Vickers & Peters

LIFESTYLE AND ASSET PLANNING

"Around the Table with Vickers & Peters Financial Planning"

Issue 18 – April 2011 Quarterly Publication *Compiled by Graeme Holt*

Budget Highlights 2011/2012

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Estate Duty and Donations Tax

The rate of estate duty and donations tax remains at 20%.

The estate duty abatement (exempt threshold) remains at R3,5 million per person and a surviving spouse may also benefit automatically from any unused deduction in the first dying spouse's estate i.e. The abatement is now a combined maximum R7 million for the second dying spouse.

The first R100 000 of property donated in each tax year by a natural person remains exempt from donations tax as do donations between spouses.

Capital Gains Tax

- The annual capital gain exclusion for individuals is increased to R20 000 (previously R17 500)
- The primary residence exclusion from capital gains tax will remain at R1,5 million.
- The capital gain exclusion on death is increased to R200 000 (previously R120 000)
- The effective rate of CGT remains between 4,8% – 10% for individuals, 14% for companies and 20% for Trusts, although correctly structured Trusts can result in the individual rate being applicable.

Companies and Close Corporations

The rate of normal tax remains at 28% in respect of the next year of assessment, being years ending between 1 April 2011 and 31 March 2012.

The rate of secondary tax on companies (STC) remains at 10% on net dividends declared by companies and distributions made by close corporations. STC will be replaced with a final withholding dividend tax at the rate of 10%, effective 1 April 2012.

The combined rate of tax (normal tax and STC) where all profits are distributed is 35,2%.

Individuals

The maximum marginal rate for natural persons remains at 40% and is reached where taxable income exceeds R580 000(previously R552 000)

The minimum rate of tax remains at 18% on income not exceeding R150 000 (previously R140 000).

The primary rebate for all natural persons has been increased to R10 755 (previously R10 260). The additional rebate for persons aged 65 years and older has also been increased to R6 012 (previously R5 675). Persons aged 75 and older are granted a further R2 000.

The tax free portion of interest income has been increased to R22 800 (previously R22 300) for taxpayers under 65 years, and to R33 000 (previously R32 000) for persons aged 65 years and older. R3 700 (previously R3 700) inclusive of the above exemption can be applied to foreign interest and foreign dividends.

- A taxpayer younger than 65 will be able to invest R506 667 at 4.5% per annum without paying tax. A taxpayer older than 65 will be able to invest R733 333 at 4.5% per annum without paying tax.

Taxpayers over 65 years continue to be exempt from the payment of provisional tax, provided their taxable income does not exceed R120 000 per annum and is derived solely from salary, interest, dividends and rental.

Individuals income tax rate	
2011/2012	
Taxable Income	**Rates of Tax**
R0 - R150 000	18% of each R1
R150 001 – R235 000	R27 000 +25% of the amount above R150 000
R235 0001 – R325 000	R48 250 +30% of the amount above R235 000
R325 001 – R455 000	R75 250 +35% of the amount above R325 000
R455 001 – R580 000	R120 750 +38% of the amount above R455 000
R580 001 - Above	R168 250 +40% of the amount above R580 000
Rebates	
Under 65	R10 755
65 and under 75	R16 767
75 and over	R18 767
Tax Thresholds	
Under 65	R59 750
65 and under 75	R93 150
75 and over	R104 261

Trusts

The flat rate of 40% remains unchanged

VAT

The rate of 14% remains unchanged and the compulsory VAT registration threshold remains at R1 million

Transfer Duty

Government proposes to increase the transfer duty exemption threshold from R500 000 to R600 000. The new rates applicable to Transfer Duty will be as follows:

Taxable Income	Rates of Tax
R0 - R150 000	18% of each R1
R150 001 – R235 000	R27 000 +25% of the amount above R150 000
R235 0001 – R325 000	R48 250 +30% of the amount above R235 000
R325 001 – R455 000	R75 250 +35% of the amount above R325 000

This revised rate structure will apply to properties acquired under purchase agreements concluded on or after 23 February 2011. It will also be applicable to legal persons (close corporations, companies and trusts). The flat rate of 8% for these entities falls away.

Retirement Funds

The new tax regime effective 01 October 2007 on lump sum benefits upon retirement remains in force, as does the withdrawal formula introduced on the 1 March 2000 but the tax free lump sum upon retirement is increased to R315 000 (previously R300 000) with consequent table adjustment.

Table 1

Taxable amount	Rate of tax
Not exceeding R315 000	0%
R315 001 < R630 000	18% of the amount over R315 000
R630 001 < R945 000	R56 700 plus 27% of amount exceeding R630 000
Exceeding R945 000	R141 750 plus 36% of amount exceeding R945 000

From 01 March 2012 an employer’s contribution to retirement funds on behalf of an employee will be a taxable fringe benefit in the hands of the employee. Individuals will from that date be allowed to deduct up to 22.5 per cent of their taxable income for contributions to pension, provident and retirement annuity funds with an annual maximum of R200 000.

Medical Expenses

Taxpayers 65 and older may continue to claim all qualifying expenditure. The tax exempt or deductible portion of monthly contributions to medical schemes for persons under 65 is increased from R670 to R720 for each of the first two beneficiaries and from R410 to R440 for each additional beneficiary.

This translates into the following tax implications for a family of four:
Deduction for medical scheme contributions in 2011/2012 tax year:

- R720 + R720 + R440 + R440 = R2 320 (R27 840 per annum).

It is proposed that the monthly deductions for contributions to medical schemes and for qualifying out-of-pocket medical expenses will be converted into tax credits effective 1 March 2012. A discussion document on these credits will be published by the end of March 2011.

Social Security

In an effort to ensure that poverty reduction continues, social grants have been increased to keep up with inflation. The new grants are as follows:

- Disability and Old Age Grants (Below 75) from R1 080 to R1 140
- Old Age Grants (Over 75) from R1 080 to R1 160
- Child support Grant from R250 to R270

"Sin Taxes" and Fuel Levies

The following increases are proposed:

- Tax on a packet of 20 cigarettes increases by 80 cents
- Tax on a 340ml can of beer increases by 6.4 cents
- Tax on a bottle of wine increases by 13.5 cents
- Tax on a bottle of spirits increases by R2,86.

Voluntary Disclosure Programme

As announced in 2010, in order for non compliant taxpayers to regularize their tax affairs where SARS is not aware of the default, a voluntary disclosure system is in force and effect until 31 October 2011. Tax due remains fully payable, but relief with regard to interest and penalties will apply.

Future Developments

The Minister stated that proposals for consolidation of social security arrangements were well advanced. These included proposals for the introduction of a mandatory basic retirement savings plan.

Estate Duty

The effectiveness of Estate Duty is being reviewed with several options under consideration.

Taxation of Long Term insurers

The Four-Fund approach of taxation in respect of Long Term insurance funds is under scrutiny.

Gambling

Government proposes that with effect from 1 April 2012 all gambling winnings above R25 000, including those from the National Lottery, will be subject to a final 15% withholding tax.

Taxation of employer sponsored policies

- In 2010, amendments were introduced to draw a distinction between plans whose intention is to protect employers against lost profits (eg: key-man policies) and plans whose ultimate intention is to benefit employees (and their families) against death and disability.

- These amendments provided that plans whose ultimate beneficiaries were employees (or their families) should trigger fringe benefit tax for them.
- Despite these changes, certain ambiguities and peripheral issues remain. These are currently being discussed with industry bodies and any necessary changes should be made in due course.
- Particular issues under discussion are the tax treatment of:

    - Group disability income and Group Life Assurance schemes
    - “Non-conforming” policies post the recent changes (e.g: a key person policy where premiums are not deductible and proceeds are tax-free)
    - The cession of deferred compensation policies.

VAT and Transfer Duty nexus

A notional VAT input credit may be claimed when a VAT vendor buys a fixed property from a non-VAT vendor. To combat abuse, this notional VAT input is currently limited to the transfer duty paid by the purchasing VAT vendor. It is proposed that the notional VAT input credit be de-linked from the transfer duty payable.

Conclusion

The Budget Speech 2011, highlighted:

Government’s continued commitment to:

- job creation
- alleviate poverty
- inflation targeting
- social reform
- sustainable debt-servicing.

While some of the proposed amendments in the retirement fund space may introduce challenges, it is again reassuring to note that on the whole, there were no surprises or deviations from former policy initiatives. This provides the man in the street with a certain and secure environment in which to plan his financial affairs.

Please note that the information provided in this circular is based on proposals made in the National Budget Speech delivered on the 23rd of February 2011 in parliament, until the proposals have formally been promulgated in legislation it will only be viewed as proposals.

If you have any tax related queries please contact one of our financial advisors on the details provided on page 8.

The value of Key Person insurance

A key person policy is a company owned policy taken out by an employer on the life of the employee or director to protect the business against some risk in the event that an employee or director dies or becomes disabled or suffers severe illness as a result of which the company is exposed or could suffer a loss.

For example, if you own a wine farm, then the winemaker, someone with a very specialized skill, can be considered the key person in your business. You, the business owner, might not know the first thing about making wine you simply bought the farm because it was a good investment. What would happen to the wine production if something should happen to the vintner? Will your business come to a standstill and will you lose income? These are things to seriously consider in your business continuity strategy.

The idea is that you should identify the key person in your business and take out insurance on their lives. Ideally, one would like to be able to train up someone else to take over, but often this is not always possible. Hiring someone new could mean a higher wage and an immediate strain on your cashflow or in haste, foolhardy employing someone with inadequate skill and expertise for winemaking. Insuring the life of the key person in your business means that should that person die the proceeds of the life policy will be paid out directly into the hands of your business. This will give you time to go out and find someone to replace the person without risking the fact that your business might grind to a halt and that you might lose income.

When should a business owner implement a key person policy?

- An employee or director holding a specialized skill, relationship, key account or intellectual capital which is vital to the company's ability to generate income.
- A small to medium sized company where the allocation of additional resources and personnel is limited.
- Losses related to a period when a key person is unable to work, to provide temporary personnel and, if necessary to finance the recruitment and training of a replacement.
- Insurance for anyone involved in guaranteeing business loans or banking facilities. The value of insurance coverage is arranged to equal the value of the guarantee.

Premiums for key person insurance are based on a variety of factors, including age, physical condition, and health history of the key person, as well as the amount of coverage. Before purchasing key person life insurance, a business owner should:

- Estimate the value of key employees**.** It may be difficult to estimate the value of an irreplaceable employee, but you must do it to determine if you need to purchase key person insurance and how much coverage you'll need. Consider factors such as projects that would be lost if the employee were no longer with the company, the amount of sales generated by the key employee, and the costs associated with replacing the employee.
- Determine if separate key person insurance is necessary**.** Credit insurance is one way to cover outstanding loans and debts. If you already have a credit insurance policy, key person insurance could be superfluous. Different key persons would most likely have different values relating to their area of expertise.
- Have a business continuation plan. Creating a plan that outlines how your business will survive a disaster is key in determining what type of insurance protection you need.

For a free, no obligation key person insurance quote or further information, please e-mail: gholt@vpfp.co.za

The dangers of an unsigned will and intestate succession

A will is essentially a contract one enters into with the person one wishes to take charge of dealing with all one's assets (and liabilities) after one dies. A non-existent, unsigned or incorrectly signed will can cause practical problems and place surviving family members and dependants under immense stress when one is not around to assist them in making financial decisions.

Research shows that most individuals:

- who have a will drafted, never sign the document;
- believe that having a "draft" will means that they have a valid will in place;
- believe that, if they sign the instructions to draft a will, and present this to their bank or trust company, they have a valid will.

However, if the signing requirements as set out in section 2 of the Wills Act are not complied with, the client does not have a valid will. If the client does not have a valid will, the deceased estate (assets and liabilities) will, on his death, be distributed in terms of the provisions of the Intestate Succession Act 81 of 1987.

These rules may well be contrary to the testator's intentions and/or may not necessarily be beneficial to those left behind, as illustrated by some examples of the rules below:

- The inheritance of minor children has to be paid into the Guardian's Fund (and as recently reported in the media, such funds have been subject to unauthorised individuals having access). If a valid will had been in place, provision could have been made for setting up a testamentary trust for the benefit of minor beneficiaries.
- Without a valid will, no guardian would be appointed for minor children, and it would be left to the family or Social Services to appoint such a person.
- The Master of the High Court will appoint an Executor, as one would not have been appointed without a valid will. This could result in delays, as the normal period of winding up an estate ranges from six to nine months. Where there is no will, this process could be delayed for an indeterminate period.
- Should the testator/testatrix prefer that family members inherit (e.g. parents and siblings), they may be excluded in a scenario where there are no descendants, as the entire estate will pass to the surviving spouse.
- If there are no intestate heirs (living family members) the entire estate may be forfeited to the state after 30 years, after being advertised in the Government Gazette annually for that period of time.
- It is important to note that the law of intestate succession does not cater for common law / life partners as "spouses".

It is recommended to review your will at least every three years or in the event of a change in the family i.e. the birth or death of an intended beneficiary or change in your asset composition or situation.

If you would like further information on a new will or if you have any questions relating to your existing will please contact us on 011 803 7399 or clientservicing@vpfp.co.za

Vickers & Peters will gladly assist in reviewing and drafting your will.

Market Update – *by Celtis Capital*

Macro Overview

Markets have experienced extreme volatility during the first quarter of 2011.

In January 2011 a successful revolt in Tunisia (which ended a 23 year long reign) sparked protests calling for economic and political reform across North Africa and the Middle East. Subsequently, Egyptian President Mubarak, one of the longest serving leaders in the Arab world, stepped down after 18 days of protests in Egypt. Unrest has since swept at least 11 other countries in the region. In Libya (a producer of more than 1 million barrels of oil per day), political turmoil and violence continues, threatening the stability of the region's larger oil-producing countries such as Saudi Arabia. Small protests have built across the Arab nation (which sits on approximately 25% of the world's known oil reserves), but there have been no large scale demonstrations to date. Economic risk lies in the disruption to the oil supply, leading to a potential significant escalation in the oil price, ultimately leading to higher inflation rates.

On 11 March 2011, the ongoing conflict in North Africa and the Middle East was relegated from the top news story as we watched Japan get hit by an Earthquake measuring 8.9 on the Richter scale, followed by a 10m tsunami and the subsequent nuclear crisis. In the short term, adverse effects may include a decline in demand for platinum and luxury goods (Japan is the world's largest producer of platinum jewellery and accounts for 11% of international luxury sales). The nuclear crisis has also stoked fears of weaker commodity demand from Japan (being the 3rd largest economy in the world). The subsequent effect on the oil price is two-fold with potentially opposing results. Firstly there could be possible downward pressure on oil prices as a result of lower demand, with Japan accounting for 4.7% of global oil demand, and secondly the potential resultant requirement for alternative energy sources could place upward pressure on oil prices. The programme of rebuilding could however have far reaching positive long-term effects for the Japanese economy.

Finally, the Euro Zone sovereign debt crisis grinds on. Portugal could become the next unfortunate recipient of an EU/IMF bailout package (following similar bailouts of Greece and Ireland), due to the unsustainable rise in the country's debt funding costs. Furthermore, the forced resignation of Portugal's Prime Minister, led by the fiscal crisis, has resulted in a down-grading of Portuguese Sovereign debt.

VPFP Fund Performance – *what added and what detracted?*

Emerging markets underperformed developed markets over the quarter, given investor risk aversion. As a result SA equities returned a negligible amount while local bonds and property detracted from performance. Offshore equities, and to a lesser degree offshore bonds, added to performance for the quarter.

We saw the rand weaken considerably since its lows at the beginning of the quarter and then strengthen again towards the end of the quarter. This rand strength has also detracted from the offshore component of the funds, in the short term.

VPFP position going forward

We see the above-mentioned events as temporary corrections to the market, and see no need for material concern at this time.

Over the first quarter of 2011, we have been actively positioning the portfolios for a higher global inflationary environment as we begin to see inflationary pressure rise through higher food and fuel prices across the globe. In light of this, we have increased exposure to Inflation-linked bonds, in favour of Government bonds, and continue to hold an underweight position in Government bonds, both locally and offshore. We have decreased the local property position for the same reasons. We have steadily increased the offshore weighting in the local portfolios on sustained rand/dollar strength. We will continue to review this position going forward given the increase in the maximum offshore allowance to 25% (from 15% previously). We have also taken an overweight position in offshore equities as we see this asset class as offering the greatest value at present.

VPFP Fund Performance for the Period Ending 31 March 2011

	6 Month		12 Month		24 Month	
	Return	Risk	Return	Risk	Return	Risk
VPFP CPI + 2	2.96%	1.542	7.96%	2.435	20.81%	2.992
Investment Objective (CPI + 2%)	2.79%		5.79%		14.00%	
VPFP CPI + 4	4.79%	1.906	8.76%	3.397	26.91%	4.229
Investment Objective (CPI + 4%)	3.79%		7.86%		18.49%	
VPFP CPI + 6	6.78%	2.895	9.64%	5.586	35.35%	6.615
Investment Objective (CPI + 6%)	4.78%		9.92%		23.08%	

(CPI Benchmark as at 28 February 2011)

Source: MoneyMate

If you have any questions about your investment portfolio please contact your financial advisor on the details provided on page 7.

At your service…

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Our services include…

- Pre and Post Retirement Planning
- Local and Global Investments
- Business Assurance – Keyman and Partnership
- Personal and Group Life Assurance
- Employee Benefit Advice and Products
- Tax and Estate Planning

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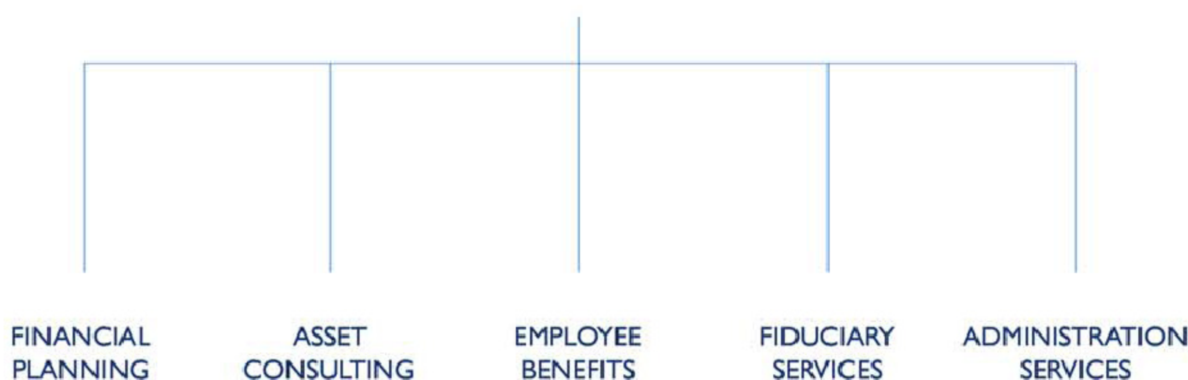

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