

OUR MARCH WEBINAR

YOUR QUESTIONS ANSWERED



Thank you to everyone who attended our Future of Wealth webinar in March with Tracy Muller (Head of Fiduciary Advice at Nedbank Wealth Management South Africa) and Judge Dennis Davis (Chair of the Davis Tax Committee).

A number of interesting questions were raised by attendees, some of which we unfortunately could not answer at the time. Below are Tracy's responses to some of those questions. If you would like any further information, please contact your relationship manager.

1	How likely is the government to change exchange control and stop the exiting of capital?	The current direction is towards making it easier for cross-border flows. Please refer to our previous communication on the exchange control reforms announced in the 2020 budget. Click here to access the document
2	What are the practical implications of the change in the emigration or tax residency system the government introduced?	Our 2021 budget infographic and annexure provide details on this. Click here to access the document.
3	Why are South African trusts so strictly prohibited from holding assets abroad?	We are awaiting clarity on whether or not South African trusts may hold direct foreign assets abroad. Initial indications are that, on application to the South African Reserve Bank (SARB) and receiving their approval, a trust may indeed hold direct foreign assets abroad. However, we are eagerly awaiting the New Capital Flow Management Manual as this will provide clarity on this matter as well as other exchange-control-related matters.
4	Can or would our government ever be able to: 1 freeze all our accounts and help themselves as we have seen happen in Greece; or 2 not grant us access to our money if we do not conform?	Generally, the rule of law applies to protect property. However, there are certain instances where, as an example, because information required under the Financial Intelligence Centre Act, 38 of 2001, is not provided by a client, banks may 'freeze' the bank account(s), or where the South African Revenue Service (SARS) can apply to court for assets to be 'frozen' pending the outcome of an investigation, or where SARS can appoint a bank as an agent to recover outstanding taxes.
5	With all our investments being taxed heavily, is there any advice that you can offer?	This question reminds me of the saying that one should not let the 'tax tail wag the investment dog'. What I mean by this is that one should ensure one has a proper financial plan in place that will, among other things, set out how one can achieve one's investment goals and aspirations in a tax-efficient way.
6	How do we ensure that the wealth that has been built does not get lost by the next generation(s)?	This is why it is important to do proper estate planning, ie to protect your beneficiaries and children and any other vulnerable members of your family, to get peace of mind that your wealth will be dealt with as you intended.
7	How do you see Bitcoin being regulated in South Africa, and what controls can be put in place to prevent Bitcoin from being used as a vehicle to take funds outside the country?	The Income Tax Act, 58 of 1962, was amended in 2018 to include cryptocurrency in the definition of 'financial instrument' and the normal income tax rules apply, ie cryptocurrency will be taxed as income if it is 'traded' or will be subject to capital gains tax (CGT) if held on capital account. The SARB is looking to ensure exchange controls will soon apply to cryptocurrencies such as Bitcoin, while all crypto-asset service providers will need to apply for a special licence from the Financial Sector Conduct Authority (FSCA).
8	I am a retiree and after 45 years of hard work to build up a pension, I am still being taxed. Why is this the case when the government encourages investing for a pension?	Tax is generally not charged during the retirement contribution phase (to encourage retirement savings). However, when a retiree starts drawing an income, that income is taxed as normal income. This is not unique to South Africa but rather a general principle of taxation applied in most countries. Rebates and interest exemptions, however, take into account the age of individual taxpayers.

9	In many cases the capital gains are mostly the result of the 'inflationary' gains and not 'real' gains. This is in effect a wealth tax already. Please provide your comments on this.	CGT is not a wealth tax but a tax on deferred income.
10	Are there any tax reductions or exemptions for persons over 70 who own small businesses?	No, but the general rebates and interest exemptions take into account the age of individual taxpayers.
11	<p>There seems to be an inordinate focus on high-net-worth individuals (HNWIs). Are we now so socialist or degraded as a country that this class of taxpayer is indeed an endangered species?</p> <p>Surely, we should be encouraging people to aspire to become HNWIs and thereby have the country actually gain tax collected in a much more business-friendly environment?</p> <p>Only the private sector can create employment. Should SARS not endeavour to see South Africa regain business confidence with a progressive programme of incentives?</p>	This is one perspective. However, there is a definite shift in tax policy towards a broadening of the tax base in general as opposed to a focus on certain taxpayers, with the reduction in tax rates (for individuals and corporates) and the simplification of incentives (in particular for corporates).
12	I am just thinking of the claimed tax paid by Donald Trump! Are the rich indeed paying next to no tax, as suggested by Robert Kiyosaki?	The current tax policy considers various factors. The intention going forward, however, is to grow the tax base through more collections, ie by focusing on those who are not paying tax and/or by closing any remaining tax loopholes.
13	Why is estate duty not immoral?	Taxes are inevitable. There are various tax tools at the disposal of governments around the world. One such tool is estate duty or taxes, which are generally seen as a tax charged against the wealthy on the transfer of wealth. Generally, such a tax is imposed to address the growing levels of income inequality around the world. These taxes contribute towards total tax revenue collections to cover government expenditure.
14	I am in one of the higher tax brackets, but my husband has been mostly unemployed for the past three years. Could we consider a system like Germany where they look at both spouses' income as well as the number of dependants they support?	Considering the various levels of complexity linked with such a system of taxation, it is very unlikely that this would be considered in South Africa.
15	<p>Why do we focus on taxing individuals who are creating jobs in South Africa?</p> <p>I am not in that bracket, but grateful that I have a job and for the people who invested in the business. And if they do better, they could create more jobs with new businesses and/or investments. I am not referring to corruption or corrupt individuals, but people who are really making a difference.</p>	Taxes are inevitable. However, there is a definite shift in the tax policy towards a broadening of the tax base in general as opposed to a focus on certain taxpayers, with the reduction in tax rates (for individuals and corporates) and the simplification of incentives (in particular for corporates).
16	Can we stop paying rates and taxes where service delivery is non-existent? In some residential areas residents are fixing potholes and cutting grass at their own cost.	This is not advisable because not paying tax (for whatever reason) is a criminal offence and not paying rates (for whatever reason) could result in costly litigation.
17	<p>1 Why was dividend tax increased from 15 to 20%?</p> <p>2 Is it possible to live off dividends, pay zero tax – as dividend withholding tax (DWT) would have been paid upfront – and still be tax-compliant?</p>	DWT was increased to raise additional tax revenue. It is possible to live off dividends but bear in mind that the net dividend received is after DWT. In essence a tax has been applied, ie theoretically, you cannot receive dividends without the application of DWT (the zero-tax scenario does not exist).
18	How does SARS view trading in cryptocurrencies and how do they plan on taxing it, seeing that they do not recognise Bitcoin as a currency? I suspect that there is a great loss of revenue there.	The Income Tax Act, 58 of 1962, was amended in 2018 to include cryptocurrency in the definition of 'financial instrument' and the normal income tax rules apply, ie cryptocurrency will be taxed as income if it is 'traded' or will be subject to CGT if held on capital account.