SAICA
Personal Financial Planning Update
2012

With
Professor Matthew Lester
www.criticalthought.co.za
Introduction – The dilemma
Some reasons I am glad I am not PG

1. RSA cannot borrow more than 4% of GDP
2. Growth rates have slowed to +-3%
In two words ‘Growth Rates’
Budget 2011/12
Growth Rates – Quo vadis

Growing to 4.2% By 2014

2.8%
2.5%
2.7%

Rhodes Business School
Leadership for Sustainability
Growth rate update
Fortunately the Sharks didn’t make it
Budgeted deficit: October 2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>R196</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>R183</td>
<td>R151</td>
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<tr>
<td>2012</td>
<td>R142</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>R165</td>
<td>R172</td>
</tr>
<tr>
<td>2014</td>
<td>R134</td>
<td></td>
</tr>
</tbody>
</table>

- **Taxes collected**
- **Total Spend**
- **Deficit**

- 5.5%
- 4.5%
- 3.3%
Budgeted deficit: February 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual 2010</th>
<th>Budget 2011</th>
<th>Budget 2012</th>
<th>Budget 2013</th>
<th>Budget 2014</th>
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<tbody>
<tr>
<td>Taxes collected (R billions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2015</td>
<td>R120</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
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<td>Total Spend (R billions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>2015</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Deficit (as a percentage)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>3.1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Why are growth rates so important?

- Growth Rate Down
- Tax Receipts
- Deficit Up
- Down grade
Some reasons I am glad I am not PG

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4. Wage increases have slowed. So Employees Tax Collections slow
5. No more fringe benefits to tax
The BIG 3
Who pays the tax?

- **1 - 60,000**: 19% of Tax base, 0% of tax paid
- **60,001 - 120,000**: 25% of Tax base, 0% of tax paid
- **120,001 - 400,000**: 48% of Tax base, 4% of tax paid
- **400,001 - 5,000,000**: 42% of Tax base, 9% of tax paid
- **5,000,001 +**: 54% of Tax base, 378,307% of tax paid

Red bars represent % of Tax base, while green bars represent % of tax paid.
Provisional Tax payments

- 1st period: R 49,402 million (37.4%)
- 2nd period: R 70,321 million (53.3%)
- 3rd period: R 12,331 million (9.3%)
90% of Sources of Income now subject to employees tax
Company Tax versus Individual Tax

![Graph showing the comparison between company tax and individual tax from 2006/07 to 2010/11. The graph indicates a significant increase in company tax revenue compared to individual tax revenue over the years.]
## 2012 Tax tables

<table>
<thead>
<tr>
<th>Annual Income Bracket</th>
<th>Basic</th>
<th>Marginal</th>
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<tbody>
<tr>
<td>0 to R150,000</td>
<td>R -</td>
<td>18%</td>
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<tr>
<td>R150,001 to R235,000</td>
<td>R 27,000</td>
<td>25%</td>
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<td>R235,001 to R325,000</td>
<td>R 48,250</td>
<td>30%</td>
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<tr>
<td>R325,001 to R455,000</td>
<td>R 75,250</td>
<td>35%</td>
</tr>
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<td>R455,001 to R580,000</td>
<td>R 120,750</td>
<td>38%</td>
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<tr>
<td>R580,001 and over</td>
<td>R 168,250</td>
<td>40%</td>
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<table>
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<tr>
<th>Rebates</th>
<th>Thresholds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary R10,755</td>
<td>Under 65 R 57,000</td>
</tr>
<tr>
<td>65 and older R 6,012</td>
<td>Age 65 to below 75 R 88,528</td>
</tr>
<tr>
<td>R 2,000</td>
<td>Age 75 and over R104,261</td>
</tr>
</tbody>
</table>

| Trevor 2009 Total Cost R13.6 Billion |
| PG 2010 Total Cost R5.3 Billion    |
| PG 2011 Total Cost R8.1 Billion    |
| PG 2012 Total Cost R9.5 Billion    |
# 2012 => 2013 Tax tables

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<tr>
<td>Primary</td>
<td>R11 440</td>
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<tr>
<td>65 and older</td>
<td>R6 390</td>
</tr>
<tr>
<td>75 and older</td>
<td>R2 130</td>
</tr>
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### Adjustments

- Adjust: R617 000
- Rebate: R63 556
- 65 to below 75: R99 058
- 75 and over: R110 889
## 2013 Tax tables

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7. The Gauteng Fuel debacle
9. Carbon Emission Taxes are inflationary
10. Property market dead and stock market flat
Shortfall at October 2011

- R13 Bn
- R20
- R24
- R6

- Personal tax
- VAT
- Companies tax
- Customs & sin tax
- Fuel levy
- STC
- Skills levy
- Transfer duty
- Electricity levy
- Donations & Estate duty
- Other
Income 2012 – Actual versus budget

Difference (Billions)

- VAT -10.2
- Personal tax -3.3
- Fuel -1
- Transfer duty -1.2
- Other -4
- Carbon 0.5
- Estate duty and DT 0.2
- Skills development 1
- Electricity 0.4
- Sin tax 2.5
- Import duty 2
- STC 1.5
- Corporate 8

Difference (Billions)
Income 2012 actual

- **Corporate 152**
- **Personal tax 253**
- **VAT 191**
- **Fuel 37**
- **Import duty 32**
- **Sin tax 25**
- **Electricity 6**
- **Skills development 10**
- **Transfer duty 5**
- **STC 20**

Dead on Target
Target of R742 billion!
Income 2012 actual percentages

- Corporate: 21%
- Personal tax: 34%
- VAT: 26%
- STC: 3%
- Fuel: 5%
- Import duty: 4%
- Sin tax: 3%
- Electricity: 1%
- Other: 1%
- Skills development: 1%
- Carbon: 0%
- Estate duty and DT: 0%

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Leadership for Sustainability
Budget 2013 vs 2012 actual

Increase (Billions)
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So where does RSA find another R100 billion next year?
Chapter 2
Savings: Interest and Tax-free vehicles
Interest rates
Why not just save?

Zero Risk.
Fundamentals of preference shares

• Prior to 1993 preference shares were just beautiful. No dividend tax was paid due to the complete exemption of dividends from tax.

• Sadly that ended when Secondary Tax on Companies (STC) was introduced in March 1993. And now STC has been replaced by dividend tax with effect from 1 April 2012.
Fundamentals of preference shares

• The sting in dividend tax is that the rate has been increased from the 10% enjoyed in the STC era to 15% in the dividend tax era.
Fundamentals of preference shares

• Many preference shares are structured on the basis that the liability was absorbed by an ‘STC credit’.

• Initially it was announced that the STC credit would continue for 5 years into the dividend tax era, i.e. until 31 March 2017.

• But announcements contained in the February 2012 National Budget Speech now make it clear that National Treasury seeks to shorten the STC credit window to 3 years. i.e. until 31 March 2015.
Fundamentals of preference shares

• It can be anticipated that the STC credit expiry date will be hotly debated when the draft income tax bill is put to the Parliamentary Committee on Finance in June 2012. But the final outcome will only be known when the 2012 Income Tax Act is signed into law, probably in December 2012.

• Once the STC credit relief expires all dividends will be subject to dividend tax at 15%.
Fundamentals of preference shares

• With interest rates ranging between 5 and 6%, the tax-free return offered by preference shares of 4 -5% is now 2% below the inflation rate. And that’s simply not much use to investors.
Fundamentals of preference shares

• The investor must also never lose sight of section 8E of the Income Tax Act.

• This provision is complex and seeks to target dividends from shares that are redeemable within 3 years of issue, or where the holder has rights to cause an on-sale or redemption. If section 8E is applied, the dividend is fully taxable in the investors’ hands.

• Investors are advised to always seek written assurance that their preference shares are not vulnerable to section 8E.
Fundamentals of preference shares

• During 2011 National Treasury attempted to extend the ‘3-year rule’ contained in section 8E to 10 years. After much debate this amendment was abandoned, probably due to the looming implementation of dividend tax.
• The combination of the shortening of the STC credit window coupled with the provisions of section 8E creates an interesting dilemma. It is simply impossible to issue preference shares for the remaining proposed STC credit without transgressing section 8E.
Fundamentals of preference shares

• Some financial gurus have predicted that the expiry of the STC credit will inevitably result in a shortage of preference shares in the market. And that perhaps the shortage will create a premium price for existing preference shares.

• Maybe they are right. But it is a speculative call.
Do endowment policies still have a place in financial planning?

- ‘Nothing’s changed,’ many will say. And that is true. The tax rate applied to the individual’s fund of a life insurance company has remained static for many, many years.
- But that does not mean there has not been profound change within the investment industry. And that may have left endowment policies lagging behind.
Do endowment policies still have a place in financial planning?

- The super-tax level was decreased.
- Tax thresholds were increased.
- Tax brackets were widened.
- SARS Commissioner, Oupa Magashula, in an address to the Parliamentary Committee on Finance during May 2012 stated that the average rate of personal tax of RSA has now reduced to 20.7%.
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Do endowment policies still have a place in financial planning?

• Before any benefit results from investment through endowment policies the investor must be subject to a marginal tax rate of at least 35%.
• It is true that endowment policies enjoy the same Capital Gains Tax (‘CGT’) inclusion rate as the individual taxpayer (33.3%).
Do endowment policies still have a place in financial planning?

• The difference is that the capital income within an endowment policy is taxed at a flat rate of 30%, resulting in an effective flat CGT rate of 10%.

• Again this means that those with income below R346 000 p.a. will enjoy a lower CGT rate if taxed in their own name.
Retirement Planning Opportunity

A Matthew Lester and Mark Cowley Innovation

www.criticalthought.co.za
### Tax benefit of Retirement Annuities - Increased capital available on retirement

*Totals below are in today’s money*

<table>
<thead>
<tr>
<th>Planned retirement age</th>
<th>40</th>
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</thead>
<tbody>
<tr>
<td>Current age</td>
<td>30</td>
</tr>
<tr>
<td>Available for savings per month</td>
<td>R 3 000</td>
</tr>
<tr>
<td>Percentage in equities</td>
<td>0%</td>
</tr>
<tr>
<td>Savings increase over inflation</td>
<td>0%</td>
</tr>
<tr>
<td>Interest rate relative to inflation</td>
<td>0%</td>
</tr>
<tr>
<td>Equities growth rate &gt; than inflation</td>
<td>3%</td>
</tr>
<tr>
<td>Dividend yield relative to inflation</td>
<td>-3%</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>6%</td>
</tr>
<tr>
<td>Marginal tax rate</td>
<td>0%</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Details</th>
<th>RA investment</th>
<th>Insurance</th>
<th>Unit Trust</th>
</tr>
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<tbody>
<tr>
<td>Gross saved amount</td>
<td>R 491 638</td>
<td>R 491 638</td>
<td>R 491 638</td>
</tr>
<tr>
<td>Tax saving re-invested</td>
<td>R 491 638</td>
<td>R</td>
<td>R</td>
</tr>
<tr>
<td>Net available</td>
<td>R 491 638</td>
<td>R 491 638</td>
<td>R 491 638</td>
</tr>
<tr>
<td>Interest</td>
<td>R 160 086</td>
<td>R 150 662</td>
<td>R 160 086</td>
</tr>
<tr>
<td>Dividends</td>
<td>R</td>
<td>R</td>
<td>R</td>
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<tr>
<td>Equity growth rate</td>
<td>R</td>
<td>R</td>
<td>R</td>
</tr>
<tr>
<td>Tax on income/gains</td>
<td>R -45 130</td>
<td>R</td>
<td>R</td>
</tr>
<tr>
<td>Total in future Rands</td>
<td>R 651 724</td>
<td>R 597 170</td>
<td>R 651 724</td>
</tr>
<tr>
<td>Time value adjustment</td>
<td>R -293 515</td>
<td>R -268 946</td>
<td>R -293 515</td>
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<table>
<thead>
<tr>
<th>Capital available on retirement in today’s Rands</th>
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<tr>
<td>R358 209</td>
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_A Matthew Lester and Mark Cowley innovation_
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<td>R 117 993</td>
<td>R -</td>
<td>R -</td>
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<tr>
<td>Net available</td>
<td>R 609 631</td>
<td>R 491 638</td>
<td>R 491 638</td>
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<tr>
<td>Interest</td>
<td>R 109 794</td>
<td>R 50 452</td>
<td>R 49 926</td>
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<td>Dividends</td>
<td>R 54 893</td>
<td>R 25 226</td>
<td>R 24 961</td>
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<td>Equity growth rate</td>
<td>R 164 614</td>
<td>R 75 678</td>
<td>R 74 848</td>
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<tr>
<td>Tax on income/gains</td>
<td>R -</td>
<td>R -26 444</td>
<td>R -31 161</td>
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<td>Total in future Rands</td>
<td>R 938 932</td>
<td>R 616 550</td>
<td>R 610 212</td>
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<td>Time value adjustment</td>
<td>R -422 864</td>
<td>R -277 674</td>
<td>R -274 820</td>
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**Capital available on retirement in today's Rands**

- RA investment: R516 068
- Insurance: R338 876
- Unit Trust: R335 393

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**A Matthew Lester and Mark Cowley innovation**
Retirement Planning Opportunity

A Matthew Lester and Mark Cowley Innovation

www.criticalthought.co.za
Thinking for yourself

By Andre van Heerden
15 July 2012 | 2 Comments and 2 Reactions
223 views | Tweet | Share

“The most incomprehensible thing of all, is the fact that the world is comprehensible.” Einstein

Entrepreneurship, Leadership and Competitiveness

By Business Forum
6 July 2012 | 0 Comments and 0 Reactions
90 views | Tweet | Share

Watch the video clips of Professor Nick Binedell, Dean of the Gordon Institute of Business Science (GIBS), speaking at our Business Forum on 29 May 2012.
A Change in Investment Philosophy is needed.

- Perhaps investment philosophy should change. Try this approach:
  - The investor should start by answering the question ‘how much cash do I need to survive the next 3 years?’
  - The cash requirement for this period should be set aside in interest bearing investments and existing preference shares. The income tax exposure will be protected, at least to some extent by the tax-free interest allowance (R22800 per annum for taxpayers under 65 years old and R33 000 per annum for over 65).
A Change in Investment Philosophy is needed.

• The next step is to determine the investor’s cash requirement for the period 3 to 7 years. This portion is then invested in a blue chip portfolio. The investor should achieve a dividend yield of 3% per annum, less dividend tax of 15%. But hopefully, the loss in interest earnings (+-2% in after-tax terms) will be more than compensated by an increase in equity prices over the next seven years.

• Remember that the capital growth in the investment should only be taxed at the individuals CGT rate, (maximum 13,3% if taxable income exceeds R617 000 per annum.), and the individual will receive tax free capital gains of up to R30 000 per annum.
A Change in Investment Philosophy is needed.

• The remainder of the portfolio can then be placed in a general suite of investments. The investment period of seven years or more will allow the portfolio to be structured to take on a higher risk profile in the expectation of higher returns.

• This portion of the portfolio should also contain an offshore component or Rand Hedge. The risk inherent to the Rand over the next seven years should never be ignored in any portfolio.
A Change in Investment Philosophy is needed.

- Dependent on the investor’s age and income tax profile, investment through retirement annuities should also be considered in order to maximize the opportunity of tax-deductible contributions (which can be offset against the interest income earned in the short-term portfolio) and protect investment growth from taxation.

-
Why not just save?
Zero Risk.
JSE ALL SHARE INDEX

FTSE/JSE AFRICA ALL SHARE
Daily 1/2/2009-7/6/2012

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Leadership for Sustainability
But what about the bad times
Understanding Risk

- **SAVING** (Immediate)
- **INVESTMENT** (Time Horizon)
- **Speculating**
- **Gambling** (Infinite)

- Zero Risk

**Rhodes Business School**
*Leadership for Sustainability*
Understanding Risk Investments

- Low Risk
  - Blue Chip Domestic Markets
  - Domestic Markets
  - 5 - 10 years

- High Risk
  - Other shares Domestic Markets
  - International Markets
  - 10 - 15 years
Chapter 3
Investment
The Quality of the Income

- Exempt Income: Not taxable
  - Dividends

- Revenue Income: Fully taxable
  - Interest
    - Trading Profits

- Capital Income: Part taxable
  - Investment Income
Categories of taxpayer

**Individual Taxpayer**
- Exempt-0%
  - Revenue – 0-40%
  - Capital 0-13%
  
  - Allowances 2013
    - CGT – R30 000pa
    - Interest <65 – R23 800
    - Interest >65 – R32 000
    - Offshore – R3 700

  - Allowances 2014
    - R30 000 all-in
    - R500 000 in a lifetime

**Trust**
- Exempt-0%
  - Revenue – 40%
  - Capital – 26.7%
  
  - Plus Attribution ???

**Insurance policy**
- Exempt-0%
  - Revenue – 30%
  - Capital – 10%

**Company**
- Exempt-0%
  - Revenue – 28%
  - Capital-18%
  
  - Dividends Tax 15%
Categories of investment

- Share Portfolio
  - Flexible
  - High Maintenance
  - Expensive

- Unit Trust
  - Not so Flexible
  - Low Maintenance
  - Cheaper

- Endowment Policy
  - Not so Flexible
  - Simple and potential tax saving
  - Locked in for 5 years

- Retirement Annuity
  - Not so Flexible
  - Huge Tax Saving
  - Locked in to Retirement
# 2012/13 – Tax Rates

<table>
<thead>
<tr>
<th></th>
<th>Company</th>
<th>Trust</th>
<th>Individual</th>
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<tr>
<td></td>
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<td>After tax</td>
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<td>Dividend Tax</td>
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<td>(R 9.39)</td>
<td>-</td>
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<tr>
<td>After all taxes</td>
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<td>Effective tax rate</td>
<td>22.6%</td>
<td>37.39%</td>
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<tr>
<td>Previously</td>
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**R30 000 exemption**

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*Leadership for Sustainability*
CGT Collections

![Graph showing CGT Collections]

- Individuals
- Companies
- Total
10 concluding observations

1. Very few South Africans need complicated investment structures.
2. Most South African would be better off concentrating on maximising the returns on their investments than protecting their returns from taxation.
3. Taxation can be contained to a maximum of 13,3% capital gains tax on investment income if taxed in the hands of the individual investor.
4. Only when income exceeds R346 000 per annum is there any need to seek the protection of an investment vehicle.
10 concluding observations

5. Fully taxable interest income is a problem. Not so much because of the tax rate but rather because of the poor interest rates.

6. Fully taxable income can arise in forms other than interest. Fully taxable gains from trading in shares are of primary concern.

7. Before using any type of investment vehicle always consider the any further taxes, primarily CGT or Dividends Tax that may be payable on withdrawal/maturity of the investment.
10 concluding observations

8. Before using any type of investment vehicle always consider costs of establishing and maintaining the vehicle.

9. It all goes to show that there is more to investing than just generating a return.

10. Most South Africans need a financial advisor to get the balancing act right and generate the best ‘after tax return’ without taking unnecessary risks.
Offshore investments

• There are two lines South Africans follow on offshore investments, either
  • invest every last cent abroad. Any currency, except Zimbabwe dollars, will do; or
  • offshore investment is over rated. Invest in residential property in South Africa.
Exchange Rates

ZAR versus Us$, Euro and Sterling
The Current Account

CURRENT BALANCE ON CURRENT ACCOUNT R'M

Rhodes Business School
Leadership for Sustainability
On the positive side:

- The Balance of Payments Current Account, has recovered post the depths of the global credit crunch.
- The political uncertainty that prevailed over the end of the Mbeki era seems to have passed.
- South Africa's ratio of government debt to Gross Domestic Product has, at all times, remained below 5%
Market Comparison: Nominal
Market Comparison: rate adjusted
Maybe not

• The extent of South Africa's reliance on foreign investment placed for the short-term in SA markets must never be underestimated.

• Although South African interest rates are half of what they used to be, they still represent an attractive option for foreign investors. A cash deposit earning (say) 5.5% in the RAND is quite attractive compared to 1% or even less on offer abroad.
Maybe not

- There remains substantial political pressure to reduce South African interest rates even further. This is the balancing act that Reserve Bank Governor Gill Marcus has to play on a daily basis, ‘What interest rate will keep the South African economy going, but still keep the foreign investment in short term markets.’ If the Reserve Bank gets the mix wrong, the Rand will slip in value very quickly.
• One must also consider the huge power force that is COSATU and the views of its general secretary Zwelenzima Vavi. ‘The Rand is too strong,’ they say. ‘A weaker Rand would encourage further investment in South Africa and increase the Rand value of exports of commodities. This would create jobs.’
Maybe not

• Many South Africans turned away from investment in foreign equities due to the dividend income therefrom being fully taxable. With effect from 1 March 2012 the taxation consequences applicable to foreign dividends from a share portfolio are the same as an RSA dividend i.e. the foreign dividend cannot be taxed at a rate exceeding 15%.
Maybe not

• The Rand is not as bombproof as some South Africans are beginning to think. There could be a devaluation in a matter of days. But what seems to be the difference is that an implosion in the currency is less likely than it used to be.

• The general call of the financial nerds is, ‘stronger for longer.’ But that does not mean that a Rand hedge should not be an integral component of any personal financial plan. It is more that the extent of the hedge has reduced from five to ten years ago.
Chapter 4
Retirement Planning
Strengthening retirement savings
An overview of proposals announced in the 2012 Budget
Discussion paper released by National Treasury on 14 May 2012
“A series of discussion papers will be released this year on promoting household savings and reforming the retirement industry.....Among the issues are improved governance over pension funds... and ways to improve preservation of retirement fund assets and to ensure higher levels of income in retirement.

Minister of Finance, 2012 Budget Speech
The need for such reforms is evident: most South Africans do not save adequately for retirement and only about half of the country’s workers belong to a retirement fund.
The 2012 Budget Review identified four principal concerns with retirement and other investment products:

- Inadequate lifetime savings
- Low levels of preservation and portability
- High fees and charges
- Low levels of annuitisation.
proposals addressing these matters, centered on:

- Reducing the costs of retirement products
- Reforming the annuities market
- Requiring preservation and portability
- A uniform approach to the tax treatment of retirement fund contributions
- Improving fund governance and the role of trustees
- Tax incentives to promote retirement and other investment products.
Technical discussion papers to be released for consultation during 2012

A. Retirement fund costs—Paper due to be released by October 2012.
B. Providing a retirement income—Paper due to be released by June 2012.
C. Preservation, portability and uniform access to retirement savings—Paper due to be released by June 2012.
D. Savings and fiscal incentives—Paper due to be released by August 2012.
E. Uniform retirement contribution model—Paper due to be released by August 2012.
Household savings and retirement

- Retirement savings constitute nearly 60 per cent of South African household savings.

- Yet the household savings rate, net of depreciation, has fallen steadily over time.

- In the long term, lower savings lead to lower growth and higher taxes, as taxpayers fund those who do not provide sufficiently for their retirement.
Household savings and retirement

- One important factor is increased access to credit since the late 1990s – primarily secured credit to finance house purchases, as well as unsecured credit.

- Government seeks to broaden financial inclusion – expanding formal banking and credit systems to previously excluded households.

- More lower-income households have access to formal savings instruments than ever before, yet their ability to increase savings through formal channels is likely to be limited in the short term.
Household savings and retirement

- In 2007, estimated savings outside the formal financial sector ("the grey market") amounted to R33 billion, mostly in stokvels. A recent survey estimated the value of savings in stokvels at R44 billion.
- Low-income households saving through the formal sector tend to use low-cost bank accounts (such as Mzansi accounts) and savings products that provide liquidity.
- Some low-income households also save through retirement funds, particularly provident funds, although their rates of preservation are very low.
Higher-income households

• Higher-income households generally use a wider variety of formal channels, including life insurance policies, retirement annuities, pension and provident funds, residential housing and collective investment schemes.

• Changing the incentives that drive savings decisions among middle-income households will encourage additional savings or change its composition.

• The demand for formal savings among high-income households, however, is likely to be relatively stable.

• Many of these households will presumably have already allocated their savings and investments on the basis of yield or tax optimisation.
The retirement landscape

• In many ways, South Africa’s retirement system is successful for employed individuals earning above the income tax threshold.
• Yet more than half of the formally employed workforce falls below this level, and their degree of retirement coverage depends on the industry in which they work and its degree of unionisation.
• Although there are significant cross-subsidies within most funds, there are missed opportunities for risk pooling between funds.
The retirement landscape

• Even though the system is quasi-voluntary, coverage of the existing industry is very high by international standards for workers earning above the tax threshold.

• Contribution rates are also high, and the system provides millions of South Africans with substantial risk benefits that protect their dependants in the case of premature death.

• Total assets under management make South Africa’s retirement funds industry one of the world’s largest relative to gross domestic product.
Several factors contribute to the size of the industry

- Government gives workers substantial tax incentives to contribute to retirement funds (about R17 billion in 2009 on contribution tax relief alone).
- Employers are not required to make retirement provision for their workers, if they do set up a scheme, employees must join as a condition of employment.
- Complexity and fragmentation of retirement funds industry adds significantly to cost.
- South Africa’s retirement funds landscape is complex. Currently there are more than 2,700 funds, and this fragmentation adds significantly to cost.
Performance

• Despite high participation rates, high contribution rates and significant assets under management, only about 10 per cent of South Africans are able to maintain their pre-retirement level of consumption after they stop working – primarily because preservation rates are low.

• In recent years, the aggregate rand value of flows out of retirement funds – both pre- and post-retirement – appears to have been greater than total new contributions.

• The overall appreciation in the value of fund assets has largely been a consequence of the general rise in asset prices.
low levels of preservation.

• Before they retire, many workers, especially younger and lower-paid employees, withdraw their entire retirement fund balance when they leave their employer.

• Despite recent changes in the way these withdrawals are taxed to incentivise preservation, this trend has continued.
• The South African retirement industry appears to have a relatively high cost structure with high fees, especially for retirement annuities.

• Over many years, annual charges on investments can significantly erode benefits, leading to much lower replacement rates than anticipated.
Concerns

- the system stops protecting most workers after retirement.
- Members of provident funds can withdraw their accumulated funds when needed quickly.
Concerns

- Members of pension funds and holders of retirement annuities are required to annuitise two-thirds of their assets when they retire.
- Many purchase living annuities from their retirement funds, rather than conventional annuities, which are the only products that protect them against running out of assets – and spend their assets too rapidly or make inappropriate investment decisions.
- This increases the risk of poverty in old age.
Strengthening retirement savings

Government is proposing several incremental steps to strengthen retirement funding, guided by the following principles:
Strengthening retirement savings

• Enhancing protections for individual savers ensuring that their retirement assets are invested in their best interests, and that such standards exceed a higher standard than those required of consumers of other goods and services.

• Improving efficiency and good governance through consolidation of private-sector retirement funds.

• Encouraging the use of standardised products, promoting competition to benefit lower- and middle-income households.
Strengthening retirement savings

- Ensuring that changes are consistent with broader social security reform and government objectives.
- Addressing any gaps exposed by the global financial crisis, promoting financial inclusion and stability, and encouraging prudential activity that ensures market conduct.
Strengthening retirement savings

• Reducing retirement fund costs  Although the South African retirement industry is successful in many ways, high costs relative to international benchmarks are a concern.

• A high cost structure erodes retirement benefits, reduces saving
Strengthening retirement savings

- Annual charges have a particularly negative effect on long-term savings: while a 1 per cent once-off fee is manageable, that same fee levied annually over 40 years will substantially reduce savings.
- International comparisons need to be conducted with care because retirement institutions around the world change over time and differ in the functions they perform, in their level of maturity and in size, all of which affect cost.
• ‘High costs in savings products undermine the national objective of getting our people to save more.’

• – Minister of Finance, 2012 Budget speech.

• South African umbrella funds and retirement annuities appear much more costly than their international equivalents.
Umbrella funds

- Costs on umbrella funds deserve special attention.
- These funds have charge ratios that lie between retirement annuities and large standalone funds, although the estimates presented above may be low given the effect of high guarantee charges on underlying investment portfolios.
- Costs on umbrella funds may fall as the sector matures.
market conduct supervisor

- The establishment of a market conduct supervisor is expected to improve transparency, making the retirement industry more competitive and lowering its cost structure.
forthcoming discussion paper.

- South Africa has relied almost entirely on market mechanisms to design products, charging structures and fee levels.
- Many retirement products have multiple layers of charges, such as administration and investment management charges, and brokerage, advisor and performance fees, making comparisons across products and channels difficult. Costs of investment management in particular are high.
- Product differentiation may inhibit competition.
forthcoming discussion paper.

- Passive investment management, which is significantly cheaper and demonstrably not inferior to active management, is under-utilised in South Africa.
- Distribution channels may encourage conflicts of interest between financial advisors and their clients in wholesale and retail markets.
- Standardisation of retirement products to increase competition on the basis of price rather than product design.
forthcoming discussion paper.

- Mandating charging structures to prevent price discrimination against small firms or employers with lower-paid workers.
- Harmonising disclosure requirements across different products to facilitate comparison and competition.
forthcoming discussion paper.

- Finding ways to encourage a greater use of passive investment management, particularly in the retail sector.
- Limiting the inappropriate use of guaranteed and smoothed bonus funds in retirement funds.
- Discouraging direct payments from providers to intermediaries, especially in the group market.
Forthcoming discussion paper

• Ensuring that trustees, particularly of umbrella and retirement annuity funds, are aware of their responsibilities to members.
• Preventing cross-subsidisation of services to give consumers sufficient price information to make informed choices.
Reforming the annuities market

• Most defined contribution funds leave members to the retail market when they retire.
• The current system guards policyholders when they contribute, but the quality of protection mechanisms declines when members retire. Most defined contribution funds, after automating the savings and investment choices of members over their working lives, leave them to the retail market when they retire.
Reforming the annuities market

• Members of pension funds and holders of retirement annuities are required to purchase either a living annuity or a conventional life annuity with two-thirds of their accumulated balance.

• Most retirees purchase living annuities, which require complex choices.

• Many draw down their assets too quickly and invest them in high-risk funds, while others bear the risk of outliving their savings and of poor asset returns.
Reforming the annuities market

• If members of retirement funds are required to annuitise retirement assets, the annuity market must be structured in a way that encourages members to make good choices.

• A living annuity with an underlying investment in South African retail bonds is being developed to provide an additional, low-cost option to meet retirement income needs.

• A retail bond-based living annuity product is being developed.
Conventional life annuity

• Pays an income to individuals until they die, pooling longevity risk across individuals.
• Insurer uses its own capital to guarantee the income in the case of mismatches between its assets and liabilities and unanticipated fluctuations in mortality.
• Pays an income to individuals until they die, pooling longevity risk across individuals.
• Insurer uses its own capital to guarantee the income in the case of mismatches between its assets and liabilities and unanticipated fluctuations in mortality.
Living annuity

- A phased withdrawal savings account with no longevity risk protection.
- Individuals must withdraw between 2.5% and 17.5%5 of the account each year.
- A wide range of investments is possible. Individual exposure to investment risks may be substantial.
Concerns

1. Conventional annuities are the only products available that offer protection against outliving their assets, but they may not offer value for money for some households.

2. Living annuities are tax-protected savings accounts in which all investment risk is borne by the member, and which expose retirees to longevity and investment risk, particularly in late old age.

3. Charges, especially in living annuities, are too high.
Preservation and portability

• Despite high participation and contribution rates, most South Africans reach retirement financially unprepared.

• Only about 10 per cent of South Africans are able to maintain their pre-retirement level of consumption after retirement, largely because of a lack of preservation of retirement fund assets when members leave their jobs.
Preservation and portability

• Government proposes to phase in, over time, a preservation requirement.

• When employees change jobs, their balances can remain in their employer’s fund, be transferred to a preservation fund or to their new employer’s fund, or be withdrawn in cash.

• The proposal to preserve may be partially waived to allow those who are unemployed and have exhausted their Unemployment Insurance Fund benefits to access up to one-third of their accumulated funds.

• Access will also be allowed in cases of demonstrated medical need.
Harmonising retirement fund taxation

• To simplify the retirement system, government proposes a uniform retirement contribution model, under which all contributions to retirement funds – including annuities, pension and provident funds – and all benefits from these funds will be subject to the same tax treatment.

• Employer contributions to all types of funds will be included in an employee’s remuneration as a fringe benefit, but individuals will be permitted a deduction of up to 22.5 per cent of their income if they are under 45 and 27.5 per cent if they are 45 and above. This will apply to both employer and employee contributions.
Harmonising retirement fund taxation

- Standardised products under consideration will have to meet cost, design and access conditions
- Proposal to phase in a preservation requirement aims to help improve financial security in retirement.
- To simplify the retirement system, contributions to and benefits from all retirement funds will be harmonised
- A special arrangement for the defined benefit funds that still exist, including the GEPF, will be made
Harmonising retirement fund taxation

• To cater for the self-employed and partially self-employed, and to ease administration, the income base upon which this deduction is calculated will be changed to the greater of remuneration and taxable income.

• To improve equity in the tax system, and to enable lower-income individuals and those with variable incomes to contribute more, it is proposed that the maximum permitted deduction will be greater than R20 000 and less than R250 000 (R300 000 for those of 45 and above), regardless of income.
Improving fund governance and the role of trustees

- Good governance and trust are the foundation of any sound retirement system. Members contribute in the present to save for the future. They have a right to expect that their funds will be managed prudently, in their best interests and in accordance with the law.

- Several recent high-profile lapses highlight a broader problem with fund governance that, if unchecked, will damage the trust underpinning the system.

- I
Improving fund governance and the role of trustees

• In 2007, the Financial Services Board issued PF Circular 130 on good governance of retirement funds. The circular recommends that trustees put in place a documented code of conduct, an investment statement, a communication strategy for members and a performance appraisal system for trustees.

• Currently, both PF Circular 130 and the use of the trustee toolkit are voluntary.
Improving fund governance and the role of trustees

• Improving fund governance also requires dealing with conflicts of interest. The current system of 50:50 representation requires both employers and workers to take joint responsibility for managing such funds.
Improving fund governance and the role of trustees

• Under this system, trustees do not represent the constituency that appointed them; rather, whether appointed by employers or unions, trustees must act independently and without fear or favour in exercising their fiduciary duties to promote the interests of all members of the fund.
Improving fund governance and the role of trustees

• To ensure this is achieved, it could become a statutory requirement that trustees have relevant qualifications and expertise in the management of pension funds, with training completed within a set period after appointment.
Improving fund governance and the role of trustees

• To strengthen fund governance, PF Circular 130 will become legally enforceable by the Registrar of Pension Funds. In line with this approach, government will consider a statutory requirement that trustees be “fit and proper”, with no criminal history.
Improving fund governance and the role of trustees

- Trustees will be declared prohibited persons by the regulator if they are found to have been involved in past transgressions of good pension fund governance.
- Government and the industry are also considering professionalising the role of principal officer and are evaluating different methods to strengthen the enforcement of laws.
Pension fund investments

• Government reissued Regulation 28 in 2011, which sets out the prudential framework under which retirement funds must invest their assets.

• The regulation establishes principles by which trustees are required to determine their investment policies, and sets maximum permissible limits for investment by asset class and by issuer to ensure that funds are adequately diversified.
Pension fund investments

- Trustees are required to invest assets in the best interests of the members of the fund. In addition, they are now required to consider the environmental and social factors underlying investments.
- This gives trustees the opportunity, where they deem it in the best interests of their members, to align their investment policies more consistently with national goals, such as contributing to infrastructure development.
Pension laws to be extended to all public funds

• It could become a statutory requirement for trustees to have relevant qualifications and training.
• Under the new Regulation 28, trustees must invest assets only in the best interests of the members of the fund.
• Public-sector funds currently exempt from the Pension Funds Act will be brought under its jurisdiction.
• A new savings account, with tax-free interest and capital gains, is proposed to boost household savings.
New tax-free savings instrument

- Government is considering a tax-preferred savings vehicle to encourage individuals to save for short- and medium-term needs without relying on their retirement funds. Many countries have similar accounts, including the United Kingdom (individual savings account), Canada (registered educational savings plan) and the United States (the Roth Individual Retirement Account).
- Individuals will be able to save up to R30 000 per year into this account, with a lifetime limit of R500 000.
• To help low-income earners increase their savings, mechanisms similar to the Fundisa scheme are under consideration.
• In Fundisa, for every rand that households contribute to a savings account, an additional 25 per cent is contributed from funds provided by the Association for Savings and Investment South Africa and the Department of Education through the National Student Financial Aid Scheme.
• The co-contribution is capped at R600 per year, although members’ contributions to the fund are not capped.
Improving fund governance and the role of trustees
Part 2
Contribution to Retirement Funds
Just how many of us are there?

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more Zapiro cartoons visit www.zapiro.com
The biggest problems are

- Dads used to work to 65 and die at 70. So Dad’s retirement fund only had to last 5 years.
- Then Mom sold the house and moved in with the kids.
- That’s why employers provided defined benefit pension funds.
- Today Dad’s retire at 60 and die at 80.
- So the retirement package has to last for 20 years.
- And employers provide defined contribution provident funds with no guarantees to see the pensioner through to the end.
The biggest problems are

- Children used to leave home at 18 to 20. ‘Empty nest’ syndrome we used to call it.
- But this has been replaced by KIPPERS syndrome ‘Kids in Parents Pockets Eroding Retirement Savings.’
- So instead of children supporting parents, it has all turned the other way round.
Individual taxpayers’ retirement deductions

No of taxpayers claiming:
- Current pension fund contributions: 1,545,731
- Arrears pension fund contributions: 17,931
- Current retirement annuity fund: 1,127,794
- Arrears retirement annuity fund: 42,995

Deductions Rm:
- Current pension fund contributions: 9,442
- Arrears pension fund contributions: 26
- Current retirement annuity fund: 17,654
- Arrears retirement annuity fund: 59
Taxation philosophy in RSA

- Tax-Deductible contribution
- Tax Free Growth
- Partial Taxation on Exit

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28 February 2013

- Employer contributions to pension and provident funds, 20 per cent of earnings.
- No deductions for employer contributions to provident funds
- Note that tax-deductible contributions to employer owned insurance policies (sometimes referred to as Deferred Compensation Schemes) have been withdrawn with effect from 1 March 2012.
28 February 2013

- Employee contributions to Pension Funds only - 7.5%.
- No deduction for employee contributions to provident funds
- Individual Taxpayers contributions to Retirement annuity Funds – 15% of non-retirement funding income ‘NRFI’ subject to a minimum of the greater of R3500 – Pension Fund Contribution or R1750.
2014 year of assessment.

• The full details are not known at time of writing of this article but are anticipated as being

• Employer contributions to pension and provident funds will be increased to 22.5% of earnings (for under 45’s) and 27.5% (for over 45’s.)
2014 year of assessment.

- To improve equity in the tax system, and to enable lower-income individuals and those with variable incomes to contribute more, it is proposed that the maximum permitted deduction will be greater than R20 000
- and less than R250 000
- (R300 000 for those of 45 years and above), regardless of income.
2013 year of assessment

• So the High Net Worth Individual has a last chance to contribute an unlimited 15% of retirement funding income to a retirement annuity. And there is more to this opportunity than meets the eye.

• Many taxpayers who have the benefits of a share participation or share option scheme contribute 15% of their scheme benefits to a retirement annuity fund. In that way they can withdraw wealth from their share incentive scheme and diversify the funds into a spread of underlying collective investment schemes without incurring taxation.
Tax free Investment within the fund

• In the early years of the new RSA the Katz Commission of Enquiry into the RSA tax system suggested that it would be a good idea to partially tax retirement funds. The resultant Retirement Funds Tax was a disaster and never yielded much tax to Government. So it did not last long and RFT was repealed in 2007, leaving retirement funds as tax-free institutions.

• Very few South Africans appreciate that retirement funds are now virtual tax havens. Where else can one invest with up to a 40% tax incentive and thereafter the fund grows free of Income Tax and Capital Gains Tax?
Tax free Investment within the fund

• But the moans still continue. ‘What happens if the Government simply nationalizes all retirement fund savings?’ The answer to that is quite simply ‘If you believe that could still happen, what are you still doing in RSA. You should have emigrated years ago.’

• Others argue ‘You cannot access your money until you are 55 years old.’ My answer to that is ‘That’s the whole point of the exercise. If you are going to need to draw down on your fund earlier, then invest directly into CIS schemes, life insurance policies or just a straight bank account. Nobody is suggesting that one invests everything in a retirement fund.’
Tax free Investment within the fund

• Anyway, the fact that you cannot access your retirement fund also means it is safe from attack from your creditors. But please remember that this line of argument no longer includes a spouse in the event of divorce proceedings.

• Some also say that the restrictions imposed by regulation 28 of the Pension Funds Act are also a negative factor. These regulations limit the exposure of the fund to equity investment to 75% of the fund and offshore investment of 25% the fund.
Tax free Investment within the fund

• ‘And what about the administration costs of retirement funds’ is the next complaint. The answers are quite simple: - (1). Today, all costs have to be disclosed and agreed in advance. (2). It is quite simply ridiculous to reject the potential of a 40% tax incentive because of an investment commission/cost.

• So in desperation the final curved ball gets thrown, ‘Well SARS will get it all back when the funds are withdrawn. That’s when all the chickens come home to roost’.
Tax free Investment within the fund

• Note that the government policy is ‘partial taxation of the withdrawal benefit.’ Taxation is not imposed on withdrawal willy-nilly. There are wide ranges of procedures to legitimately minimize or control the incidence of tax on withdrawal benefits.

•
Part 3
Medical Insurance
National Health Insurance from 2012
Is saving for medical expenses in Retirement still necessary?
Spare a thought

Old age grant up R60 per month to R1,200

Old age grant up R80 per month to R1,220

Child grant up R15 per month to R280

And Medical?
20 years ago:

- Risk-free interest rates were over 20 percent
- There was a realistic prospect of dying with a large enough estate to create exposure to estate duty
- Holding costs of residential property were reasonable,
- Employer Pension Funds provided annuity streams in retirement that were dependent on years service and not accumulated savings,
- Provident Funds and Retirement Annuity Funds were used for supplementary retirement planning, and
- Employers continued to provide and fund medical aid and post retirement.
Today

- Risk free interest rates of today (5 -7%) will not be sufficient to keep one going in retirement for long. ‘Low interest society’ is very much here to stay.
- Life expectancy is longer.
- Holding costs on property have increased substantially as local governments desperately attempt to accelerate delivery by exploiting the property rates and taxes base. Most will be forced to substantially downsize their properties in retirement. A retirement village is far more likely outcome than a mansion on a golf course estate.
Today

• Even with a successful retirement strategy most people will exhaust their retirement capital before they die. Thus estate duty is no longer the threat it used to be.

• Few employers continue to provide defined benefit pension funds. Provident Funds and Retirement Annuity Funds form the backbone of retirement planning today, and

• Even fewer employers provide or fund medical aid cover in retirement.
Example

- Principal member, currently age 50 years and life expectancy 80 years
- Anticipated retirement age 65
- Spouse, dependent on principal member, current age 45 and life expectancy of 85 years
- Assumed Inflation rate in medical costs 12%
- Current cost of an executive medical aid is +-R3 000 per member per month.
Solution 1 – Capital requirement R5,4 million

Option 1

A common mistake of many retirement plans is that they fail to make provision for the spouse or they do not provide for a longer life expectancy of the surviving spouse.

To accumulate R5,4 million over the 15 years to retirement would require a monthly saving of R30 200 per month out of after tax income.

So assuming that the taxpayer is currently taxed at the highest marginal rate of 40%, the pre tax cost of saving would be in the order of R50 000.
Conclusion on savings account:

• It is almost impossible to build a realistic medical savings plan using risk free returns. Simply put, the expected inflation rate in medical expenses far exceeds the risk free return rate.

• However, providing that the savings plan has a long enough investment window (10 to 15 years) there is nothing wrong with introducing at least some component of risk.
Option 2

- **Savings through an equity based suite of Collective Scheme Investments**
- In spite of the vagaries of the world wide equity markets, the achieved return of the Johannesburg Securities Exchange is approximately 14% over the past 15 years.
- And we must hope that return rates over the next 15 years will remain at around 14%.
Option 2

- **Savings through an equity based suite of Collective Scheme Investments**

- A savings plan is based on a suite of Collective Investment Scheme Investments (yielding 14% per annum) the capital requirement to medical costs in retirement, in today’s terms will be in the order of R780 000 million.

- To accumulate R780 000 million over the 15 years to retirement would require a monthly saving of R4 400 per month out of after tax income. So assuming that the taxpayer is currently taxed at the highest marginal rate of 40%, the pre tax cost of saving would be in the order of R7 333.
Option 3

- Retirement annuity

- Saving through a retirement annuity, assuming a 14% per annum return on investment can be achieved over 15 years to retirement, by a monthly saving of R4 400 per month out of after tax income. (assuming that the taxpayer is currently taxed at the highest marginal rate of 40%).
Para 12 of the August 2012 Policy Paper on National Health Insurance states that RSA’s two-tier healthcare system, which is unsustainable, destructive, very costly and highly curative or hospi-centric. And, with an executive medical aid now costing over R3000 per member per month one can buy that.

Para 122 indicates that the cost of NHI (in real 2010 terms) will increase from R125 billion in 2012 to R214 billion in 2020 and R255 billion in 2025.

Para 123 places the National health Budget at R110 billion in 2012/13 (2010 prices) and medical scheme contributions at about R92 billion. This totals over R220 billion being spent on health services in RSA or 8.5% of GDP.
National health Insurance

- The logic behind the policy paper seems to be if we can swipe the medical aid spend and put everyone on NHI, then all will be winners. But Hang on...
- Para 26 states that 8.2 million South Africans are reliant on medical aid at an average spend of R11 150 per dependant. The remaining 42 million South Africans are dependent on the current healthcare system at R2 766 per annum. The logic is then if RSA amalgamate the contributions and dependants then we get 50 million RSA’s and an average medical spend of R4 400.
National health Insurance

• Let’s be positive and assume that NHI will match the service level of medical aids. But a R11 150 per annum medical aid contribution only buys the most basic cover. The Rolls Royce version is over R36 000!

• The national budget shows the Health Budget steadily growing at 12% per annum with no additional provision for the additional R103 billion implementation costs of NHI in 2012.

• The national deficit for 2012 is forecast at R159 billion or 5.5% of GDP. And in the current world economy that’s some ask. We can’t just stiff NHI costs on top of that.
National health Insurance

• So, the suggestion from national health is to increase VAT. In 2012 VAT is budgeted to collect R227 billion, or R16 billion per percentage point. So even if we followed the UK example and increased VAT by 2.5% we would only get R40 billion extra. Not even 20% of the total cost of NHI.

• We have already lost medical expense tax deductions with effect from next year, replaced by a rebate. Even if all 8.2 million medical aid beneficiaries sacrificed the full rebate, that would only be R22 billion.
National health Insurance

• So the costs have to be pushed on to the workforce. But how much will we pay. There are less than 4 million individual taxpayers already paying 35% of RSA’s tax. They cannot take the full cost of NHI. So they are going to have to look for contributions from the 9 million or so RSA’s who are employed but are below tax threshold. Many of them are unionised. And that’s where the proverbial is going to hit the fan.

• Even if all goes well in the implementation of National Health Insurance (and that is a ‘Big if’) most of those who currently provide for their own health care will continue to do so.
The medical costs calculator

A Matthew Lester and Mark Cowley Innovation

Download from
www.criticalthought.co.za
Thinking for yourself

By Andre van Heerden
15 July 2012 | 2 Comments and 2 Reactions
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“The most incomprehensible thing of all, is the fact that the world is comprehensible.” Einstein

Entrepreneurship, Leadership and Competitiveness

By Business Forum
6 July 2012 | 0 Comments and 0 Reactions
90 views | Tweet | Share

Watch the video clips of Professor Nick Binedell, Dean of the Gordon Institute of Business Science (GIBS), speaking at our Business Forum on 29 May 2012.
### What cost my med(s)?

**Amounts below are in today’s money**

<table>
<thead>
<tr>
<th>Planned retirement age (Per month)</th>
<th>65</th>
</tr>
</thead>
</table>

**Medication:**

<p>| | |</p>
<table>
<thead>
<tr>
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</table>

**Current age:** 50

**Sex:** Male

**Health:** Good

**Self (per month):**

<p>| | |</p>
<table>
<thead>
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</table>

<table>
<thead>
<tr>
<th>Notes</th>
<th>R 3 000</th>
</tr>
</thead>
</table>

**Capital required on retirement in today’s money:**

R540 000

**TOTAL (for all family members):**

**Capital required on retirement in nominal terms in 15 years time:**

10% 

R2 255 714

---

Rhodes Business School

Leadership for Sustainability

A Matthew Lester and Ma
What cost my med(s)?

Amounts below are in today's money

Planned retirement age
(Per month) 65

Medication:

Capital required on retirement in today's money:

TOTAL (for all family members):

Capital required on retirement in nominal terms in 15 years time 10%

<table>
<thead>
<tr>
<th></th>
<th>Self (per month)</th>
<th>Spouse (per month)</th>
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<tbody>
<tr>
<td></td>
<td>R 3 000</td>
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</tbody>
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R540 000      R540 000

R1 080 000

R2 255 714     R2 255 714

R4 511 428

Current age: 50
Sex: Male
Health: Good

Instructions: Enter data in the white requirements

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### What cost my med(s)?

**Amounts below are in today’s money**

**Planned retirement age**

(Per month) 65

**Medication:**

- [Notes]
- [Notes]
- [Notes]
- [Notes]
- [Notes]
- [Notes]
- [Notes]
- [Notes]
- [Notes]
- [Notes]

**Current age:** 50  
**Sex:** Male  
**Health:** Good

**Instructions:** Enter data in the white input boxes and your retirement requirements are calculated

<table>
<thead>
<tr>
<th></th>
<th>Self (per month)</th>
<th>Spouse (per month)</th>
<th>Dependants (per month)</th>
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<tbody>
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<td>[Notes] R 3 000</td>
<td>[Notes] R 3 000</td>
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<tr>
<td>R540 000</td>
<td>R540 000</td>
<td>R1 080 000</td>
<td></td>
</tr>
</tbody>
</table>

**Capital required on retirement in today’s money:**

- Self: R540 000
- Spouse: R540 000
- Dependants: R1 080 000

**TOTAL (for all family members):** R1 080 000

**Capital required on retirement in nominal terms in 15 years time**

- 10%: R2 255 714
- R4 511 428

---

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Part 4
Withdrawal Benefits From Retirement Funds
The Way we Were

• Taxpayers contributed tax deductible (Only adverse change proposed is the capping of contributions)
• The growth within the fund was tax free (Retirement Funds Tax was implemented and then withdrawn in 2007.)
• Withdrawal by way of annuity income was expensive due to the very narrow income bands within the personal tax tables. The personal tax tables quickly escalated to a marginal rate of tax of greater than 30%.
The Way we Were

• The tax exemptions relating to lump sum benefits contained in the second schedule of the Income Tax Act were considered generous.

• The taxable portion of lump sum benefits were subject to the ‘averaging concession.’ And there were a variety of ways to manage the average rate on retirement.

• Medical aid benefits were continued by the employer post retirement, often at full cost to the employer.
The Way we Were

• There was widespread fear that a new Government would seek to access wealth in retirement funds as a way to fund the new RSA, either through taxation or prescribed investment. This acted as an incentive to exit retirement funds.

• Interest rates ranged between 12 and 22% per annum, thus there was no incentive for the investor to take on risk.
The Way we Were

• The above retirement strategies were essentially driven by the following rules of thumb:
• Leave as little as possible within the fund to be subject to tax on withdrawal at high marginal rate.
• Exploit the second schedule to obtain the maximum tax-free lump sum withdrawal benefit.
• Maximize the loopholes within the averaging formula.
• Invest the after-tax lump sum withdrawal benefits in the money market using up the lower marginal rates of tax and the annual tax-free interest concession.
The Way we Were

• The above retirement strategies were essentially driven by the following rules of thumb:
• If necessary, use insurance policies to contain taxation at a maximum rate of 30%.
The Way We Are

The ‘Trevor Manuel era’ was committed to building a better deal for the individual taxpayer.

Tax thresholds (i.e. the level at which one commences actually paying tax) have been increased for the 2012 year if assessment to:

- **Under 65 years old** R59 750
- **Over 65 years old** R93 150
- **Over 75 years old** R104 261

The interest free abatement has been increased to:

- **Under 65 years old** R22 800
- **Over 65 years old** R33 000
The Way We Are

Thus the true tax threshold for a pensioner today is actually:

- Under 65 years old (R59 750 + R22 800) = R82 250 or R6 854 per month
- Over 65 years old (R93 150+R33 000) =R116 980 or R9 665 per month
- Over 75 years old (R104 261+ R33 000) =R136 261 or R11 355 per month
Now apply an inflation rate of 6% and a growth rate of 14% (A very optimistic outlook) and calculate the capital required to yield an income stream equivalent to the tax threshold for a taxpayer retiring at 60 today.

- Under 65 years old \((R59 750 + R22 800) = R82 250\) or \(R6 854\) per month for 5 years, today \(= +- R337 000\)
- Over 65 years old \((R93 150+R33 000) = R116 980\) or \(R9 665\) per month for 10 years, in 5 years time \(= +-R534 000\)
- Over 75 years old \((R104 261+ R33 000) = R136 261\) or \(R11 355\) per month for 10 years in 15 years time \(= R284 000\).

Total capital requirement to achieve tax threshold on retirement \(= R337 000 + R534 000 + R284 000 = R1 155 000\)
Moral to the story Number 1:
Accept that annuity stream are taxable. But even with a very optimistic outlook on investment returns, capital of R1 155 000 would not actually generate taxable income.

But the story goes even further --
It is not only tax threshold that has increased
But the story goes even further --

- It is not only tax threshold that has increased. The marginal rates of tax have been softened considerably over the last 10 years to the extent that the 30% marginal rate now applies only when income exceeds R346 000 per annum.
## 2013 Tax tables

<table>
<thead>
<tr>
<th>Annual Income Bracket</th>
<th>Basic</th>
<th>Marginal</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to R160,000</td>
<td>R</td>
<td>18%</td>
</tr>
<tr>
<td>R160,001 to R250,000</td>
<td>R 28,800</td>
<td>25%</td>
</tr>
<tr>
<td>R250,001 to R346,000</td>
<td>R 51,300</td>
<td>30%</td>
</tr>
<tr>
<td>R346,001 to R484,000</td>
<td>R 80,100</td>
<td>35%</td>
</tr>
<tr>
<td>R484,001 to R617,000</td>
<td>R 128,400</td>
<td>38%</td>
</tr>
<tr>
<td>R617,001 and over</td>
<td>R 178,940</td>
<td>40%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rebates</th>
<th>Thresholds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>Under 65</td>
</tr>
<tr>
<td>R 11,440</td>
<td>R 63,556</td>
</tr>
<tr>
<td>65 and older</td>
<td>Age 65 to below 75</td>
</tr>
<tr>
<td>R 6,390</td>
<td>R 99,056</td>
</tr>
<tr>
<td>75 and older</td>
<td>Age 75 and over</td>
</tr>
<tr>
<td>R 2,130</td>
<td>R110,889</td>
</tr>
</tbody>
</table>
Before you have a tax problem...

Under 65 years old  \((R325\,000 + R22\,800) = R347\,800\)

• Over 65 years old  \((R325\,000 + R33\,000) = R358\,000\)

All it R360 000 per annum or R30 000 per month

Again apply an inflation rate of 6% and a growth rate of 14% (A very optimistic outlook) and a retirement age of 60 and a life expectancy of 25 years, Now calculate the capital required today to yield an income stream that would be below the 30% marginal rate. Answer R8, 045 million.
## All termination payments
**Death, retirement or retrenchment**

<table>
<thead>
<tr>
<th>Taxable income from lump sum</th>
<th>Rate of tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not exceeding R315 000</td>
<td>0 per cent</td>
</tr>
<tr>
<td>Exceeding R315 000 but not exceeding R630 000</td>
<td>R0 plus 18 per cent of taxable income exceeding R315 000</td>
</tr>
<tr>
<td>Exceeding R630 000 but not exceeding R945 000</td>
<td>R56 700 plus 27 per cent of taxable income exceeding R630 000</td>
</tr>
<tr>
<td>Exceeding R945 000</td>
<td>R141 750 plus 36 per cent of taxable income exceeding R945 000</td>
</tr>
</tbody>
</table>
Is this retirement
Comparison
Investment in Unit Trusts/Portfolio

Investment out of
AFTER TAX
Income

Interest Income
Taxable
Up to 40%

Dividends
Tax
Flat 15%

CGT
Up to 13.3%

On Death
CGT Event

Estate Duty
Comparison
Investment in Retirement Annuity

Investment out of PRE TAX Income Up to 40% discount

Interest Income Exempt

Dividends Tax Exempt

Capped at R200,000 pa for under 45 - 2014

Capped at R300,000pa for over 45 - 2014

CGT Exempt

On Death

CGT Exempt

Estate Duty Exempt

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Retirement Savings

Retirement Funds

Lump sum 2 x R630 000

Annuities

Home

Investments

Cash

Dad’s Annuities
R 360 000pa
R 8 million capital

Mom’s Annuities
R 360 000
R 8 million Capital

Dad’s Medical Fund
Living Annuity
R453 000 capital

Mom’s Medical Fund
Living Annuity
R453 000 capital

Dad’s Interest
R 33 000 from
R630 000 lumpsum capital

Mom’s Interest
R 33 000
R630 000 lumpsum capital
Call back the past

Real South African Home Values

Absa House Price Index Deflated by SA CPI

- EXPENSIVE
- FAIR VALUE
- CHEAP

100% increase
50% decline
200% increase

FAIR VALUE
BEST VALUE IN 50 YEARS

70's
80's
90's

Current decade

IBS(ASAHI/ECPI,E,100)(231.45)
Previous assessments of the effect of the GCC

PAST AND ONGOING REAL HOUSE PRICE CYCLES AND BANKING CRISSES

Peak-to-trough Price Declines (left panel) and Years Duration of Downturn (right panel)

The Aftermath of Financial Crises
Carmen M. Reinhart, University of Maryland, NBER, and CEPR
Kenneth S. Rogoff, Harvard University, and NBER
The aftermath post GCC
The aftermath post GCC
Consumer Confidence
Why?

• Because its cooler to have an iPad than a Pad!
• Who wants to live with ESCOM?
Electricity prices per KwH

ELECTRICITY - AVERAGE PRICE (C/KWH)
Yearly 12/31/2002-12/31/2012

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The Caving Calculator
A Matthew Lester and Mark Cowley Innovation

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Thinking for yourself

By Andre van Heerden
15 July 2012 | 2 Comments and 2 Reactions
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ENGAGED BUSINESS

Entrepreneurship, Leadership and Competitiveness

By Business Forum
6 July 2012 | 0 Comments and 0 Reactions
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Seya Shaya
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Matthew Lester takes tax, budget, personal finance, and gives tips on best financial advice for business.

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- Taxes done with a click of a mouse
- Strike a deal to scrap estate tax
- Politics to be exempt from adding value
**What cost my cave(s)?**

*All amounts below are in today's money*

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned retirement age (Per month)</td>
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</tr>
<tr>
<td>Rates and taxes</td>
<td>3 000</td>
</tr>
<tr>
<td>Repairs and Maintenance</td>
<td>1 000</td>
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<tr>
<td>Insurance</td>
<td>1 000</td>
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<tr>
<td>Electricity &amp; water</td>
<td>2 500</td>
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<tr>
<td>House staff</td>
<td>4 000</td>
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<tr>
<td>Other (Monthly cost)</td>
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<tr>
<td>Capital required on retirement:</td>
<td>450 000</td>
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<tr>
<td>TOTAL (for all properties):</td>
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<tr>
<td>Capital required on retirement in nominal terms on retirement</td>
<td>518 659</td>
</tr>
</tbody>
</table>
# CAVING

**What cost my cave(s)?**

All amounts below are in today's money

<table>
<thead>
<tr>
<th>Planned retirement age (Per month)</th>
<th>65</th>
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</thead>
<tbody>
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<tr>
<td>Repairs and Maintenance</td>
<td>R 1 000</td>
</tr>
<tr>
<td>Insurance</td>
<td>R 1 000</td>
</tr>
<tr>
<td>Electricity &amp; water</td>
<td>R 2 500</td>
</tr>
<tr>
<td>House staff</td>
<td>R 4 000</td>
</tr>
<tr>
<td>Other (Monthly cost)</td>
<td></td>
</tr>
<tr>
<td>Other (Monthly cost)</td>
<td></td>
</tr>
<tr>
<td>Capital required on retirement</td>
<td>R3 450 000</td>
</tr>
<tr>
<td>TOTAL (for all properties)</td>
<td></td>
</tr>
<tr>
<td>Capital required on retirement in nominal terms on retirement age</td>
<td>R9 518 659</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>House 1</th>
<th>House 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sex: Male</td>
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<tr>
<td>Health: Excellent</td>
<td>Health: Excellent</td>
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<tr>
<td>Instructions: Enter data in the white requirements</td>
<td>Instructions: Enter data in the white requirements</td>
</tr>
<tr>
<td>R 3 000</td>
<td>R 2 000</td>
</tr>
<tr>
<td>R 1 000</td>
<td>R 1 000</td>
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<tr>
<td>R 1 000</td>
<td>R 1 000</td>
</tr>
<tr>
<td>R 2 500</td>
<td>R 1 000</td>
</tr>
<tr>
<td>R 4 000</td>
<td></td>
</tr>
<tr>
<td>R3 450 000</td>
<td>R1 500 000</td>
</tr>
<tr>
<td>R6 450 000</td>
<td></td>
</tr>
<tr>
<td>R9 518 659</td>
<td>R4 138 547</td>
</tr>
</tbody>
</table>
## CAVING

### What cost my cave(s)?

*Note: Amounts below are in today's money.*

<table>
<thead>
<tr>
<th>Item</th>
<th>House 1</th>
<th>House 2</th>
<th>House 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates and taxes</td>
<td>R 3,000</td>
<td>R 2,000</td>
<td>R 2,000</td>
</tr>
<tr>
<td>Repairs and Maintenance</td>
<td>R 1,000</td>
<td>R 1,000</td>
<td>R 1,000</td>
</tr>
<tr>
<td>Insurance</td>
<td>R 2,500</td>
<td>R 1,000</td>
<td>R 1,000</td>
</tr>
<tr>
<td>Electricity &amp; water</td>
<td>R 4,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>House staff</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (Monthly cost)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (Monthly cost)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital required on retirement</td>
<td>R3 450,000</td>
<td>R1 500,000</td>
<td>R1 500,000</td>
</tr>
<tr>
<td>TOTAL (for all properties)</td>
<td>R6 450,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital required on retirement in nominal terms on retirement</td>
<td>R9 518 659</td>
<td>R4 138 547</td>
<td>R4 138 547</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total:**

- **House 1:** R3 450,000
- **House 2:** R1 500,000
- **House 3:** R1 500,000

**Total:** R17 795 753

---

**A Matthew Lester and Mark Cowley Innovation**
Chapter 5
Estate Planning
Introduction

• In February 2010, in his first National Budget Speech, Minister of Finance, Pravin Gordhan, announced that there would be a review of the Estate Duty system. Since then nothing much has happened. So it would seem that Estate Duty is here to stay.

• This is indeed a pity as all the performance that surrounds estate duty only results in about R1 billion per annum collected by SARS. Out of a total tax collection of R829 billion per annum.
The computation has not changed

- Collect all the worldwide assets of the deceased estate of a South African resident
- Deduct:
  - Liabilities, other taxes and expenses;
  - Bequests to charitable and other income tax exempt institutions. No limits imposed;
  - Bequests to surviving spouses. No limits imposed;
  - The estate duty abatement of R3.5 million per estate plus any unutilized portion of the estate duty abatement of any predeceased spouse(s).
- Remaining balance is then subject to estate duty at 20 percent.
Capital Gains Tax

- CGT forms part of the last income tax calculation of the deceased.
- The deceased taxpayer is deemed to have disposed of his/her entire estate for CGT purposes.
- Bequests to charities and other income tax exempt institutions are exempted from CGT.
- Bequests to surviving spouses are deferred or ‘rolled over’
- The resultant capital gain is then subject to an abatement of R200 000.
The reality check

Today, few estates actually land up paying estate duty or CGT for two reasons:-

1. People are living longer. For most South Africans who live beyond 80, the twenty plus years in retirement prior to death will exhaust their capital prior to death. Remember that estate duty is a very old form of taxation that worked when life expectancy was far shorter.

2. The simple use of the unlimited inter-spouse bequest exemption is generally sufficient to postpone estate duty and CGT until the death of the surviving spouse(s).
The reality check

• The stark reality is that many South Africans ‘over-plan’ for estate duty and CGT exposure when they will never pay much. It is far more likely that they will run short of capital during their retirement.
The reality check

• For many South Africans estate duty and CGT on death can be legally avoided with a simple clause in the last will and testament, ‘I bequeath R3,5 million to my children and the free residue of my estate to my surviving spouse.’
• But what happens if I don’t have a spouse?

• Firstly, one does not have to be married to have a ‘spouse’ for purposes of claiming the estate duty abatement or the CGT rollover. These concessions are driven by the income tax act definition of ‘spouse’ which includes ‘a person who is the partner of such person in a same-sex or heterosexual union which the Commissioner is satisfied is intended to be permanent.’

• There are no objective tests as to what constitutes a permanent relationship.
• But what happens if I don’t have a spouse?
• Thus it is generally the ‘truly single person’ who has a real exposure to estate duty.
• It is indeed strange that the Income Tax Act abandoned the joint taxation of husband and wife as it was thought to be unconstitutional. But when it comes to estate duty and CGT on death the inconsistencies remain.
• Shouldn’t I form a trust anyway, just to be on the safe side?
• Trusts can still be used to contain estate duty and CGT exposure. But there is a lot more to consider than simply signing off on a trust deed. The taxpayer that gets it all wrong in a trust arrangement could pay far more income tax during a lifetime than any estate duty savings on death.
• There are some fundamental questions that need to be carefully explored before transferring assets into a trust. And some are not even tax related.
• Can I really afford to divest myself of my assets?

• Any trust arrangement is based on the fundamental assumption that the donor/founder has truly transferred assets into the care of the trustees. In the past this requirement has often been taken lightly and even overlooked completely. This has left the trust arrangement subject to challenges from beneficiaries, creditors and SARS.
• Can I really afford to divest myself of my assets?
• There are many views on this subject of relinquishment of control of assets owned by a trust. And there are many solutions to the problem, some good and some not so good. But the principle remains that the donor/founder cannot simply transfer assets into a trust and take them back willy-nilly.
• What taxes will be payable on transfer of assets to a trust?

• Prior to the implementation of CGT on 1 October 2001 the taxes on transfer of assets into a trust were limited to transfer duty on residential property and Marketable Securities Tax on shares. CGT did not have to be considered as it did not exist.
What taxes will be payable on transfer of assets to a trust?

Today, the transfer of assets into a trust is subject to CGT, determined with reference to market value. If assets are found to be transferred into a trust at below market value both CGT and donations tax can be levied.
• What taxes will be payable on transfer of assets to a trust?

• Following the infamous ‘Brumeria decision’ it can no longer be taken for granted that the use of an interest free loan account can dispense with all donations tax implications.

• Before transferring assets into a trust an assessment of all taxes resulting from the transaction needs to be undertaken.
• What taxes will be paid by the trust?
• In general a trust is subject to tax at a flat rate of 40% on revenue income. This is equivalent to the maximum marginal rate applied to the individual taxpayer on taxable income exceeding R617 000 per annum.
• What taxes will be paid by the trust?
• Trusts can be taxed at the lower individual tax rate if the trust is classified as a ‘special trust.’ But this definition is very narrow.
• A trust is also subject to CGT at 26.6% on capital income. This is potentially double the maximum CGT rate applicable to the individual taxpayer.
• What taxes will be paid by the trust?
• At present the prudent taxpayer can cause the income of a trust to be taxed in the hands of the donor/founder or the beneficiaries of the trust in terms of section 7 or section 25B of the Income Tax Act. As the donor/beneficiaries are generally individual taxpayers this results in lower tax rates and CGT inclusion rates.
• What taxes will be paid by the trust?
• But there remain two additional issues to be considered:-
• 1 By causing the income of the trust to be taxed in the hands of the beneficiary, the trust has effectively distributed the income to the beneficiary. This may be counter to the original objectives of preserving the assets within the trust.
• What taxes will be paid by the trust?
• But there remain two additional issues to be considered:-
• 2 There is a degree of uncertainty as to whether or not the current tax principles relating to trusts will be retained in the income tax act.
• What will it cost to maintain the trust?
• In years gone by the costs of trustees and administering a trust were generally absorbed into other fees charged by auditors and fund administrators. This is no longer the case. Today, the following annual costs must be considered.
• What will it cost to maintain the trust?
• 1 Professional fees of external trustees and advisors.
• 2 Costs of preparation of annual financial statements, provisional tax returns and income tax returns.
• 3 The above fees can easily total R20 000 per annum.
Can the above problems be overcome using a company instead of a trust?

In general the formation of a company will not save estate duty and CGT exposure unless the shares in the company are in turn held by a trust.

If the shares of a company are held by the individual they will simply be included in the estate duty/CGT computations, as would any other asset.
• Can the above problems be overcome using a company instead of a trust?

• In addition to the above the recent increase in the CGT inclusion rate for companies from 50% to 66.6%, coupled with the increase in the dividends tax rate from 10% to 15% have all but done away with the potential tax advantages of using companies for estate planning. In fact, from a CGT perspective companies have now become highly tax inefficient.
Conclusion on trusts

Yes, there is still a case for the use of trusts by the high
net worth individual.

But specialist advice must be followed and careful
consideration is needed before embarking on the
exercise.
Other considerations

• The use of retirement annuity funds in estate planning.
• Over the past 5 years there has been a range of amendments/incentives granted to retirement annuity funds. Combined these make retirement annuity funds a very attractive alternative in estate planning. Where else can one find?
Other considerations

• The use of retirement annuity funds in estate planning.
• A tax deductible investment (subject to limit)
• Complete exemption from income tax, CGT and dividends tax on investment income while the funds are retained in the retirement fund.
• Partial taxation on exit from the retirement annuity fund.
Other considerations

• The use of retirement annuity funds in estate planning.
• Complete exemption of death benefits paid by retirement annuity fund benefits from CGT and estate duty.
Other considerations

• The use of retirement annuity funds in estate planning.

• Certainly for those who are looking to gradually build up wealth over a prolonged period, on a tax deductible basis, containing costs, while retaining access to their wealth, estate planning using the retirement annuity funds would seem to have gained the edge on the use of trusts.
Chapter 6
Personal financial planning: Is my lifestyle sustainable?
90% of Sources of Income now subject to employees tax
Income 2012 actual percentages

- Personal tax: 34%
- VAT: 26%
- Corporate: 21%
- STC: 3%
- Fuel: 5%
- Import duty: 4%
- Sin tax: 3%
- Electricity: 1%
- Transfer duty: 1%
- Skills development: 1%
- Other: 1%
- Carbon: 0%
- Estate duty and DT: 0%
Budget 2013 vs 2012 actual

Increase (Billions)

- Corporate: 16.0
- STC: -1.2
- Fuel: 6.0
- Import duty: 1.0
- Sin tax: 3.0
- Electricity: 4.0
- Skills development: 10.0
- Estate duty and DT: 1.1
- Transfer duty: 0.2
- Personal tax: 0.4
- Carbon: 33.0
- Other: 4.0

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Leadership for Sustainability
Reality Check

• RSA lifestyle in the past 10 years. From 4X4’s to cellphones, bigger properties and higher property rates and taxes, more appliances and expensive electricity, higher insurance premiums, entertainment, travel and more.

• We have changed the way we live. And SARS has cashed in all the way through VAT, sin tax, electricity tax, customs end excise duties, even plastic bag tax.
Reality Check

• The environmentalists will say ‘buy a hybrid car, turn down the geyser, switch off the lights and holiday closer to home.’ This may help the environment but will not save much in taxes. For example, Buying a hybrid car will cost R30 – 50 000 in VAT.

• More thought is needed.
<table>
<thead>
<tr>
<th>Item</th>
<th>Value</th>
</tr>
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<tbody>
<tr>
<td>Planned retirement age</td>
<td>65</td>
</tr>
<tr>
<td>Cigarettes per day</td>
<td>30</td>
</tr>
<tr>
<td>Started smoking at age</td>
<td>18</td>
</tr>
<tr>
<td>Cost per pack</td>
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<tr>
<td>Beers per week</td>
<td>48</td>
</tr>
<tr>
<td>Started drinking beer at age</td>
<td>18</td>
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<tr>
<td>Cost per six pack</td>
<td>R 35,00</td>
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<td>Spirit tots per week</td>
<td>30</td>
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<td>Started drinking spirits at age</td>
<td>25</td>
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<tr>
<td>Cost per bottle</td>
<td>R 100,00</td>
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<tr>
<td>Glasses of wine a week</td>
<td>15</td>
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<tr>
<td>Started drinking week at age</td>
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<tr>
<td>Cost per bottle</td>
<td>R 40,00</td>
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<tr>
<td>Impact on my savings to date?</td>
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<tr>
<td>-----------------------------------------------------------------------------------------------</td>
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<tr>
<td>Consuming 30 cigarettes per day for the past 12 years, has dented your savings by</td>
<td>R223 380</td>
</tr>
<tr>
<td>Consuming 48 beers per week for the past 12 years, has dented your savings by</td>
<td>R174 720</td>
</tr>
<tr>
<td>Consuming 30 spirit tots per week for the past 5 years, has dented your savings by</td>
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<tr>
<td>Consuming 15 glasses of wine a week for the past 8 years, has dented your savings by</td>
<td>R24 960</td>
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<td>Total</td>
<td>R442 560</td>
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<tr>
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<td>Consuming 30 cigarettes per day for the next 35 years, will dent your savings by</td>
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<tr>
<td>Consuming 48 beers per week for the next 35 years, will dent your savings by</td>
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<td>R509 600</td>
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<td>Consuming 30 spirit tots per week for the next 35 years, will dent your savings by</td>
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<td>R136 500</td>
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<tr>
<td>Consuming 15 glasses of wine a week for the next 35 years, will dent your savings by</td>
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<tr>
<td>R109 200</td>
<td></td>
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<tr>
<td>R1 406 825</td>
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<tr>
<td>Vices</td>
<td>Cost to Current Savings</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>30 cigarettes per day</td>
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<tr>
<td>48 beers per week</td>
<td>R364 000</td>
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<tr>
<td>30 spirit tots per week</td>
<td>R97 500</td>
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<tr>
<td>15 glasses of wine per week</td>
<td>R78 000</td>
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<tr>
<td>Total</td>
<td>R1 004 875</td>
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</tbody>
</table>
And the final result?

R2 854 260
The Caving Calculator

A Matthew Lester and Mark Cowley Innovation

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By Andre van Heerden
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Consumer Price Index
Inflation versus Remuneration
Inflation versus Fuel Prices
Inflation versus Electricity

IBS(ECPI,E,100), IBS(ELECP,E,100)
Yearly 12/31/2009-12/31/2012

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End Result over 3 years

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There is no question that the family that can stay together pays less tax. Imagine a huge family home containing all from Grandparents to Grandchildren. The benefits are one bill for rates, electricity bill, water, insurance. One bulk shopping list. No travelling for family visitations. Fewer cars, dogs and security companies? Maybe.

Yes, it’s an ideal. Many could pay much more when defending assault charges or paying psycho-therapy bills. But the point is made.

Maintaining a separate house for every family member is not sustainable!
Work

• We created the office block as a place where we could access resources. A secretary, a library, clients, machinery, computers and more. The result was the traffic jam and smart suits. And Government learned how to tax cars fuel and roads and even the smart suit.

• Today we carry on fighting the traffic and paying the taxes to get to an office to switch on a laptop that would work just as well from home hooked up through ADSL or a 3G card. No dress code required.

• Many executives say ‘impossible! My business plan is based on office discipline and interaction with colleagues and clients.’ And they have a point, particularly on social interaction. It is lonely
Work

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• Today we carry on fighting the traffic and paying the taxes to get to an office to switch on a laptop that would work just as well from home hooked up through ADSL or a 3G card. No dress code required.
**Work**

• Many executives say ‘impossible! My business plan is based on office discipline and interaction with colleagues and clients.’ And they have a point, particularly on social interaction. It is lonely working at home.

• But, with energy prices on the increase, plus the implementation of toll roads, plus carbon emission tax implementation on the horizon there will be many employees who simply will not be able afford the cost of commuting. We have to accept this as reality and learn to work alone, at least some of the time.

• Commuting in a 4X4 is not sustainable!
Holidays

- Sadly, the days of maintaining a holiday home are over for all but the most wealthy South Africans. The costs of maintaining a second home can easily amount to R100 000 a year, even more, excluding bond payments and the cost of substantial costs of actually getting there. Many are going to have to think again.

- Leaving a property unoccupied for 10 months a year is not sustainable
Education

• The direct costs of education, even private schools, are not subject to VAT, but are paid out of after tax income. Many who already have children at private schools are struggling to pay the fees and all the additional costs that are levied by schools.

• Then comes the cost of actually getting children to school. Many parents are ‘schlepping’ the kids 50 kilometers a day or more. And at AA rate of R8 per kilometer for a 4X4, that’s a small fortune over a year.
Education

• It is all too easy to admit children to private schools. It’s another thing to keep up the payments over 13 years. And that is even before tertiary education.
• The alternatives are few. But careful consideration of the education spend is needed. If only to contain the costs of travel and extras.
• For most South Africans three children in private schools, plus cell phones and computers, plus annual overseas tours, plus, plus, plus, plus, is not sustainable!
Chapter 7

Conclusion:

10 Personal financial planning principles 2012.

(1) The low interest rate era is here to stay!
Chapter 7

Conclusion:

10 Personal financial planning principles 2012.

(2) Tax collections are increasing for the individual investor.
Chapter 7

Conclusion:

10 Personal financial planning principles 2012. (3) Dividend tax has increased.
Chapter 7

Conclusion:

10 Personal financial planning principles 2012.

(4) Capital Gains Tax rates have increased.
Chapter 7

Conclusion:

10 Personal financial planning principles 2012.

(5) Increased tax rates sometimes double up.
Chapter 7

Conclusion:

10 Personal financial planning principles 2012. (6) Retirement funds now receive the tax breaks.
Chapter 7

Conclusion:

10 Personal financial planning principles 2012.

(7) Watch out for transaction taxes.
Chapter 7

Conclusion:

10 Personal financial planning principles 2012.

(8) Watch out for the taxes and costs associated with residential property market.
Chapter 7

Conclusion:

10 Personal financial planning principles 2012.

(9) Remember the +15 million South Africans on social welfare grants!
Chapter 7

Conclusion:

10 Personal financial planning principles 2012.  

(10) Costa Concordia Syndrome
Acknowledgements and thanks

Pictures from the ‘Long Distance’ exhibition of Obie Oberholzers Photographs at the Read Gallery

Mark Cowley

Google Pictures from the ‘Long Distance’ exhibition of Obie Oberholzers Photographs at the Read Gallery

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