Vickers & Peters
LIFESTYLE AND ASSET PLANNING

Around the Table with Vickers & Peters Financial Planning

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VPFP would like to wish you and your family a healthy and prosperous 2014.

On the Table this Quarter…

Retirement Annuity contribution cut off dates for 2013/2014 tax year

The tax year-end's fast approach means that 28 February marks the deadline for individuals to make RA contributions in order to qualify for tax deductions (subject to limits).

For those clients wishing to make a use of the tax incentive please be aware of the following cut off dates:

All new deposits must be transferred to the life company by no later than 27 February in order to qualify for a tax certificate for the 20013/2014 tax year. A completed application form and proof of deposit is a prerequisite for all new money. Clients who transfer money via the internet should allow 72 hours for the money to be reflected in the life company's account especially where they are transferring across different banking institutions.

Clients not wanting to transfer can elect on the application form for the life company to collect on their behalf from their nominated bank account. If this option is selected clients should allow for the application form to be submitted before the 20th February. Any deposit/collection made after 27 February will not qualify for a 2013/2014 tax certificate.

The life company will create tax certificates for the 20013/2014 tax year and will also submit the relevant RA contribution information to the South African Revenue Service through the electronic interface.

Retirement Annuity Funds (RAs) offer tax incentives to encourage individuals to save for their retirement. RAs have a number of clear benefits that make them very attractive investment vehicles. This may be particularly relevant if:

- You have contributed less than the maximum tax deductable amount.
- A large portion of your income is variable and this is not taken into account with your current pension or provident fund contributions, e.g. you received a bonus.
- You are not a member of a pension or provident fund (e.g. you are self employed) and want to save for retirement.
- You own a small business and would like to offer your staff a pension savings scheme.
- You prefer a disciplined savings plan where funds are only accessible for retirement purposes.
- You looking for an investment product where the interest earned, capital gain, and rental income is all tax free.
- You leaving your current employer and looking for a suitable home for your pension or provident fund benefit whereby you have the option to make further contributions.
- You would like an investment product that is free from estate duty and will be paid directly to your beneficiaries on your death.
- You can make ad hoc contributions (lump sum and monthly) with the option to increase, decrease or stop the contributions.
- You would like an investment product that has access to both local and offshore markets.

Life assurance, investment polices and retirement annuities offer a financial solution that continues to play an important role in any long term financial plan.

Reviewing your Financial Plan in 2014

Financial planning is a continuous and dynamic process that takes into account your changing personal circumstances and changes in the economic and legislative environment.

Future needs, current savings and your insurance safety net all have to be considered. And, because your assets, earnings and responsibilities are likely to have grown over the years, a complete revision of your will may also be necessary.

Please contact your VPFP financial advisor or send an e-mail to clientservicing@vpfp.co.za for a financial review.

Capital Gains Tax: Trusts vs Individuals

Many clients have expressed concern regarding when and to what extent they or their trust is liable for capital gains tax (CGT). Knowing the different tax treatments will assist in choosing how to structure your estate and trust more effectively. We highlight some of the most important differences in CGT from either a trust or an individual's perspective.

Background

As most people are aware, a normal trust is taxed on all taxable income at a fixed rate of 40%, whereas individuals earning above the threshold are taxed at their personal marginal rate, ranging between 18% to 40%, and qualify for certain exemptions and rebates.

When a capital gain is realised within a trust, 66.6% of that gain has to be included for income tax purposes (taxed at 40% as stated), effectively meaning that a trust's CGT is 26.64%. A trust has no yearly exclusion.

Individual taxpayers that make a capital gain will be able to exclude R30 000 of any gains in a year (or R300 000 in the year of death) and will include 33.3% of the remaining gain for income tax purposes. The gain will be taxed at their specific marginal rate (between 18% and 40%), which effectively means that an individual will have a maximum CGT rate of 13.32%.

Without taking any other factors into consideration, one would therefore pay more than double the CGT in a family trust than if you held and sold the assets in your own name.

Distributing the gains from a Trust

The "conduit principle" with regard to trusts has been written about extensively and is also at the centre of National Treasury's proposed changes to the taxation of trusts. In simple terms, income or gains that are realised inside a trust, can "flow through", or be distributed to the beneficiaries of the trust, while retaining the nature of the income.

This means that dividends, interest and capital gains get taxed in the hands of the beneficiaries and not the trust. The fact that the nature of the income is also retained is very important, as natural persons receive certain exemptions, exclusions and/or rebates on certain items and get taxed differently.

In terms of paragraph 80 of the Eighth Schedule of the Income Tax Act, where a capital gain is vested in a beneficiary of the trust, the trust will not have that gain included in its own tax calculation, but it will be taxed in the hands of the beneficiary.

This means that where a trust deed authorises the trustees to do so, the trustees are able to distribute the capital gains of the trusts, vesting it in the beneficiaries. It is also possible to distribute the gains to multiple beneficiaries, each paying at their assumed lower marginal tax rate and each having their own annual exclusion of R30 000. Substantial capital gains tax savings can thereby be achieved.

It is important to keep in mind that to achieve savings of this nature, the capital gain has to be allocated to a resident natural person in the year in which it was realised by the trust. Many trusts have beneficiaries that include another trust. If the gain passes to another trust first and then to an ultimate beneficiary of the second trust, the higher effective tax rate applies.

Tax savings vs protection of assets

What is vital to remember, though, is that the main purpose of a trust should be the protection of trust assets and beneficiaries' interests, and any possible tax savings should receive only secondary consideration. If capital gains are vested in a beneficiary, the protection that the trust offers on the portion that is vested falls away. If the gain is distributed, there might be a temporary tax saving, but if the gain vests in the beneficiary, it becomes an asset in his or her estate and is open for attachment by creditors and ex-spouses, as well as increasing the estate value for estate duty purposes. Trustees should therefore consider all the implications before taking this route merely to potentially save on CGT.

Family trusts

A lot of people with family trusts received advice years ago to transfer their family homes into their trust. This was done at a time when trusts were slightly more tax efficient than they are today and before SARS started removing any tax advantages that trusts might have had. One of the consequences of SARS's current treatment of trusts is the exclusion of the primary residence rebate. An individual that sells his primary residence does not have to include the first R2 million of any gain made, but only if it meets the requirements set out - one of these being that the property had to be registered in your name. Having your primary residence inside a trust will mean that any gain made on the sale will have to have all of it included or distributed.

Changes to legislation

Last year, the Minister of Finance managed to get a number of people sitting upright and alarmed when it was indicated that government was looking at various changes to tax law regarding trusts to prevent what they perceived as tax avoidance. After various meetings with the financial planning industry and regulatory bodies, including the Fiduciary Institute of Southern Africa (FISA), the Financial Planning Institute (FPI) and the Law Society of South Africa, it was explained what the general benefits of having a trust are, and highlighted that less individuals than believed used trusts in a manner to save on capital gains tax. Treasury has not finalised any tax changes and indicated these were not likely to happen in the short term.

As things stand, the taxation of trusts is unchanged and will remain that way for the foreseeable future. Trustees are still able to let income flow through to beneficiaries, thereby reducing the trust's tax liability. It is important to remember that trustees may only distribute capital gains to beneficiaries if the trust deed empowers them to do so. It is therefore vital to consult your VPFP adviser in order to get the right structure and advice.

Product comparison – what happens on the death of the policyholder?

Death Claims	
Product	**Summary**
Flexible Investment Option	• Benefits will be payable to the Estate and subject to Estate duty and executors fees. • Executor to instruct the life company to pay benefits into estate bank account or to reinvest into the beneficiary name. • Dispensation of asset according to deceased will.
Flexible Endowment Option	• Benefits will be payable to beneficiaries (if nominated in contract). No estate duty applicable. • If no beneficiary is nominated, the money will be paid to the Estate and subject to Estate duty. Deemed property therefore no executors fees • If there are multiple life assureds, claims will only be paid on the death of the last insured life • If the policy owner and life assured differs, full claim value will be paid to policy owner on death of life assured • If policy owner dies, no death claim as the life-assured is still living – death claim is only payable if the life assured pass away • Full value can be paid to the Estate of the policy owner or ownership may be transferred by means of a change owner form completed by the Executor of the Estate

Retirement Annuity	• Member may nominate beneficiaries
	• An RA is not included in the deceased estate and therefore no estate duty applicable.
	• The trustees of the Retirement Annuity fund are obliged to assess each death claim and determine whether there are any dependents. The trustees have an obligation to provide for all dependents irrespective if they are nominated beneficiaries or not.
	• The trustees have the authority to override a beneficiary nomination if there are claimants who were dependent on the deceased, and who are in need of funds.
	• Options to beneficiaries are:
	    ○ Take full cash value – subject to pre-retirement tax table of deceased
	    ○ transfer tax free the full value to a new Living Annuity
	    ○ Can also take a combination of: withdrawing a portion in cash and investing the balance in a compulsory annuity

Retirement Preservation Fund	• Member may nominate beneficiaries
	• A Preservation Fund is not included in the deceased estate and therefore no estate duty applicable.
	• The trustees of the fund are obliged to assess each death claim and determine whether there are any dependents. The trustees have an obligation to provide for all dependents irrespective if they are nominated beneficiaries or not.
	• The trustees have the authority to override a beneficiary nomination if there are claimants who were dependent on the deceased, and who are in need of funds.
	• Options to beneficiaries are:
	  ○ Take full cash value – subject to pre-retirement tax table of deceased
	  ○ transfer tax free the full value to a new Living Annuity
	  ○ Can also take a combination of: withdrawing a portion in cash and investing the balance in a compulsory annuity

Living Annuity	• Member may nominate beneficiaries
	• A Living Annuity is not included in the deceased estate and therefore no estate duty applicable.
	• Options to beneficiaries are:
	  ○ Take full cash value – subject to post retirement tax table of deceased, or
	  ○ transfer tax free the full value to a new Living Annuity
	  ○ Can also take a combination of: withdrawing a portion in cash and investing the balance in a compulsory annuity
	• In the absence of a dependant or nominee, proceeds will be paid to the deceased's estate as a lump sum - dispensation of asset according to deceased will - no estate duty applicable.
	• Do not need to wait for letter of Executor in order to finalise the death claim if there is a nominated beneficiary on the contract.

Market & Fund Performance Update

Macro Overview

2013 has been an interesting year filled with ups and downs, mirrored by swinging market movements. Equity markets ended the year on a high note, with the fourth quarter contributing to the upside, particularly in global markets. The driving force behind market moves this year, continuing into the fourth quarter, was the taper vs. no taper debate (would the US Federal Reserve Bank (Fed) decide to cut its massive bond buying program, thus reining in the US$85 billion per month stimulus, or not?). Markets had already largely priced in US Fed tapering by the time the decision came on 18 December to trim bond purchases by US$10 billion per month on the back of moderate economic recovery and further labour market improvements. US Q3 GDP rose to 4.1% from 2.5% in Q2, continuing to surprise on the upside. Unemployment has decreased to a level of 7%, although the labour force participation rate continues to decline. Purchases of mortgage-backed securities will continue at a pace of US$35 billion per month (currently US$40 billion) and purchases of treasuries at US$40 billion per month (currently US$45 billion), with effect from January 2014.

The move by the Fed has been coined as "taper-lite" and "dovish" in nature in reference to the idea that the Fed would seek to offset the impact of a potentially unsettling tapering announcement with more market-friendly forward guidance on the future path of the Fed funds rate (interest rate).

Federal Reserve policymakers did change their guidance on interest rates going forward, now indicating that the US interest rates will remain low (near zero levels) even after the unemployment target of 6.5% is reached, as long as inflation does not exceed 2.5%. US inflation has remained below the Fed's 2% target since November 2012, and is currently hovering near a 3 year low, at 1.2%. The Fed is likely to taper stimulus gradually, with interest rates remaining at all-time lows for an extended period, until further signs of improvement in the labour market and broader US economy are visible.

The impact of the announcement on equity markets and risk assets was therefore to spur the bulls further into positive territory (surprisingly) on improved sentiment due to the stronger forward guidance, propelling global markets to a record close for the year. Safe haven assets like gold and bonds remained under pressure.

All things being equal, improved US economic activity and a more positive outlook is encouraging and should feed through into a wider-spread global recovery.

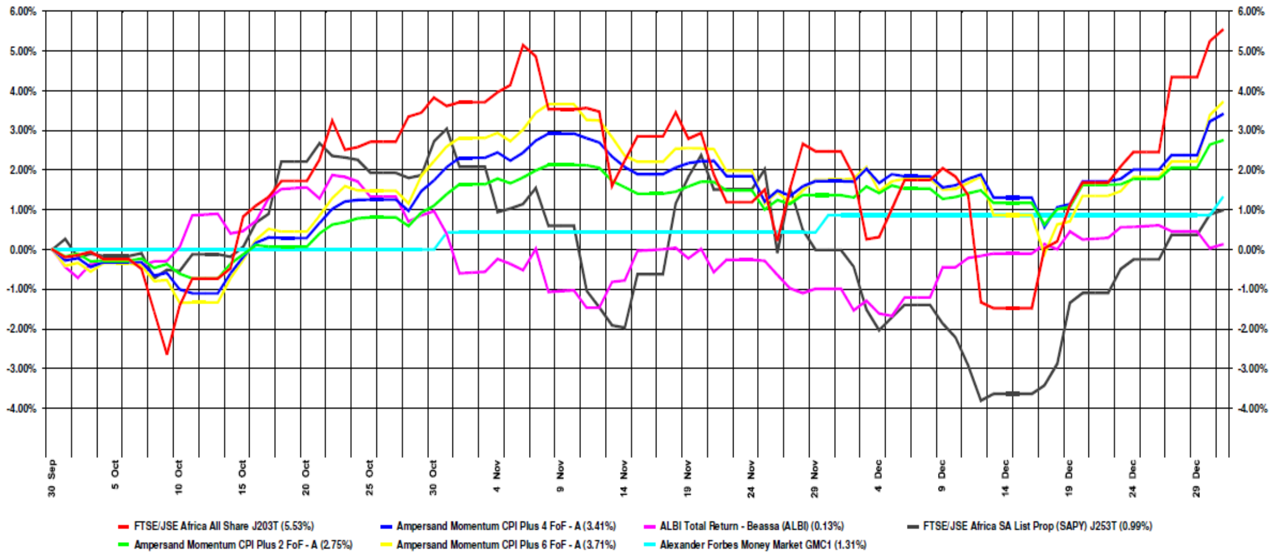
Performance – *what added and what detracted?*

Our portfolios experienced another encouraging quarter of growth, driven mostly by risk assets, especially local equity and global exposure as the rand continued to weaken.

All major asset classes saw positive gains in the fourth quarter. The largest contributor to performance was offshore equity, which rose 11.7% in rand terms, equating to near-double digit returns from the offshore portfolios. Offshore equity performance was driven largely by investor sentiment towards the tapering announcement (as a result of positive forward guidance), with more than a third of the quarter's growth being generated in the last two weeks, after the Fed announcement on 18 December 2013. This was coupled with a weaker rand, which lost 4% to the US dollar.

Local equities also added to performance, with gains of 5.5% over the quarter.

Performance Report
South African Rand (ZAR) - NAV to NAV
From: 2013/09/30 To: 2013/12/31



Income Reinvested on Payment Date
Indices shown in South African Rand (ZAR)
Past performance is not necessarily a guide to future performance
Unit prices can fall as well as rise

Position going forward

We remain cautiously optimistic in our view and maintain a more conservative outlook and thus positioning in the portfolios. We remain bullish in the short term but we have positioned our portfolios in such a manner that we would be able to absorb unexpected and extreme volatility.

Risk control through diversification remains the theme throughout our portfolios.

It is important to remember that long term investing ensures a sustainable return through various market cycles. We believe the portfolios are positioned for long term stability.

Please find the VPFP fund performance on page 9.

VPFP Fund Performance for the Period Ending 31 December 2013

Fund or Benchmark	3 Month	6 Month	1 Year	3 Years	5 Years	Inception	
	Return	Return	Return	Return	Return	Return	Risk
Ampersand Momentum CPI + 2	**2.75%**	**6.64%**	**10.65%**	**37.77%**	**61.79%**	**66.88%**	**4.37**
Investment Objective (CPI + 2%)	1.27%	3.45%	7.41%	25.28%	42.84%		
Ampersand Momentum CPI + 4	**3.41%**	**9.79%**	**14.31%**	**41.25%**	**71.72%**	**65.98%**	**6.14**
Investment Objective (CPI + 4%)	1.76%	4.46%	9.50%	32.76%	57.34%		
Ampersand Momentum CPI + 6	**3.71%**	**12.34%**	**16.70%**	**44.71%**	**86.07%**	**62.39%**	**8.93**
Investment Objective (CPI + 6%)	2.24%	5.45%	11.60%	40.53%	73.00%		
JSE All Share Index (TR)	**5.53%**	**18.76%**	**21.43%**	**57.78%**	**148.06%**	**69.63%**	**17.21**
Alex Forbes Money Market	**1.31%**	**2.63%**	**5.32%**	**17.60%**	**36.89%**	**48.25%**	**0.66**

Inception 12/05/2008 *(CPI Benchmark as at 30 November 2013)*

Source: MoneyMate

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LIFESTYLE AND ASSET PLANNING

Financial Planning | Asset Management & Consulting | Employee Benefits | Fiduciary Services | Administration Services

Our services include…

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

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