database on research in South Africa with regard to performance and reward. Universities have provided a selection of research topics for Masters and Doctoral students which will assist in closing some of the knowledge gaps.

Interested students will be able to contact the SARA Secretariat in order to gain access to possible data sources (eg. participants and corporates). They will also be put in touch with Dr Mark Bussin, who will provide assistance in the event of the students experiencing any resourcing difficulties. Any SARA Members thinking of furthering their studies by completing their Masters or Doctoral degrees are invited to make use of this opportunity. To view the list of research topics, go to: [Research Topics](#)

Live Membership Database

SARA members now have access to the SARA membership database on the website and are able to edit their personal details on line when necessary. To view this exciting new facility, go to: [My Membership](#)

IMPSA Award 2006

The Institute of Municipal Personnel Practitioners of Southern-Africa are calling for nominations for the Personnel Practitioner of the Year Award: 2006. The closing date for nominations is 18 April 2006. The award is designed to give recognition to a professional who, within his/her own working environment or within local government in general, has made an outstanding contribution in one or more areas. To view the nomination form, go to: [IMPSA Award](#)

The Institute of Municipal Personnel Practitioners of Southern-Africa is calling for nominations for the position of vice-president for the term August 2006 - August 2008. The nomination form can be viewed on the website at: [IMPSA](#)

Learnership Required

Tshidi Mpati is looking for a learnership position. She has a National Diploma from the Vaal University of Technology in Human Resources Management with majors in Personnel Management and Business Management.

Tshidi can be contacted at: 0835593382 or tmpati@webmail.co.za.

To view her complete curriculum vitae please go to: [Learnership Required](#)

KwaZulu Natal Branch News

The KwaZulu Natal Branch held their [Annual General Meeting](#) on 7 December 2005 at the Royal Hotel in Durban, and selected the committee members for 2006:

- Russell Baudach
- Carl Callaghan
- Marilyn Lennox
- Lance Meiring
- Kamaseelan Naidu
- Marius Oosthuizen
- Averile Ryder
- Dave Scobie
- Megan Shepstone
- Mark van Wyk

Following their AGM, the KwaZulu Natal Branch hosted a breakfast presentation by Martin Westcott, Managing Director of P-E Corporate Services, on “**Pay Pressures and Economic Pressures**”. The presentation covered a range of issues: China and India - The World's Growing Super Powers and what we can learn from them; South Africa 2006-2010: The Five Year Challenge; International Trends: Employment/People Strategy; Current Trends in Pay in South Africa; and Aligning Corporate Strategy and HR/Reward Strategy.

The KwaZulu Natal Branch meeting held on 24 January 2006 saw the newly elected committee members nominating the office bearers for 2006. We wish the new committee well during their term of office and thank the outgoing committee for all their hard work.

KwaZulu Natal Branch Office Bearers 2006

- Megan Shepstone - Chairperson
- Carl Callaghan - Vice-Chairperson
- Lance Meiring - Secretary

WorldatWork Courses

WorldatWork is offering the following virtual courses over the next few months. If you are interested in doing these courses, please contact the Secretariat at Tel: (011) 789-1384 for the password and go to: [WorldatWork](#)

- **T2: Accounting and Finance for the Human Resources Professional**
Offers an introduction to accounting by exploring the major groups of accounts and the financial statements that make up a company's annual report. It also provides coverage of the financial concepts that HR professionals should understand to interact effectively with the individuals in accounting and finance departments. 14 – 23 February 2006.
- **T6: Mergers and Acquisitions: Benefits, Compensation and Other HR Issues** - Gives you practical guidelines for addressing opportunities and pitfalls in mergers, acquisitions and similar transactions. You will examine detailed methods for effective due diligence in the human resources area, including benefits plan design and costs, compensation and cultural integration. 7 – 16 March 2006

- **C11: Performance Management - Strategy, Design and Implementation**
Provides the key concepts associated with measuring and rewarding performance at the organisation-wide, group and individual levels. Issues addressed include: organisational performance planning, business strategy, the performance management system and process, measurement, individual motivation and the link between rewards and performance. 21- 30 March 2006

Registration is open for **Strategic Communication in Total Rewards (T4)**, a two-day course offered by WorldatWork through the Global Reward Consortium (GRC). This is the first course in the series of WorldatWork courses presented through the GRC in 2006. It is hosted by Nokia in Espoo (Helsinki) Finland, and is held from 29 to 31 March 2006.

This intermediate-level, two-day course provides a general overview of communication theory and fundamentals. Participants are introduced to a seven-step process for communicating total rewards programs (compensation, benefits and the work experience), which includes a detailed explanation of strategies for selecting appropriate communication media. If you are pursuing the WorldatWork Global Remuneration Professional (GRP) certification designation, note that this course is an alternate to the International Benefits (GR8) course. For further information go to: [WorldatWork](#)

Employment Opportunity

A opening exists at the Woolworths Head Office for a **Senior Rewards & Recognition Specialist**. The main purpose of the position entails developing and implementing the guaranteed pay and variable pay (incentives, shares and recognition schemes) solutions across the business, in line with the Rewards and Recognition Strategy and one year operating plan.

Some of the key responsibilities are:

- Play a significant role in developing the rewards and recognition strategy that is informed by latest trends, benchmarking and a sound interpretation of the corporate strategy and organisational culture, to ensure business sustainability and competitive advantage.
- Delivery to and implementation of the Rewards and Recognition one year operating plan.
- Design and develop appropriate rewards and recognition solutions and influence/lead the implementation across the business.
- Ensure performance management integration with remuneration principles and practices.

Some of the competencies required for the position include:

- Tertiary qualification with a major in management, business or HR.
- 5 -7 years working experience in HR and Rewards and Recognition.
- Able to create clear linkages between business strategy and Rewards and Recognition strategy.

- Expert knowledge of Rewards and Recognition and Employment Practices and Conditions.

The view the complete job profile please click through to: [Employment](#)

If you are interested in the above position please send your CV to Lyn Allen at hrresourcing@woolworths.co.za

Website Postings

HRCOSA Newsletter: The January 2006 edition of the Human Resource Council of South Africa Newsletter is available at: [HRCOSA](#)

Presentation: The KwaZulu Natal Branch presentation on “**Pay Pressures and Economic Pressures**” by **Martin Westcott**, the managing director of P-E Corporate Services, can be viewed on the website at: [Event Documents](#)

Presentation: The Expatriate Management Group hosted a breakfast presentation in Johannesburg towards the end of last year, entitled “**A Psychometric Study on the Impact of Assignments**” by **Marius van Aswegen**. The presentation covered the impact of expatriate assignments on family life, organisational processes and repatriation. Members interested in viewing this presentation can access it by clicking here: [EMG Presentations](#)

Upcoming Events

ASTD South Africa 2006 – The second International ASTD Global Network Conference will be taking place in Cape Town from 22 - 24 February 2006. Over 8 international speakers and 15 local speakers will be exploring how leading organisations, locally and abroad, are facing the challenges of the future. Topics being covered include “Leading People into the 21st Century”, “Cultural Adaptability and Measurement” and “Innovation and Creativity.” For more information go to: [ASTD 2006](#)

New Members

New Associate and Member Representatives

- Jenni Burgum – Dimension Data Pty Ltd
- Linda Fine – Dimension Data Pty Ltd

New Corporate Members

- Elries Fortuin – Two-A-Day Group Ltd
- Prisa Pillay – South African National Blood Services

- GC Bechard – Yum Restaurants International
- Carolyn Blunden – Netcare Management Services Pty Ltd
- Lance Meiring – P-E Corporate Services

Editor's Note

Dear Readers

I welcome input from readers of the SARA Bulletin and encourage you to forward any information or announcements that you would like to see published in the bulletin. Please note that contributions need to be forwarded to me by the 20th of every month.

Kind regards

Clare

Tel: (011) 789-1384

Email: clare@vdw.co.za

Editor: Clare van Zwieten
SARA Secretariat
Van der Walt & Company
Association Management Services
Tel: (011) 789 -1384
Fax: (011) 789 -1385
Email: clare@vdw.co.za
Website: www.sara.co.za