CAPITAL GAINS TAX EXPLAINED

glacier
by Sanlam

Capital Gains Tax Explained

When investing in a unit trust or share portfolio there are generally two types of return an investor can expect to earn, i.e. income & capital growth. Income earned can be received in the form of Interest & Dividends from Unit Trust funds or shares.

Tax treatment of Interest & Dividends

Interest and Dividends may be paid out or reinvested in the unit trust fund. Dividends & interest held in an investment account on a platform, such as Glacier, are reinvested and as a result increasing the number of units held by the investor. The taxability of these income payments are however treated differently. Interest earned is included in an investor's gross income for a particular tax year after which income tax is deducted. Dividends however do not get included in an investors gross income, instead dividends are subject to a withholding tax. Dividend withholding tax (DWT) is levied at 15% on the dividends earned by an investor. DWT is a tax levied by regulated intermediaries such as Glacier and does not form part of your personal tax return.

Tax treatment of Capital Growth

Capital Growth (gain) on the other hand is taxed very differently to income earned by an investor. Capital Growth (gain) is typically defined as the movement in price of an asset over a particular period of time (also referred to as market movement). As the price of an asset increases so does the capital appreciation of the asset which in this case may be a unit trust fund or a share for example. Capital Gains Tax (CGT) is levied on the capital growth (gain) which an investor has earned when he disposes of the asset. This means whenever units/shares are sold either to be re-invested or withdrawn a capital gains event will be triggered. Natural persons and some special trusts are eligible for a CGT exemption of R30 000 per year which reduces the impact of the potential tax payable by the investor. Any gain over R30 000 will therefore be used to calculate the investor's tax liability upon disposal. Thereafter a third (33.3% of the capital gain will be included in the client's gross income and taxed at his/her marginal rate.

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Example 1:

Below is the unrealized CGT statement available via Glacier. (Either on the website or from the Client contact center)

Investment fund	Number of units held	Market value (R/c)	Base value (R/c)	Unrealised gain / loss (R/c)
Truffle Flexible - C	54 891.26	113 251.64	101 228.96	12 022.68
Foord Flexible FOF - B2	5 769.68	146 902.97	101 171.49	45 731.48
Coronation Optimum Growth - B4	1 773.73	145 072.66	124 473.60	20 599.06
Rezco Value Trend - C	7 917.58	109 527.84	102 135.62	7 392.22
PSG Flexible - E	23 921.39	112 607.55	100 978.40	11 629.15
Total		**627 362.66**	**529 988.07**	**97 374.59**

In this example the unrealized CGT is R97 374.59. This amount is indicative of the CGT that would be realized should the client withdraw/switch part or his/her entire investment. If only a portion of the investment is realized then the CGT will realize on that particular portion. (For example if only one fund is sold or switched – please see Example 2)

(A 41% marginal tax rate is used in the below examples)

R97 374.59 – R30 000 = R67 374.59

A third (33.3%) of the gain will be included when calculating the tax:

R67 374.59 x 33.33% = R22 455.95

This amount will then be taxed at the client's marginal tax rate. (Assumption in this example is 41%)

R22 455.95 x 41%

= R9206.94 (potential tax to be paid)

Example 2:

If we assume for example that we want to switch or realise 50% of both the Coronation Optimum Growth & Foord Flexible fund in the above portfolio the capital gain will realise proportionally.

Coronation Optimum Growth – 50% x R 20 599.06 = R10 299.53 (Capital gain realised)

Foord Flexible – 50% x R45 731.48 = R 22 865.74 (Capital gain realised)

Total gain realised = R 33 165.27

Capital gain minus CGT exemption = R 33 165.27 – R30 000 = R 3 165.27

R 3 165.27 x 33.33% = R 1 054.98

R1 054.98 x 41% = R432.54 (potential tax liability/effective CGT payable)

Important things to note regarding Capital Gains Tax and your investment:

- A Capital Gain **is not realised** when switching between **different fund classes.**
- A Capital Gain is **not realised** when **transferring units of the same fund and class** to another platform.
- A Capital Gains event is **triggered** when an investment is **transferred between different entities** (natural person and trust for an example)
- **Capital Gains Tax is not applicable to retirement funds** such as a Retirement Annuity, Preservation fund or ILLA.
- Capital gains are **realised upon death**. The CGT exemption upon death **increases to R300 000.**
- A Capital Gain does **not realise when an investment is transferred to a spouse**. The **CG will roll-over** to your spouse at the same base cost.
- A **Capital Gains tax event is triggered** when an **investor transfers an existing investment into an Endowment/Sinking Fund.**