Vickers & Peters
LIFESTYLE AND ASSET PLANNING

# Around the Table with Vickers & Peters Financial Planning

**Issue 22 – April 2012** **Quarterly Publication** *Compiled by Graeme Holt*

## *Highlights of Budget 2012/2013*

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### Individuals

- The maximum marginal rate for natural persons remains at 40% and is reached where taxable income exceeds R617 000 (previously R580 000)
- The minimum rate of tax remains at 18% on taxable income not exceeding R160 000 (previously R150 000).
- The primary rebate for all natural persons has been increased to R11 440 (previously R10 755). The additional rebate for persons aged 65 years and older has also been increased to R6 390 (previously R6 012). Persons aged 75 and older are granted a further R2 130.
- The tax free portion of interest income remains at R22 800 for taxpayers under 65 years, and remains at R33 000 for persons aged 65 years and older.
- R3 700 inclusive of the above exemption can be applied to foreign interest. Effective 1 April 2012 a new formula applies to foreign dividends which reduces the foreign dividend tax to a maximum rate of 15%
- Local dividends will be subject to a flat 15% rate effective 1 April 2012.
- 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.

## Companies and Close Corporations

The rate of normal tax remains at 28%.

Secondary tax on companies and CCs (STC) will be replaced with a final dividend withholding tax (DWT) at the flat rate of 15% on shareholders, effective 1 April 2012.

The following tax exempt bodies will suffer no withholding tax upon production of a tax exemption certificate.

- South African resident companies or close corporations
- The South African government, provincial governments and municipalities
- Specified tax-exempt beneficiaries (e.g. public benefit organisations)
- Retirement funds and living annuity policyholders
- Endowment investment accounts allocated to the Company Policyholder Fund or the Untaxed Policyholder Fund

## Trusts

The flat rate of 40% remains unchanged

## Individual Tax Thresholds

Liability for tax commences as follows:

| | | |
|---|---|---|
| Under 65 years : | R63 556 | (previously R59 750) |
| 65 years and under 75 years: | R99 056 | (previously R93 150) |
| 75 years and older: | R110 889 | (previously R104 261) |

## Income Tax: Individuals

| Taxable income (R) | Rates of tax |
|---|---|
| 0 – 160 000 | 18% of each R1 |
| 160 001 –250 000 | R28 800 +25% of the amount above R160 000 |
| 250 001 –346 000 | R51 300 +30% of the amount above R250 000 |
| 346 001 –484 000 | R80 100 +35% of the amount above R346 000 |
| 484 001 –617 000 | R128 400 +38% of the amount above R484 000 |
| 617 001 and above | R178 940 +40% of the amount above R617 000 |

## Tax Rebates

| | |
|---|---|
| Under 65 years : | R11 440 (previously R10 755) |
| 65 years and under 75 years: | R17 830 (previously R16 767) |
| 75 years and older: | R19 960 (previously R18 767) |

## 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 remains 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 (CGT)**

- The annual capital gain exclusion for individuals is increased to R30 000 (previously R20 000)
- The primary residence exclusion from capital gains tax is increased to R2 million (previously R1,5 million).
- The capital gain exclusion at death is increased to R300 000 (previously R200 000).
- The effective rate of CGT increases to a range of between 6% and 13,3% for individuals, 18,6% for companies and 26,7% for Trusts, although correctly structured Trusts can result in the individual rate being applicable. This new dispensation is effective 1 March 2012.

**Transfer Duty**

The rates remain, i.e. property costing less than R600 000 will attract no duty. A 3% rate applies between R600 000 and R1 million, 5% between R1 million and R1,5 million and 8% thereafter.

**Retirement Funds (effective 1 March 2014)**

The new tax regime effective 1 October 2007 on lump sum benefits upon retirement remains in force, as does the withdrawal formula introduced 1 March 2009.

Effective 1 March 2014, Individual taxpayer deductions will be set at 22.5%, (27.5%, for those above 45 years) of taxable income. Annual deductions will be limited to R250 000 (R300 000 for taxpayers above 45 years). A minimum monetary threshold of R20 000 will apply to allow low-income earners to contribute in excess of the prescribed percentages. Non-deductible contributions (in excess of the thresholds) will be exempt from income tax if, on retirement, they are taken as either part of the lump sum or as annuity income.

**Medical Expenses**

- Taxpayers 65 and older may claim all qualifying expenditure.

- Taxpayers under 65 may claim all qualifying medical expenses where the taxpayer or the taxpayer's spouse or child is a person with a disability.

- Other taxpayers under 65 may in determining tax payable deduct monthly contributions to medical schemes (a tax rebate to be known as a medical scheme fees tax credit) up to R230 for each of the taxpayer and the first dependant on the medical scheme and R154 for each additional dependant. When determining taxable income they can also claim a deduction for medical scheme contributions exceeding four times the amount of the medical schemes fees tax credits and any other medical expenses limited to the amount which exceeds 7.5% of taxable income .

**Vat**

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

# *New legislation: Dividend Withholding Tax*

In the February 2011 budget speech, the minister of finance announced that a new dividend withholding tax (DWT) will replace the current secondary tax on companies (STC) on 1 April 2012. This new legislation will align South Africa with international tax practice. The South African Revenue Service (SARS) will levy the tax at a rate of 15% of the gross dividend.

The difference between DWT and STC is that DWT is a tax levied on investors who receive dividends, whereas STC is a tax payable by the company declaring the dividend. The legal liability for tax on a dividend distribution therefore shifts from the company paying the dividend to the investor (also known as the 'beneficial owner') receiving it.

DWT is a 15% tax levied on investors receiving dividends declared and paid by South African resident companies or foreign companies listed on the JSE. Although DWT is a tax borne by investors, it is the responsibility of the companies paying the dividends, or where relevant, certain 'withholding agents', to withhold the tax and pay it to the South African Revenue Service (SARS) on behalf of the ultimate recipients.

Linked Investment Service Providers (LISP) such as Momentum, Sanlam, Old Mutual, Investec ect.. are examples of 'withholding agents' and must therefore pay the tax to SARS on behalf of you "the investor".

This means that if a dividend of R100 is paid, the recipient will receive R85 and SARS R15. The dividend income (R100 in the above example) will still be exempt from normal tax in the beneficiary's hands because the dividends tax does not influence the normal tax rules. The 15% will be the final tax payable on the dividend.

**Practical example**

Mr A, a South African resident individual, holds units in the VPFP CPI +4% Fund of Funds via the Momentum investment platform. On 30 April 2012, Anglo American (a share listed on the JSE and which the VPFP CPI +4% Fund of Fund owns) declares and pays a dividend to its various investors. Because the VPFP CPI +4% Fund of Fund distributes on 30 June and 31 December, only on the 30 June 2012 (when the distribution accrues and becomes payable to Mr A), will Momentum deduct the 15% DWT, pay this to SARS and pay Mr A his net dividend distribution.

The following table gives the tax status of different investors to DWT:

| Who must pay DWT | Who does not have to pay DWT |
|---|---|
| • South African natural persons (individuals)<br>• South African trusts<br>• Foreign investors (may qualify for a reduced rate) | • South African resident companies or close corporations<br>• The South African government, provincial governments and municipalities<br>• Specified tax-exempt beneficiaries (e.g. public benefit organisations)<br>• Retirement funds and living annuity policyholders<br>• Endowment investment accounts allocated to the Company Policyholder Fund or the Untaxed Policyholder Fund |

**Individual investors or a trust**

Withholding agents will be obliged to withhold 15% tax from an investor's South African dividends declared after 1 April 2012 and to pay it over to SARS. The withholding agent will reflect the gross dividends, less DWT on statements and tax certificates provided to investors.

**Exempt entity or a foreign investor**

Reduced rates of DWT may apply to foreign investors due to double taxation agreements (DTAs) between South Africa and their countries of residence. There are certain restrictions that apply to this reduced rate. Foreign investors must request the declaration of reduction form to request a reduced rate.

If the investor is an exempt entity or a foreign investor, they are required to send a declaration that confirms this exemption or a DTA preferential rate. Please request this form from your financial advisor.

# *Relaxation of Exchange Control*

VPFP would like to bring to your attention some of the recent changes in respect of individual Single Discretionary Offshore Allowances.

According to the Exchange Control Circular No 25/2011 (issued on 23 December 2011), South African residents over the age of 18 are able to utilise their R1 Million Single Discretionary Allowance for Foreign Investment purposes without having to obtain a SARS Tax Clearance Certificate.

Previously this allowance may have been apportioned among:

- donations to missionaries,
- maintenance transfers,
- monetary gifts and loans,
- travel and study allowance,
- alimony and child support payments, and
- wedding expenses and other special occasions.

**Impact on investing in the VPFP offshore fund range**

Effective immediately, individuals may invest utilising their R1 Million Single Discretionary Allowance without having to apply for a tax clearance certificate. However, the investor is required to complete and sign the MP1423 form.

In addition, investors can still use their annual R4 Million Foreign Investment Allowance as per normal by obtaining a SARS Tax Clearance Certificate. The requirements for the transfer of the annual foreign investment allowance of R4 Million remain the same, that is, the investor is required to complete:

- MP1423 form,
- Balance of Payment form,
- FIA 001 (Tax Clearance form), and
- Statement of Assets & Liabilities.

The new limits are as follows:

- R1 Million per annum per adult - No SARS Tax Clearance Certificate required
- R4 Million per annum per adult - SARS Tax Clearance Certificate required
- R5 Million per annum per adult in total.

Clients looking to take advantage of this concession stand to benefit from not only purchasing global equities at attractive valuations but also the favourable tax dispensation of offshore funds. Due to the "roll up" of income in the VPFP offshore funds, investors are not paid out the interest or rental income earned twice a year, as is the case with the local VPFP funds, but is automatically reinvested and not declared as taxable income. In addition, with DWT being levied on foreign dividends at 15%, investors will no longer be taxed at their higher marginal rates of up to 40%.

If you would like further information on how to invest directly offshore please contact your financial advisor.

# *Retirement Funds – the new tax haven*

The unexpected 50% hike in dividend tax (from 10% to 15%) and 33% increase in CGT (from 25% to 33.3%) announced in this year's budget will impact the way we plan for savings and retirement. I have provided below a product comparison highlighting the pros and cons of investing with pre tax money (non discretionary assets) and after tax money (discretionary assets).

**Non discretionary Assets** (Retirement funding which includes Pension, Provident and Retirement Annuities)

Retirement funds (Pension, Provident and Retirement Annuity (RA)) remain exempt from tax on all investment income (interest, rental income), and, as from 1 April 2012, when the new dividends tax kicks off, will also benefit from the dividend exemption. Previously, given that the Secondary Tax on Companies (STC) was levied at source on the company declaring a dividend, at a flat rate of 10%, tax-exempt shareholders such as retirement funds, received only a net 90% of profits distributed as dividends. Under the new dividend tax regime (Dividend Withholding Tax), which takes cognizance of the tax status of shareholders, a tax-exempt entity will receive 100%. In addition, retirement funds are Capital Gains Tax (CGT) exempt.

Investors in offshore equities will also benefit from the 15% dividend tax. Previously, investors receiving interest and dividends from their offshore assets were limited to the R3 700 foreign dividend and interest exemption and taxed at their marginal rates of up to 40%.

**Discretionary Assets** (after tax money invested in Unit Trusts, Shares, Exchange Traded Funds)

Despite inflation and the precedent of annual increases, the tax-free portion of interest income remains at R22 800 for taxpayers under 65 years and R33 000 for those aged 65 and older. Local dividends, which previously suffered the imposition of the STC at a flat rate of 10%, will, under the new dividends tax regime, be taxed at a higher flat rate of 15%. Leaving aside some CGT threshold-adjustments, as from 1 March 2012, the effective rate of the CGT increases to a higher range of between 6% and 13,3% for individuals, 18,6% for companies and close corporations and 26,7% for trusts (when capital gains are retained and not vested in trust beneficiaries).

The following table summarises the key characteristics of each product

| | **Non -Discretionary Investment**<br>(Pension, Provident and RA) or pre tax savings | **Discretionary Investment**<br>(Unit Trust, Shares, ETF) or after tax savings |
|---|---|---|
| **Investment Income (Interest, Dividends, Rental Income)** | Non Taxable | Taxable<br>(Dividends 15%, Interest & rental income up to 40%) |
| **Capital Gains Tax (CGT)** | Non Taxable | Taxable at 33.3% |
| **On death** | CGT exempt & estate duty exempt | CGT and estate dutiable |
| **Creditors claim on insolvency** | Protected | Not protected |

| | | |
|---|---|---|
| **Tax deductable** | RA - up to 15% of non retirement funding income<br>Pension - 7.5%<br>Provident - nil tax deductibility | NIL tax deductibility |
| **Liquidity** | RA - can only access at age 55 or disability<br>Pension & Provident - one withdrawal prior to retirement age 55 on retrenchment, resignation or dismissal | 100% liquid |
| **Retirement** | RA and Pension can access up to 1/3 with R315 000.00 tax free. The 2/3 used to purchase a pension (traditional or Living Annuity). Provident can access 100% with R315 000.00 tax free, the balance taxed at post retirement tax table rates. | 100% liquid |
| **Income payment** | Income from annuity is fully taxable | Income is non taxable |
| **Regulation 28** | Needs to be compliant (can only invest up to 75% in equity) | No compliance (invest 100% in any security) |

Given the tax concessions afforded to retirement vehicles, let's consider by way of example, what impact this might have on investment value and compare this with a discretionary investment (unit trust portfolio).

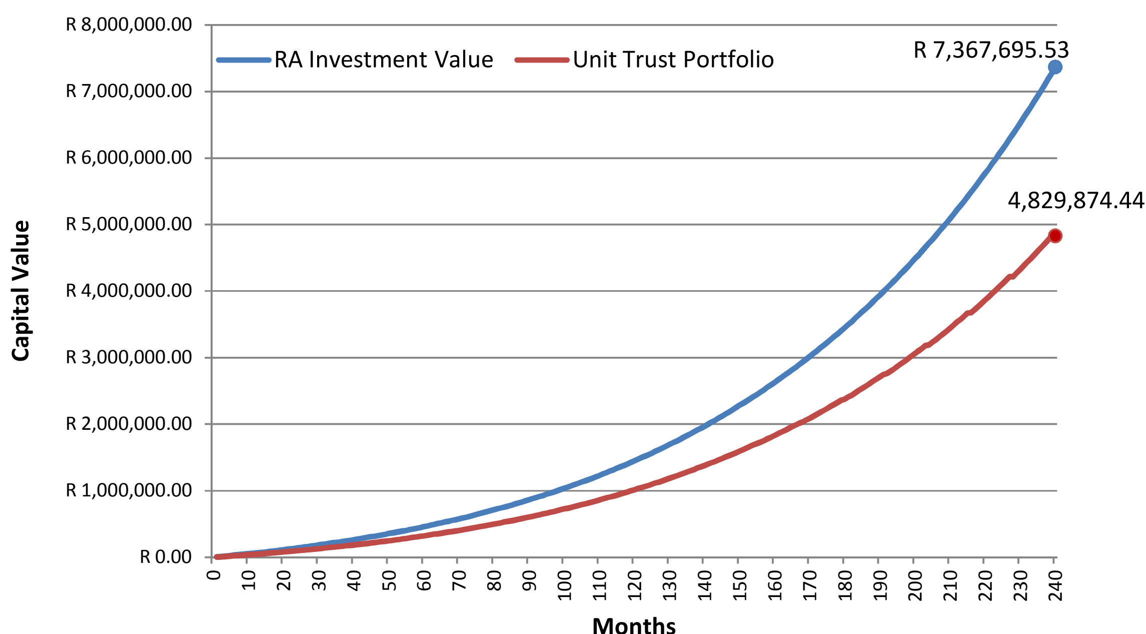
Investor A is looking to retire in 20 yrs and has the option to either allocate his monthly installment of R5 000.00 (pre-tax) to a retirement annuity or a unit trust portfolio.

The following assumptions have been used in the calculation:

| | |
|---|---|
| Term | 20 years |
| Monthly contribution* | R 5,000.00 |
| Escalation Rate of contribution per annum | 6.00% |
| Expected Growth Rate | 12.00% |
| Marginal Tax rate | 30.00% |
| % of assets invested in fixed interest | 50.00% |
| % of assets invested in equities | 50.00% |
| Dividend Yield | 4.00% |

| **Annual Interest Exemption** | |
|---|---|
| Persons under 65 | **R 22,800.00** |
| Persons over 65 | **R 33,000.00** |
| **Dividend Withholding Tax (DWT)** | |
| | **15.00%** |

**Notes:**
*Monthly contribution for unit trust portfolio = R5 000.00 less 30%( marginal tax rate of investor A) = R3 500.00 (after tax)
Investment distributions (interest, dividends and rental) are assumed to be re-invested
Tax payable on interest earned and DWT is assumed to be paid at the end of each year
CGT is excluded as it is assumed no portfolio switching will occur throughout the investment term &therefore no CGT liability




Source: Vickers & Peters Financial Planning

At retirement date, if investor A had chosen the retirement annuity the net investment value would be R7.3 million. If investor A had chosen the unit trust portfolio the net investment value would be R4.8 million. Choosing the RA would have added R2.5 million to his investment value.

It's evident that the tax changes have tilted the balance in favour of retirement vehicles. However, before you make a change and transfer your savings into a retirement product, you will still need to review your financial goals and existing investment strategy in order to optimise your overall financial position and avoid the trap of improving the one side of your balance sheet at the expense of the other. We need to be mindful that although tax is an important component of investing, there are a number of other factors that will influence and ultimately determine whether the investment goal is achieved.

At VPFP we are constantly looking for ways to improve our client service delivery and the manner in which we interact with you, whether its via phone, e-mail or website. Hence we have upgraded our website www.vpfp.co.za with the intention of enhancing the online service experience.

Your VPFP team remains client service driven and if you feel we are not meeting your expectations please send an e-mail to gholt@vpfp.co.za highlighting your concerns.

Your feedback is always encouraged and appreciated.

# *Rebranding of Celtis Capital*

Vickers & Peters Financial Planning would like to formally announce the name change of our Asset Manager, formerly known as Celtis Capital. Celtis Capital has changed its name to **Ampers&nd Asset Management**.

Shortly after the registration of Celtis Capital in 2007, it came to our attention that another South African asset manager, with a competitor fund in one of our categories, was registered under the same name. We thus embarked on a journey to seek a new identity and brand, something that would express the independence as well as the integration and core philosophy of the two separate businesses.

**Why Ampers&nd?**

The ampersand symbol (&) is a scribal abbreviation for "and", with a long and rich history, dating as far back as 63 B.C. Although its original name has been long banished from our alphabet, it survived the test of time and the ampersand holds a place in our culture and language. Typography designers relish the use of the ampersand because it is a conjunction that celebrates creative expression.

The Ampersand (&) – creates a natural link to the sibling Vickers **&** Peters brand, as well as illustrating the core philosophy of the Vickers & Peters business AND itself: ***"Always Adding Value"***. We believe the new brand is strong, simple and immediately identifiable. The Ampersand (&) also conjures impressions of *Partnership*. This speaks to Ampersand's objective of partnering with Vickers & Peters Financial Planning to offer a comprehensive service to each client.

Finally and most importantly, it symbolises the partnership with you, our client, in implementing an investment solution most suitable to your requirements.

The name has changed, but the team has not and Ampers&nd Asset Management's investment philosophy & process remain the same.

Please visit Ampers&nd Asset Management's new website, on www.ampersandam.co.za

Vickers & Peters together with Ampers&nd thank you for your continued support and look forward to continuing our journey and partnering with you into the future.

VPFP Fund Performance for the Period Ending 28 March 2012

| | 3 Month | | 6 Month | | 1 Year | | 2 Years | | 3 Years | | Inception (12/05/2008) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Return | Risk | Return | Risk | Return | Risk | Return | Risk | Return | Risk | Return | Risk |
| **VPFP CPI + 2** | **2.56%** | **0.546** | **6.73%** | **0.757** | **11.74%** | **2.533** | **20.29%** | **3.207** | **33.50%** | **3.265** | **35.67%** | **4.828** |
| Investment Objective (CPI + 2%) | 1.84% | | 3.55% | | 8.24% | | 14.50% | | 23.39% | | | |
| **VPFP CPI + 4** | **3.32%** | **0.828** | **8.22%** | **1.386** | **10.62%** | **4.881** | **19.34%** | **5.004** | **37.32%** | **4.971** | **30.30%** | **6.827** |
| Investment Objective (CPI + 4%) | 2.33% | | 4.56% | | 10.35% | | 19.02% | | 30.76% | | | |
| **VPFP CPI + 6** | **4.03%** | **1.301** | **9.52%** | **2.106** | **10.84%** | **7.707** | **19.93%** | **7.702** | **44.93%** | **7.718** | **24.23%** | **10.042** |
| Investment Objective (CPI + 6%) | 2.82% | | 5.55% | | 12.46% | | 23.62% | | 38.41% | | | |

*(CPI Benchmark as at 29 February 2012)*

Source: MoneyMate

*At your service…*

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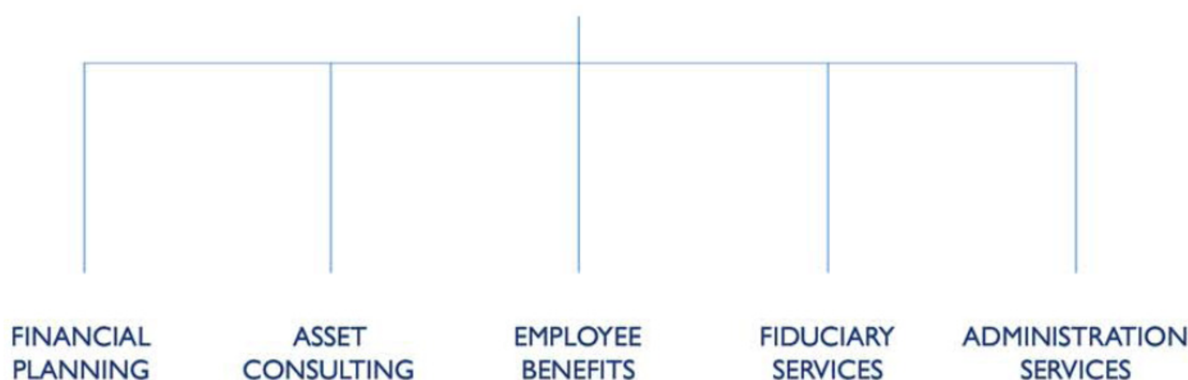
## *Our services include…*

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





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Vickers & Peters
LIFESTYLE AND ASSET PLANNING


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