



CONSEQUENCE

PRIVATE WEALTH

TAX PLANNING FOR INDIVIDUALS Q & A 2014

Each year clients ask us to pinpoint important developments in tax and in particular how they relate to investments. The following is a mix of tax items, new and old, which we believe are worth bearing in mind. This is not a comprehensive list; please contact us for greater detail.

WHO NEEDS TO REGISTER FOR TAX?

Those earning taxable income above the tax threshold.

WHAT ARE THE TAX THRESHOLDS?

| | |
|------------------------|----------|
| Below age 65: | R67 111 |
| Age between 65 and 75: | R104 611 |
| Age 75 and over: | R117 111 |

WHO IS REQUIRED TO SUBMIT A RETURN TO SARS?

All registered for tax except those earning under R250 000 annually from a single employer, with no other sources of additional income or deductions.

HOW ARE MY DISCRETIONARY INVESTMENTS TAXED?

All investment growth locally and offshore, whether in the form of interest, capital gain or dividend, must be declared.

Interest growth (typically on bond and money market assets) is reflected on IT3(b) certificates and must be paid annually – after applying annual exemptions – regardless of whether distributions have been made or not.

Capital gain (typically on shares and property) is reflected on IT3(c) certificates but only apply if a gain has been realised as a result of a sale or switch.

Dividends are taxed at 15% at source.

The above distinctions are crucial in terms of asset allocation and income structuring. Please contact us for more on this.

WHAT ARE THE CURRENT ANNUAL EXEMPTIONS?

Interest: Local and offshore - R23 800 (under 65yrs) and R34 500 (over 65yrs), thereafter taxed at marginal rate.

Capital Gains: Local and offshore - R30 000 regardless of age, thereafter taxed at marginal rate on 33% 'inclusion rate' of the gain. So max rate of 13.3% (33% x 40%) on total gain.

HOW DOES MY RA REDUCE MY TAXABLE INCOME?

15% of all non-pensionable income (i.e. rental income and/or a bonus or 13th cheque that is not already contributing towards a pension or provident fund) may be invested in a retirement annuity and subsequently deducted from annual taxable income. If you aren't contributing to a pension fund at all then 15% of your entire salary is deductible.

The above will change – for the better - on March 1 2015. See below for more on this legislative change.

HOW DO I CALCULATE MY MEDICAL AID DEDUCTION?

Contributions are deductible to a specified capped amount as are additional medical expenses not covered by your scheme if they exceed 7.5% of taxable income. A certificate displaying your deductible contributions will be sent to you by your medical aid and remember also to retain and submit the value of invoices of medical expenses not covered.

IS MY INCOME PROTECTION PREMIUM ON MY LIFE POLICY STILL DEDUCTIBLE?

Yes but only until 1 March 2015. At that point the deduction will fall away but claims will be paid tax free.

WHAT OTHER CHANGES ARE COMING ON 1 MARCH 2015?

1. The retirement funding deduction increases to 27.5% of *all* income, with an annual cap on deductibility of R350 000. The non-pensionable definition falls away so the 27.5% deduction applies to all income and across the board in respect of RAs, corporate Pensions and Provident Funds.
2. The tax free portion of the 1/3rd cash available on pension fund values at maturity has already increased to R500 000. Importantly, this R500 000 will now also apply to your annuity drawdown if no lump sum is taken.
3. Possible new 'tax free' investment - this is currently under discussion at Treasury and if implemented may allow individuals to contribute R30 000 per year to a tax-free savings vehicle with a lifetime contribution limit of R500 000.

HOW CAN I LIMIT MY TAX LIABILITY ON INVESTMENTS?

Through the use of Endowments, where for longer term investments of a capital nature, the tax rate is capped at 9.9%. There is no extra cost for this facility on the investment platforms we use and it provides the lowest tax rate available currently.

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