



## CAPITAL GAINS TAX: THE RATE INCREASE AFFECTS ALL INVESTORS

### BRENTHURST RESEARCH DEPARTMENT

*What to do with your investment portfolio to minimise the impact?*  
On 22 February 2012 this year Pravin Gordhan, South African Minister of Finance, had some good and some bad news for investors.

The announcement that the inclusion rate of Capital Gains Tax (CGT) will increase for the first time since the inception of CGT in 2001, falls squarely in the domain of bad news and was a bit of a negative surprise for investors holding a balanced portfolio of equities, unit trusts and properties.

The rate for individuals increased from 25 percent to 33.3 percent, translating into a maximum effective tax rate for individuals of 13.3 percent payable on the capital gains incurred on all the above assets upon selling them.

The expected impact of the change in the tax regime was so undesirable that some individual investors immediately started liquidating their assets after the budget speech to still make use of the previous, lower rate before the increase came into effect on the 1<sup>st</sup> of March.

The 1<sup>st</sup> of March has now come and gone, thus the opportunity to utilise the lower rate is no longer an option for investors.

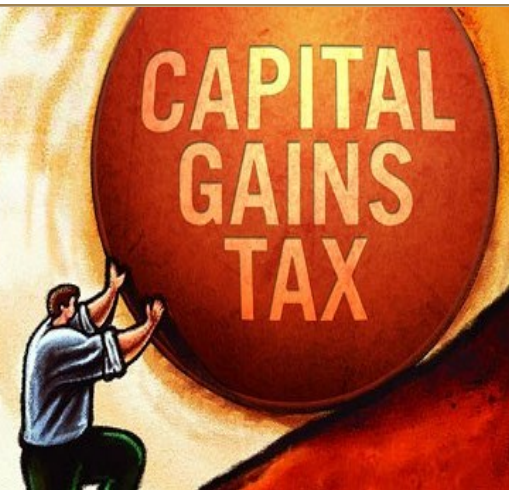
The question, however, remains: *What to do now in light of the higher CGT? How should you structure your existing and future investments and savings portfolio to sidestep this higher tax and maximise your capital and wealth accumulation?*

### WHAT IS CGT?

Capital Gains Tax is a tax payable on the profits made upon the disposal of capital assets. It came into effect on the 1<sup>st</sup> of October 2001. This date is also known as the “valuation date” so that owners of capital assets have a starting point to calculate the extent of profits made from the sale of assets that was perhaps acquired a very long time ago.

Capital Gains Tax will therefore only be payable on taxable gains accruing after the 1<sup>st</sup> of October 2001. Capital assets range from fixed property, unit trusts and shares, for example, individuals to plants and machinery for companies. Even non-residents are liable for this tax if it pertains to the disposal of an immovable property that is situated in South Africa or, for example, trades carried out on equities in South Africa on the local exchange.

Please consult with Gavin Butchart, who heads up our tax advice department (011) 799 -8100 or email [gavinb@brenthurstwealth.co.za](mailto:gavinb@brenthurstwealth.co.za) should you have any questions with regards to CGT.



### In this issue

WHAT IS CGT?

PLANS TO MINIMISE THE IMPACT

KNOW THE IMPACT, DECIDE ACCORDINGLY

UPCOMING SEMINARS

CONTACT US

JHB: +27 11 799 8100

CPT: +27 21 914 9646

PTA: +27 12 460 0340

Global  
Markets  
AND SA ECONOMY

For properties it is important to note that a number of deductions can be made against the profit made, such as renovations that qualify as improvements to the property, estate agents' commission and VAT on commission, attorneys' fees including VAT and other fees for professionals like architects, electrical, gas and plumbing experts.

An interesting element is that capital gains tax does not only arise from voluntary acts like a sale, but also involuntary acts such as the expropriation or destruction of the asset or the death of the owner.

In the latest budget the exemptions for individual capital gains also increased, limiting to some extent the impact on individuals. This means that on this amount of capital gains, no tax is payable.

- ⇒ THE ANNUAL EXCLUSION AMOUNT FOR INDIVIDUALS INCREASED FROM R20 000 TO R30 000.
- ⇒ THE EXCLUSION AMOUNT ON DEATH INCREASED FROM R200 000 TO R300 000.
- ⇒ THE PRIMARY RESIDENCE EXCLUSION INCREASED TO R2 MILLION, MEANING THAT FOR RESIDENCES SOLD FROM MARCH 1, 2012, FOR R2 MILLION AND MORE, THE FIRST R2M PROFIT WILL BE EXEMPT.
- ⇒ THE EXCLUSION AMOUNT ON THE DISPOSAL OF A SMALL BUSINESS WHEN A PERSON IS OVER THE AGE OF 55 INCREASED TO R1.8 MILLION

Many analysts dubbed the increase in capital gains tax as a negative message to investors as it seems like a punitive measure and discourages investment or saving in assets. On the one hand the budget speech spoke to the need of South Africans to increase their level of savings and on the other hand measures like this increase negated that encouragement to save.

The effective tax rate for individuals, as already mentioned, is 13.3%. For companies it is 18.6%. Trusts, however, are hardest hit, with an effective tax rate of 26.7% after the increase.

## ***PLANS TO MINIMISE THE IMPACT***

To avoid being penalised excessively by this tax, investors should firstly keep in mind that they should **INVEST FOR THE LONG-TERM**. Unnecessarily frequent trade in unit trusts and equities will obviously have an adverse effect on your eventual profits. So, hang on to your equities for the long-term.

Secondly, a safe haven for your spare funds seems to be **RETIREMENT ANNUITIES AND PENSION FUNDS**. These are exempt from both Dividend Withholding Tax and Capital Gains Tax. It is also worth noting that investors buying and selling shares will be negatively impacted by this increase. Collective investments, where the buying and selling takes place within the fund, does not attract CGT making it a more attractive option for retail investors.

In fact, in the latest budget it did seem as if measures imposed by the Minister of Finance were trying to persuade South Africans rather to put their money in these savings vehicles. On top of the tax-exemption, your annual contributions to a retirement annuity (RA) are also tax deductible, putting more money back in your pocket to save elsewhere.

It would, however, not be prudent to liquidate assets held in other investment vehicles to channel all the funds to RA's and Pension Funds. Firstly because you will incur Capital Gains Tax on any gains from these sales. Secondly, it won't be wise because not all funds can be kept in an investment where you have no access to the money until retirement. A balanced portfolio with diverse risk exposure is still necessary, especially if you want to obtain growth above inflation. The basic advice is thus to keep your portfolio as it is and not to make any drastic adjustments simply based on the increase in the Capital Gains Tax rate.

With regard to future investments when new funds that become available, do remember the tax-exemption of retirement annuities and pension funds.

Also remember offshore possibilities as Gordhan also announced the further relaxation of exchange controls. **SOUTH AFRICANS CAN NOW INVEST R5 MILLION OFFSHORE. FOR R1 MILLION OUT OF THE R5 MILLION, YOU DON'T EVEN NEED A SARS CLEARANCE CERTIFICATE.**

Therefore you could take your money out of the country to an investment destination where you feel there are less punitive measures for capital accumulation. The dividends on offshore investments do not attract the higher tax on dividends, also announced in the Budget this year.

# KNOW THE IMPACT, DECIDE ACCORDINGLY

The increase in the inclusion rate for Capital Gains Tax affects almost every investor, whether you have funds invested in property, shares or unit trusts.

You would be well-advised to know what the impact of this tax will be if and when you decide to liquidate some of these assets and to decide when the appropriate time would be to dispose of them.

As for future portfolio decisions, keep in mind that saving in retirement annuities or pension funds, if you don't need regular access to the funds, are exempt from this tax. Or broaden your portfolio's geographical reach by investing in some overseas markets.

At least Gordhan promised, at a media briefing on the day of the budget, that he does not foresee another increase in the Capital Gains Tax rate during his administration.

## UPDATE ON INVESTMENT MARKETS: MAGNUS HEYSTEK (BRENTHURST) & PAUL HANSEN (STANLIB)

### UPCOMING SEMINARS: JUNE 2012



#### PRETORIA SEMINAR: 05 JUNE 2012

**DATE:** TUESDAY, 05 JUNE 16:00 - 17:45

**VENUE:** WATERKLOOF GOLF CLUB, JOHANN RISSIK DRIVE, WATERKLOOF

**RSVP:** +27 12 460 0340 [yolandi@brenthurstwealth.co.za](mailto:yolandi@brenthurstwealth.co.za)

#### JOHANNESBURG SEMINAR: 06 JUNE 2012

**DATE:** WEDNESDAY, 06 JUNE 16:00 - 17:45

**VENUE:** 17 MELROSE BOULEVARD, MELROSE ARCH

**RSVP:** +27 11 799 8100 [reception@brenthurstwealth.co.za](mailto:reception@brenthurstwealth.co.za)

#### CAPE TOWN SEMINAR: 11 JULY 2012

**DATE:** WEDNESDAY, 11 JULY 16:00 - 17:45

**VENUE:** LIBERTY LIFE, THE ESTUARY, CENTURY BOULEVARD, CENTURY CITY

**RSVP:** +27 21 914 9646 [suzean@brenthurstwealth.co.za](mailto:suzean@brenthurstwealth.co.za)

### INVESTMENT STRATEGIST:

**MAGNUS HEYSTEK**  
[magnus@heystek.co.za](mailto:magnus@heystek.co.za)  
+27 83 692 8635

### INVESTMENT ADVISORS:

**BRIAN BUTCHART CFP®**  
[brian@brenthurstwealth.co.za](mailto:brian@brenthurstwealth.co.za)  
+27 82 335 5117

**JOHAN BURGER CFP®**  
[johan@brenthurstwealth.co.za](mailto:johan@brenthurstwealth.co.za)  
+27 82 732 8655

**SONIA DU PLESSIS CFP®**  
[sonia@brenthurstwealth.co.za](mailto:sonia@brenthurstwealth.co.za)  
+27 83 260 4055

**RENEE EAGAR CFP®**  
[renee@brenthurstwealth.co.za](mailto:renee@brenthurstwealth.co.za)  
+27 83 233 9373

### INVESTMENT ADVISORS:

**LESYL POTGIETER CA(SA) CFP®**  
[lesyl@brenthurstwealth.co.za](mailto:lesyl@brenthurstwealth.co.za)  
+27 83 646 9818

**JANA GOUSSARD AFP™**  
[jana@brenthurstwealth.co.za](mailto:jana@brenthurstwealth.co.za)

**RICHUS NEL**  
[richus@brenthurstwealth.co.za](mailto:richus@brenthurstwealth.co.za)

### TAX & ACCOUNTING:

**GAVIN BUTCHART**  
[gavinb@brenthurstwealth.co.za](mailto:gavinb@brenthurstwealth.co.za)

### MARKETING:

**SUE HEYSTEK**  
[sue@brenthurstwealth.co.za](mailto:sue@brenthurstwealth.co.za)

**RECEPTION JHB:**  
**ANTIJE MOUTON**  
[reception@brenthurstwealth.co.za](mailto:reception@brenthurstwealth.co.za)

### CLIENT SERVICE (JHB | CPT | PTA):

**ESMERIE LOOTS**  
[esmerie@brenthurstwealth.co.za](mailto:esmerie@brenthurstwealth.co.za)

**YOLANDI BURGER**  
[yolandi@brenthurstwealth.co.za](mailto:yolandi@brenthurstwealth.co.za)

**SUZEAN HAUMANN**  
[suzean@brenthurstwealth.co.za](mailto:suzean@brenthurstwealth.co.za)

**CELESTE PHAKHATI**  
[celeste@brenthurstwealth.co.za](mailto:celeste@brenthurstwealth.co.za)

**ALLIE SIKHOSANA**  
[allie@brenthurstwealth.co.za](mailto:allie@brenthurstwealth.co.za)

**ERNA MARÉ**  
[erna@brenthurstwealth.co.za](mailto:erna@brenthurstwealth.co.za)

**MAGNUS LEO HEYSTEK (JNR)**  
[admin@brenthurstwealth.co.za](mailto:admin@brenthurstwealth.co.za)

**CHRISTOFF POTGIETER**  
[christoff@brenthurstwealth.co.za](mailto:christoff@brenthurstwealth.co.za)

## BRENTHURST WEALTH MANAGEMENT (PTY) LTD

**JOHANNESBURG:** Building 3 Prism Business Park | Cnr Fourways Boulevard & William Nicol Fourways | Gauteng SA  
Tel: +27 (0) 11 799 8100 | Fax: +27 (0) 11 799 8101 PO Box 10150 Fourways East | 2055 Gauteng South Africa

**PRETORIA:** 157 Bantek Rd | Waterkloof | Pretoria | SA  
Tel: +27 (0) 12 460 0340 | Fax: +27 (0) 12 346 8453

**CAPE TOWN:** Tyger Waterfront | Waterfront Terraces Block 2 | Waterfront Road | Carl Cronje Drive | Bellville | W Cape  
Tel: +27 (0) 21 914 9646 | Fax: +27 (0) 21 914 6515 Postnet suite 275 P/Bag X22 | Tygervalley | 7536 | Cape Town SA

*Brenthurst Wealth Management (Pty) Ltd. is an authorised FSP in terms of the FAIS Act, 2002(FSP No 7833).*

*Brenthurst Wealth Management (Pty) Ltd. is an associate of the Stonehouse Capital Group*

DISCLAIMER: Brenthurst Wealth Management is an authorized financial services provider Reg No 2004/012998/07 FSP No. 7833. This newsletter should not be viewed as investment advice as each individual investor is different and has different investment needs. Please consult any one of our highly qualified investment advisors before acting on the advice and recommendations contained in this newsletter. Kindly contact BWM at (011) 799-8100 for an appointment.