Tax, an increasing burden.

The tax payer's burden in South Africa is increasing. There are various contributing factors, the greatest of which is the fact that the population to whom the government is supposed to render services is growing at a faster rate than the number of people from whom the government charges taxes. If attention is not given to the problem of an excessively high population growth, the influx of people from neighbouring countries, and unemployment, the problem will only worsen. The fact that civil services are presently experiencing record levels of corruption and misappropriation does not help, naturally, and this will also have to be addressed soon.

Agriculture is already buckling under a cost squeeze, with the input costs of agricultural products rising faster than their selling prices, and the extra burden of higher tax rates on agriculture makes it even harder to maintain sustainable farming practices. Producers and their accountants/advisors will have to carefully consider whether their businesses are properly structured for creating the best tax environment possible.

The best-known taxes that affect producers are income tax, capital gains tax, value added tax, estate duty, donation tax, transfer duty, and dividend tax. We will look at how each of these has changed over the past few years.

Income tax:
The highest income tax rate for individuals was 40% until the February 2015 financial year, which is also the fixed rate at which trusts pay income tax. This rate increased to 41% for the February 2016 financial year, and it has been 45% since the February 2018 financial year.

Here it is important to consider whether or not it would be better to farm within a company. Companies are levied at a fixed rate of 28%, and if the company's turnover is below R20 million per annum and it complies with certain requirements, then small business tax schedules are applicable, which implies that companies are levied according to a sliding scale of 0%, then 7%, then 21%, and only then at 28%. On a taxable income of R550 000 and above, the tax savings amount to R95 070 per annum according to the present tax schedule. However, there are certain disadvantages, one of which being that these companies cannot use levelling as individuals can. Each scenario must be dealt with by its own merits and in this regard the accountant/advisor's expertise on tax legislation will be invaluable to the producer.

Capital gains tax:
The rate at which capital gains are included under an individual's taxable income was 25% on 1 October 2001, the time at which capital gains tax was introduced. On 1 March 2012 it increased to 33.3% and again to 40% as from 1 March 2016. For companies, closed corporations and trusts, the rate has increased from 50% on 1 March 2001 to 66.6% on 1 March 2012, and then to 80% on 1 March 2016.

Here the growing influence of capital gains tax is noteworthy, where it is becoming increasingly important to keep growth assets like land and shares in a trust or company where no capital gains tax will be payable in the event of the producer's death. If growth assets like the farm are kept in the producer's own name, it will be costly to transfer to a trust or company since capital gains tax will then be payable, although there is a process (Section 42 – asset-for-share transaction) by which this can be done in a tax-neutral manner. Yet again it is important for the producer to consult with their accountant/advisor to find the best solution.

Value added tax:
The rate at which value added tax is levied was 10% on 30 September 1991 when VAT was implemented. On 7 April 1993 it was increased to 14%, followed by another increase to 15% on 1 April 2018.

Producers cannot do much about value added tax except to ensure that all invoices are made out correctly so that reclaimable VAT is not lost as a result of faulty invoices being turned down by the South African Revenue Services.

Estate duty and donation tax:
Estate duty and donation tax were both levied at a fixed rate of 20% until 1 March 2018, after which it was levied against a sliding scale of 20% for the first R30 million, and thereafter 25% for all amounts exceeding R30 million.

It is becoming increasingly important for producers to regularly revisit their testaments and have proper estate planning done by an expert to account for the effects of rising estate duty rates. R30 million may sound like a big amount and most producers think that if their farms are in trusts or companies, their estates will never be that great. However, remember that all life coverage payable at death, any amounts payable by the producer's trusts and/or companies on loans, and any shareholding in the companies' values, are added to the estate.

Transfer duty
The top rate at which transfer duties were levied was 8%. It was raised to 11% on 1 March 2015 and again to 13% on 1 March 2016.

It has therefore become more expensive to purchase property. Producers should remember that where a VAT-registered entity purchases commercial property from an entity that is not VAT-registered, transfer duties are payable on the purchase price, but that such deemed VAT is reclaimable on the purchase price.

Dividend tax:
Dividend tax has replaced the old secondary company tax, which was a rate of 10%, with a rate of 15%. Since 22 February 2017 this rate was increased to 20%

No dividend tax is payable where one company pays dividends to another company. Producers should consult with their accountants/advisors to determine whether they should keep the holdings of companies that pay out dividends in companies rather than in their own names or in trusts. As long as the company's returns are used and not distributed as dividends to shareholders, they will save 20% dividend tax on dividends. It remains important, however, to keep in mind how the abovementioned moves will affect estate tax and capital gains tax.

Other taxes:
Other taxes exist, like the Road Accident Fund that increased from 45c/litre in 2008 to R1.93/litre in 2018, and the fuel hike from R1.72/litre in 2008 to R3.37/litre in 2018. In total the fuel levy stood at R1.72/litre in 2008 as opposed to R5.30/litre in 2018.

Excise tax on cigarettes and alcohol among others also increases annually, while new taxes such as sugar tax and the plastic bags levy are introduced.

Producers can do little about the effects of other taxes except to adopt healthier lifestyles by walking and cycling more, smoking and drinking less, and to follow a low-sugar diet.

It is clear from the above-mentioned that the tax payer's burden is getting heavier and it is therefore becoming an increasing necessity for producers to regularly consult with their accountants/advisors about the current structures within which their companies are operating, and whether these are still the best and most tax-friendly ways of doing business.

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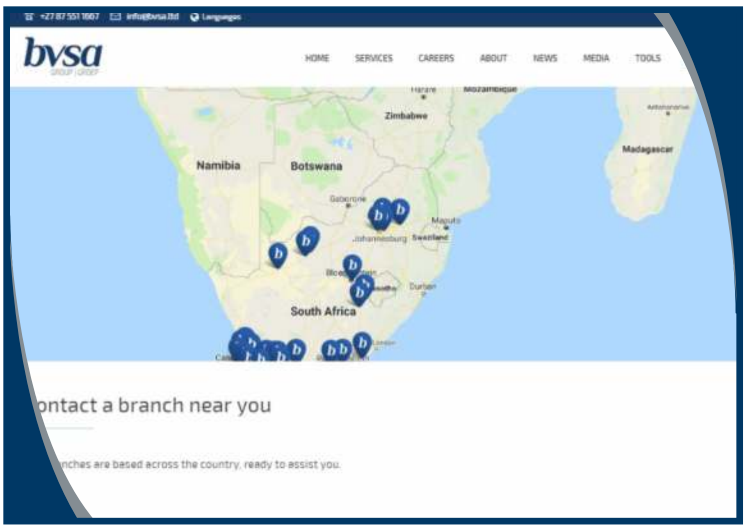

Business Expansion

BVSA Pretoria / Middelburg BVSA now have offices in Pretoria and Middelburg (Mpumalanga). We have merged with Massyns as from 1 September. Johan Wolmarans oversees management in Pretoria and Douw Venter in Middelburg. Welcome to all our new clients!

Business Finance Intelligence BVSA REK also acquired an interest in BFI (Business Finance Intelligence Pty Ltd). The company was founded and is operated by two former employees of BVSA, Reinhard Labuschagne and Ruan Vermaak. The company focuses on the reporting of management information to companies. BFI builds a unique business model for every client, which they use as a tool for reporting, analytics, data mining, financial planning and forecasting of the business.

As usual, we are busy with many ventures.

SARS deadline

Please note that SARS has cut the tax season by three weeks. The deadline for this year's tax returns is 31 October.

My profit is gone!

Q3 Y18

In our previous letter BVSA warned against uncertainty and volatility in the local and international economy and political environment. The powers that be did not disappoint. Joe Public, normal investors and pensioners, are all losing sleep about the world, our country and their hard-earned money. They lie awake at night, wondering what to do and if there is indeed a future for investments.

Together with the ongoing trade war that is first going to worsen before it gets better, developing markets' instability and South Africa's numerous challenges, from liquidity to an ANC power battle, the future looks bleak and uncertain.

The Rand is under pressure, proprietary rights remains a question and declining capital is becoming a challenge for everyone. The profit of most investors has been wiped out and inflation is biting at everyone's heels.

The above is reality and we cannot give a date of when this will become any better. We daily receive questions from our clients: "Must I move all my investments overseas?", "Is South Africa doomed?" and "Must I not rather invest all my investments in fixed interest at a bank?"

As financial advisors we have to look at each client's individual situation. This also includes whether the client is before or after retirement, does the client have income from his/her investments, which percentage of capital the client uses as income, risk profile, asset value, etc.

Fixed interest is not necessarily the solution, seeing as one has to pay income tax on interest. Interest exemption is not sufficient in a portfolio for retirement. It is, however, a good place to keep your emergency fund.

Banks, as we've been hearing, advertise interest rates of up to 13%, but then your money has to be fixed for 5 years. You have no liquidity. The 13% must also be converted to an annual compound rate. It works out to 10,05% per year. This is 22,7% (2,95/13) less income per year than what most people use to make their calculations.

In 2001 most investors also thought our country was doomed and that there is no future for the Rand and our economy. We reckon South Africa and its people will also get through this low point.

.What to do?
Do not act on emotion alone. We so often forget the double-digit growth over the last decade. Get expert advice. Foreign exposure in Rand denominated funds is one option to consider – if your local fund does not yet have at least 30% (or more) direct foreign exposure. We are convinced that foreign exposure is a must for a portfolio.

Q4 Y18 What lies ahead?
America is still phasing in import tariffs on Chinese goods, England's time is running out for a meaningful Brexit agreement and South Africa's election is only in May 2019.

Local and foreign shares have markedly decreased over the past two months and buying opportunities at reasonable prices are starting to develop. This will support the market, but volatility and uncertainty did not disappear.

Now, more than ever, it is important to have a long-term outlook with regards to your investments and receive expert financial and investment advice

Author: Guillaume Oberholzer,

BVSA investments and financial planning