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At your service

The uncertainty and havoc that Covid-19 has unleashed globally and the resultant effect it has had on all of our finances requires a careful look at how we deal with our money. The crisis has divided the global population into two groups. Either you have benefitted, because you had the good fortune to be invested in tech and online shopping, or your finances took a beating with poor investment performance, unemployment or you own a restaurant/guesthouse. Either way, you will need my advice and support. Like you, I do not have a crystal ball, but what I lack in financial fortune telling I more than make up for in experience and focus. During this time you will need support, guidance and expertise. I am at your service.

This year's Budget Speech was touted as an unprecedented emergency intervention, however it left quite a few questions unanswered. The highly publicised public sector wage bill discussion, quelling widespread corruption and just how government plans to make up a more than R300 billion shortfall in tax collection were not definitively dealt with. What was clear, however, was that South Africans will have to cough up more from next year to foot the bill – and they will need sound financial advice to help weather this.

This is going to have a trickle-down effect on us all – bringing the need for proactive, financial advice to the fore. Although specifics around tax and other measures that directly impact consumers will only be fleshed out in February 2021, I will have a role to play in helping you get your finances in order in preparation for what is shaping up to be an expensive 2021 and beyond. Add to this the projected rise in unemployment and you'll find that income protection and shoring up emergency savings will become a number one priority for many households. We are going to need our financial advisers more than ever in the year to come. We need to *preparation, protection and provision.*

Preparation for taxes

Tito Mboweni announced the plan for R40bn in tax hikes over the next four years in an effort to boost income. That is going to start with a R5bn increase in 2021. Of course an increased tax burden will mean decreased spending, so consumers will need to seriously and extensively review their financial goals and aspirations to account for these tax increases. Additionally, as the country amasses extraordinary levels of national debt, SARS will certainly adopt a more stringent approach to tax collection. Anyone banking on that tax return is going to need to fight a lot harder for it as SARS will be hesitant to hand money back to consum-

ers without adequate evidence.

Protection of your income

There will be more job losses in the coming year and now is the time, more than ever, to ensure that your ability to earn an income is protected. This means looking at your level of retrenchment cover and disability insurance cover wherever possible.

As debt is the enemy of income, it will be unadvisable to see lowered interest rates as a good reason to amass more debt. While this is a short-term relief for those in debt, people need to exercise extreme caution around taking on debt even when interest rates are low. Rather use any extra cash to pay off existing debts as repayments will be lower and thus an opportunity to lessen your debt load.

Provision for the future

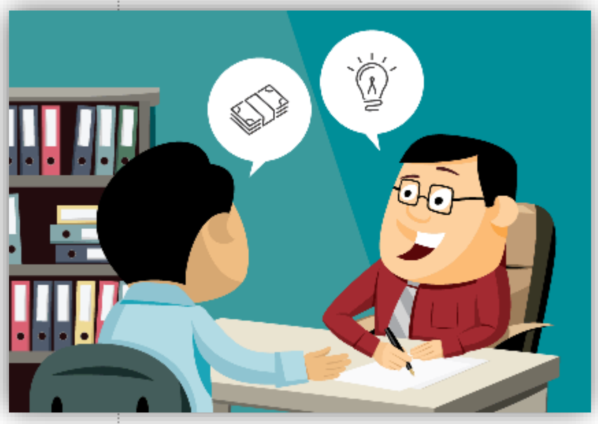
All of the above cascades down to the financial wellness of South African households. The loss of income and fragile employment situations mean that people need to ensure they have emergency savings. We should all be saving 20% of our income, 5% of which should be for emergencies. A rainy day fund is a must, and should ideally include at least six months of living expenses. The potential for rainy days are coming, and are already here for so many South Africans.

The best way to do this is to look at it holistically in terms of rethinking your financial plan. Covid-19 has changed the way we live and so it goes without saying that our financial plans will need to be adjusted in order to take this new reality into account. It will mean different things for different people and for some it could mean having to change goals entirely, while for others it may mean reprioritising or simply shifting timelines. But what is applicable to everyone, no matter who you are, is that it's critical to have a financial plan, and if you have one, it's an opportune time to get in touch with me to adjust it for our new reality.

South Africans are going to be looking to trusted partners to get them through this, which means that financial advisers have just unofficially made it onto the list of essential services.

What to watch

Former US Secretary of Labour Robert Reich meets with Americans from all walks of life as he chronicles a seismic shift in the nation's economy.



7 financial questions you won't regret asking in 2021

The answers to these questions will give you insight into your money mindset and help achieve your financial goals for the new year.

1. What is the top financial goal I want to accomplish in 2021?
2. What do I value the most?
3. Can I save more?
4. How am I financially protecting my loved ones?
5. How can I make more money?
6. How can I improve my credit score?
7. Does my investment strategy match my goals?

Home sweet home

Selling a home can be a challenging experience: preparing for show days, dealing with estate agents, considering offers to purchase, trying to make sense of legal contracts. And after the home is sold there remains one possible further task: working out whether the taxman will take a slice of the profit ....

Many homeowners believe that the sale of a personal residence simply doesn't attract Capital Gains Tax ("CGT"). While this is often the case, it is not necessarily so. This article looks at how and when CGT applies to the sale of a personal residence.

The in's and out's of CGT

It is the disposal of an asset that triggers the application of CGT. The definition of "disposal" is far reaching. The sale of an asset is an obvious disposal, but the donation or destruction of an asset is also defined as a disposal. And if a taxpayer dies or emigrates they are deemed to have disposed of all their assets!

The gain (or loss) that a taxpayer makes on the disposal of an asset is calculated by deducting the "base cost" of acquiring the asset from the net proceeds of the disposal. The net proceeds are the proceeds of the disposal left after payment of disposal costs, such as estate agent's fees in the case of the sale of a property. If the taxpayer receives no proceeds (for example on the donation of an asset to his or her child) then the proceeds are deemed to equal to the market value of the property at the time. Thus one can't avoid CGT by simply donating assets to children: in fact this can be an expensive option as donations tax is also likely to apply.

The base cost of a disposed asset is generally the outlay or expenditure actually incurred in acquiring the asset (the price payable in the case of the purchase of a house), the cost of improving the asset (eg home extensions or building a swimming pool) and any expenditure directly related to its acquisition (for example transfer duty and conveyancing costs incurred on purchasing a property). It is important to note that interest paid on a mortgage bond is not considered part of the acquisition cost of a home. Generally the method of funding the acquisition (bond and/or cash) is irrelevant to the determination of a future CGT liability upon sale. If the disposed asset was acquired before the introduction of CGT on 1 October 2001, then only the portion of the gain attributable to the period after this date is taxed. Put another way, the gain attributable to the pre-CGT era is excluded from taxation. There are a number of options available to a taxpayer in calculating the base cost of assets acquired before 1 October 2001 and specific advice should be sought in this regard.

Once the gain or loss on the disposal of each asset has been established, the sum

A quick checklist when completing an offer to purchase:

Check that the description of the property is correct (as described in the title deed).

Are all the buyers' and sellers' details documented clearly?

Check that the purchase price is written correctly.

Are you happy with the occupation date and occupational rent amount?

Make sure you are aware of any special conditions and the time period in which these conditions need to be fulfilled i.e. that the agreement is subject to a grant of the buyer's bond, or the sale of his other property.

There may be movable items that can stay with the property. Are they all listed and are the movable items, which are not included in the sale, listed?

Quarter 4 2020

Financial Informer

Preparing your home for festive season guests

So, how to play host to guests this Christmas without losing your privacy or tripping over their stuffed suitcases…

Make a place for their suitcase

We're not suggesting your guests will fully unpack if they're only coming for a night or two, but why not make like a hotel and invest in a folding suitcase rack so they can at least have their case open without it cluttering the floor.

Clear spare hanging space

Visitors will feel so much more at home if they've got some hanging space of their own, especially if they've brought glam Christmas outfits, so consider making a little room for at least a few hangers and a few pairs of shoes.

Gift them the essentials

Remember those hotel miniatures that you always chuck in the bottom of your suitcase but never use? This is where you can put them to good use, by arranging a little basket of toiletries for your visitors to find on their bed.

Don't hide the towels

Unless your guests are making a stand against Christmas hygiene, they're going to need towels. Don't make it a challenge akin to the Crystal Maze for them to find them – just pop them on the bed.

Assess the sofa bed situation

Do you have one? How long was it since you used it? Check it a few days in advance and make sure the springs haven't croaked.

Let there be light

If you normally rely on a main ceiling light, which won't be much good for bedtime reading, bring out a smaller lamp or desk light that can be turned off from the bed. It will make a world of difference for your guests to have a bit of clarity for the midnight journey to an unfamiliar bathroom too!

of all such gains (less any capital losses) are tallied, and from this total amount, an exemption of a modest R40,000 is allowed each tax year (and only for natural persons i.e. individual taxpayers not companies or trusts).

The taxman's cut

A portion of a taxpayer's total capital gains in excess of the annual exemption is added to his or her normal taxable income for the particular tax year. In the case of "natural" persons, 40% of the total net capital gains for the year is added to the taxpayer's income and in the case of companies and trusts, 80% is added to taxable income.

The amount of additional income tax payable on the capital gain on the disposal of assets will depend entirely on the amount of other taxable income earned by the taxpayer in that year. If, for example, the taxpayer has earned sufficient income in that year to put him or herself into the highest marginal income tax bracket (45%), then the 40% portion of his capital gains when added to his normal income will attract tax at an effective rate of 18%. This means that this taxpayer will pay "CGT" on his gains at an effective rate of 18% of the gain (i.e. 40% x 45%). *It can thus be said that the net effective "rate of CGT" in the case of natural persons thus ranges from zero up to a maximum of 18% of net capital gains made*.

Home sweet home

What about CGT on the sale of a home? In the case of the disposal by a taxpayer of his or her "primary" residence there is a major concession: the first R2m of any gain is exempt from CGT. Only the gain in excess of this amount (if any) will attract CGT. For many taxpayers this means that the gain made on such a sale will not attract any tax. However, house prices have increased considerably since 2001 and even in the current economic climate many homeowners who have owned their homes for some years may find themselves one day paying CGT on the sale of their property.

It is important to note that the R2m tax-free concession only applies to the disposal of what SARS terms a "primary residence": this is a property which (a) is owned by a natural person (not a trust, company or close corporation), and (b) the owner or spouse of the owner must ordinarily reside in the home and must also "mainly" use the home for domestic or private residential purposes. Spouses who are married in community of property are deemed to have shared the gains made on disposal of assets, and in their case the R2m exemption will also be shared: they do not each receive the full exemption.

Business is business

While the "primary residence" exemption applies to the sale of most homes, there are a number of situations where the unsuspecting home-owner may not qualify for the exemption, or will otherwise be liable for some CGT on the sale of a home despite being able to claim the exemption. Let's look at some of these situations….

When assessing the primary residence exemption, "work-from-home" taxpayers

should proceed with caution. Firstly, the exemption will not apply at all if a home is used "mainly" as a business (i.e. more than 50% for business in terms of floor space usage) even if the business owner resides in the premises. Furthermore, there are implications even if only a small portion of a disposed home has been used for business purposes, for example where a study in a home is used as an office, or a "granny flat" is used to generate rental income. In these situations, the proportion of the property that is used for non-residential purposes will be excluded from benefiting from the exemption and that portion will attract CGT on disposal of the property.

Trust matters

Most importantly, to qualify for the "primary residence" exemption, the home must be owned by the taxpayer in his or her own right. If the home is owned by the taxpayer's family trust or a company, the exemption will not apply at all. This will be the case even if the taxpayer is a beneficiary of the trust and occupies the house as his or her residence.

The bottom line

A home is often the most valuable asset one ever acquires, and one's financial planning should accurately take into account the impact of Capital Gains Tax on a house sale.

...to qualify for the "primary residence" exemption, the home must be owned by the taxpayer in his or her own right.

Ready, steady, go

How and when to position for a post-vaccine world is the question at the top of many investors' minds right now. Erin Riley, a Goldman Sachs financial adviser, said the announcement of a COVID-19 vaccine will spark a rotation into seven specific sectors.

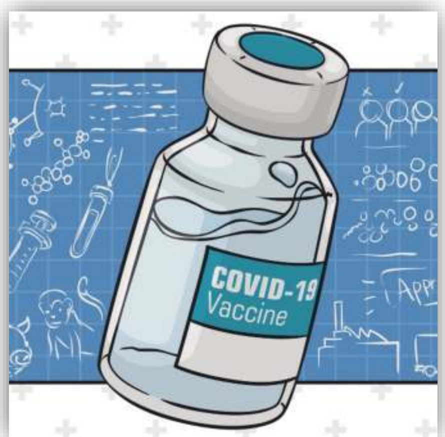
"Certain value sectors like **food** and **beverages** exhibit very high positive correlation with rising vaccine probabilities," Riley said. She also said the sectors that were "deeply depressed" by the pandemic could be well positioned for a catch-up: **transportation, sports, hotels, restaurants, and hospitals**.

Riley said data is showing signs that this rotation could occur as early as 2021.

"The majority of super forecasters expect there to be enough doses of an FDA-approved COVID-19 vaccine to inoculate 25 million people some time at the beginning of next year," she added.

Along with a vaccine catalyst, Riley's clients have looked at the "massively bifurcated" stock market, where large technology names have seen massive gains while other sectors haven't recovered their pandemic losses, as a signal that a rotation is due at some point in the future.

"The are essentially two economies trading, which suggests that the market remains very skeptical of any semblance of a return to normal. A lot of clients that I speak to are still constructive on growth technology stocks, which particularly owes to the low-rate environment and the acceleration in trends ignited by stay-at-home orders," Riley said.



She added: "But ***low-valuation stocks now trade at their largest discount*** to high valuation since the tech bubble. And tactically, many clients think at some point this gap simply needs to converge."