# TAX E-NEWS

Monthly Update – March 2017

Dear Client,

Welcome to our monthly tax newsletter designed to keep you up-to-date and informed on the latest tax matters.

In this month's article, Prof Pieter van der Zwan writes about the 2017 Budget Review. A number of tax rate increases were announced, and these may impact directly on investment yields and re-investment base of investors. Some of these developments, in particular the gradual increase in the trust tax rates, may require investors to reconsider investment holding structures. Several aspects up for review by the National Treasury in 2017 may significantly impact on structures that house wealth.

Remember that we are here to help – please don't hesitate to contact us should you require further information or assistance.

Bezkie Tax Team

## South African Budget: Wealth and investment perspective

The South African National Treasury published its Budget Review for 2017 on 22 February 2017. This article provides a high-level overview of some of the proposals that may directly impact on investors and structures that house investment wealth.

### *Tax rate related changes*

For the 2017/18 tax year, a new personal tax bracket for taxable income above R1,5 million was introduced. Taxable income exceeding this threshold will be subject to tax in the hands of individuals at a rate of 45% (as opposed to 41% in the 2016/17 tax year). A corresponding increase in the trust tax rate to 45% was announced.

The consequential effect of these increases in tax rates is that the effective capital gains tax rates for the two classes of taxpayers increase to 18% for persons who fall into the top tax bracket and 36% for trusts. The gradual increase in the capital gains tax rate applicable to trusts may require investors to seriously re-consider trusts as an entity to house assets as any realisation of a gain on an asset would immediately reduce capital available for reinvestment significantly more than any other form of vehicle that could have held the investments. It is submitted that the nature of assets transferred to trusts as well as the investment holding structure within a trust may require a re-think.

In addition to the increase in income tax rates, the dividends tax rate increased from 15% to 20% with effect from 22 February 2017. When considering the impact of this rate change it is important to note that in broad terms the dividend withholding tax only becomes payable once company profits are distributed to natural persons, trusts or foreign shareholders. An exemption exists for dividends paid by one South African company to another. Foreign shareholders may be shielded from the rate increase as double tax treaties may limit the rate at which dividends tax may be imposed. Investors from non-treaty countries will however feel the impact.

All these rate related changes will impact directly on the after-tax yield but also on the funds available for re-investment, and therefore the investment base, of investors. It would be an opportune time to take a step back and review whether current investment holding structures still provide an optimal investment base in the light of these changes.

***Investment structure risks and opportunities***

Investors and planners should note the following aspects, which impact on investments or wealth holding structures, that are up for review in 2017:

- Further anti-avoidance rules will be introduced to curb schemes to circumvent the application of section 7C. The schemes targeted are those where interest-free or low interest loans are advanced by natural persons to companies owned by trusts as opposed to directly to trusts.
- The treatment of foreign companies owned via offshore trusts as controlled foreign companies will be considered by the National Treasury.
- The venture capital company regime that provides investors with a tax deduction for the investment made into small and medium-sized enterprises will made more accessible by removing impediments to investments.

Prof Pieter van der Zwan recently presented a full analysis of the 2017 Budget and 2016 tax law amendments, including section 7C. If you would like to order a copy of this webinar recording, please click here.

Please contact a member of our Tax Team if you would like to discuss any of the issues raised.