STANLIB Multi-Manager

The Educator

The treatment of income

In The Educator, we address a number of topics with the ultimate goal of providing a better understanding of investing clients' money.

Collective Investment Schemes - tax treatment of income distribution

A brief explanation of the tax treatment of domestic and foreign income for a natural person in South Africa, aligning the taxation of domestic and foreign income.

Summary

Changes to the taxation of foreign dividends came into effect on 1 March 2012 aimed at more closely aligning the taxation of domestic and foreign interests and dividends.

Income = interest and dividends

	Interest	Dividends
Domestic CIS	Exemptions; balance taxed at marginal tax rate	Effective tax rate of 20%
Foreign (rand-denominated CIS)	Fully taxed at marginal rate	Maximum (effective) tax rate of 20%
Foreign (investment allowance CIS)	Full income distribution taxable; effective tax rate of 20%	

Background

South African tax legislation requires that all South African unit trusts distribute the net income (interest and dividends) in the fund regularly. These distributions are paid to investors in proportion to the number of units they hold and are either paid into the client's bank account or reinvested into the fund to buy more units, thereby taking advantage of compounding returns.

The income that a local CIS (unit trust) distributes to its unit holders maintains its underlying form for tax purposes. Accordingly, the investor will be advised (via a monthly statement) of the nature of the income that makes up the distribution. Changes to the taxation of foreign dividends came into effect on 1 March 2012, aimed at more closely aligning the taxation of domestic and foreign interests and dividends.

At the end of each tax year, investors are issued with an IT3(b) certificate to advise of the total interest and total dividends earned during the tax year. These amounts should then be included on tax returns submitted to SARS. Investors are entitled to a credit for any withholding tax paid in respect of a foreign dividend that is included in gross income.

With South African investors increasing their exposure to global portfolios, they need a better understanding of (1) how the tax is calculated and (2) how the taxation treatment differs between the domestic and foreign income received in their portfolios.

Interest

Domestic interest (CIS)

Currently taxed subject to the following exemptions:

- Under 65 years: R23 800
- Over 65 years: R34 500

The balance of the income is taxed by the Receiver of Revenue at the investor's marginal tax rate.

Foreign interest (rand-denominated) CIS

Interest is fully taxable. Until February 2012, the first R3 700 was exempted, but this exemption fell away with effect from March 2012.

Dividends

Domestic dividends (CIS)

A dividends tax of 20% is required to be withheld in respect of dividends from South African resident companies and cash dividends from dual-listed* foreign listed companies. South African residents will receive dividends less dividends tax of 20%.

Dividend tax is categorized as a withholding tax as the tax is withheld from the dividend (income) distributions and paid to SARS by the company paying the dividend and/or withholding agent such as STANLIB.

*The only exception to this is in specie (other than cash) dividends, which are treated as foreign dividends and taxed accordingly.

Foreign dividends (rand-denominated) CIS

Currently 44% [i.e. 56% (25/45) is tax-exempt] of the foreign dividends arising from a portfolio of shares accruing to a natural person are treated as taxable. At the highest marginal rate of 45%, this will result in a maximum (effective) tax rate of 20% (in line with the 20% dividends tax on local dividends) and proportionally less at lower tax rates.

Marginal tax rate	Dividend paid	Taxable portion	Effective tax rate	Dividend tax
45%	R200	44%	20% (44%x45%)	R40
30%	R200	44%	13% (44%x 30%)	R26

Foreign investment allowance CIS

Income distributions from foreign-denominated CIS's are regarded as foreign dividends.The interest from interest-bearing securities is regarded as part of the distribution and is treated as a foreign dividend. Thus, the full income distribution is taxable, effectively 20%. Most foreign-denominated CIS's are structured as roll-up funds, whereby income earned is reinvested and as a result, no investment income is distributed. Refer to the selected fund's prospectus for clarity in this regard.

Albert Louw

STANLIB Multi-Manager Head of Business Development
T + 27 (0)11 448 6211 M + 27 (0)82 829 7729
E Albert.Louw@stanlib.com

STANLIB
MULTI-MANAGER