NAVIGATE **TAX-SMART INVESTMENT** STRATEGIES

ANCHOR | NAVIGATING CHANGE

TAX

AVOIDANCE

AVERSION

EFFICIENCY/OPTIMISATION

BY SANDY VAN DER ZANDEN

INTRODUCTION

WHAT IS TAX?

- Income Tax
- Product of a tax rate times the taxable income.
- South Africa – residence-based tax system i.e. taxed on worldwide income
- Non-residents – taxed on their income from a South African source.

THE TAXPAYERS

DEFINITION OF TAXPAYER

ANYONE receiving income

- NATURAL PERSON
- LEGAL PERSON
- ARRANGEMENT

TAX RATE OF TAXPAYERS

- NATURAL PERSON – SLIDING SCALE

Tax applied on a sliding scale from 18% to 45%

- TRUSTS

Taxed at 45%

- COMPANIES & CLOSE CORPORATION

Tax at 27% for year ended on or after 30 March 2023

THE TAXES

DIRECT TAXES

Tax applied on a sliding scale from 18% to 45%

- Remuneration, Gross Income and Normal Tax
- Turnover Tax
- Dividends With-holding Tax
- Donation Tax
- Capital Gains Tax
- With-holding Tax

DIRECT TAXES

Indirect Tax is imposed on a transaction

- Estate Duty
- Securities Transfer Tax
- VAT
- Transfer Duty

INDIVIDUAL TAXES

- Income Tax
- Donations tax.
- Tax on interest.
- Estate duty (death taxes).
- Capital gains tax (CGT).

COMPANY/TRUST TAXES

- Income tax.
- Dividends tax.
- Tax on interest.
- CG`````````T.

SOCIAL CONTRACT

Tax paid is used for the broader social good

The provision of basic services including:

- Water
- Sanitation
- Electricity
- Sewerage
- Education
- Health Care
- Securing the borders (army, navy, air force)
- Personal security (policing)
- Affordable, accessible public transport
- Housing
- Social welfare


#YourTaxMatters
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SARS
At Your Service

THE SOAP FAMILY

DAD – JOE

- 45 years old.
- Business owner.
- R2mn p.a. income.

SON – JUNIOR

- 19 years old.
- Full-time student

MOM – SUE

- 40 years old.
- Home executive

DAUGHTER – KIM

- 13 years old.
- Unemployed

FAMILY TRUST

- Owns two properties, debt-free.
- Rental income of R240,000 p.a.
- R2mn in cash.


TAX

TAX OPTIMISATION STRATEGIES

- Tax-free investments @ R36,000 p.a.
- Retirement annuities (RAs) @ R350,000 p.a. or 27.5%.
- Spouse salary.
- Vesting of income to trust beneficiaries.
- Endowments and structures.
- Tax-cognisant asset allocation

SMART ASSET ALLOCATION

JOE

- RA: R350,000
- Tax-free investment: R36,000
- Employs Sue – annual salary: R132,068

SUE

- Annual salary: R132,068
- RA: R36,318

JUNIOR

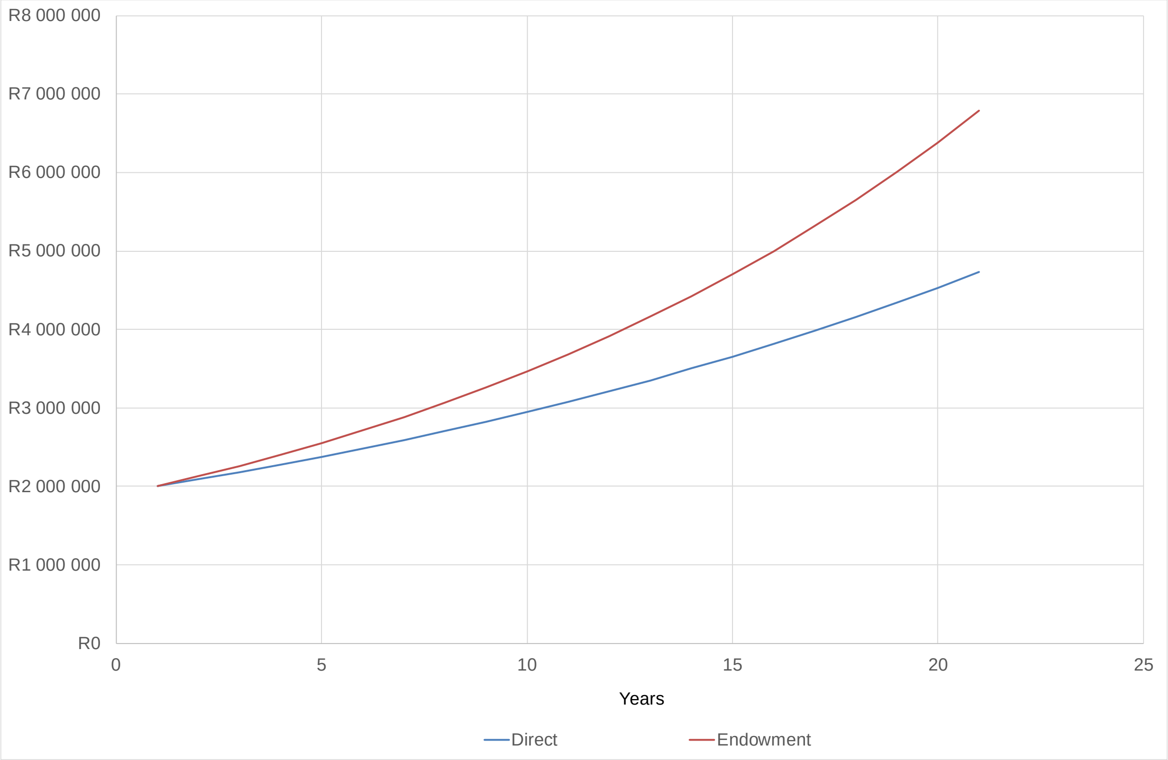
- Tax-free investment: R36,000
- Vesting of trust income: R95,750

KIM

- Tax-free investment: R36,000
- Vesting of trust income: R95,750

ANNUAL TAX SAVING

R126,519



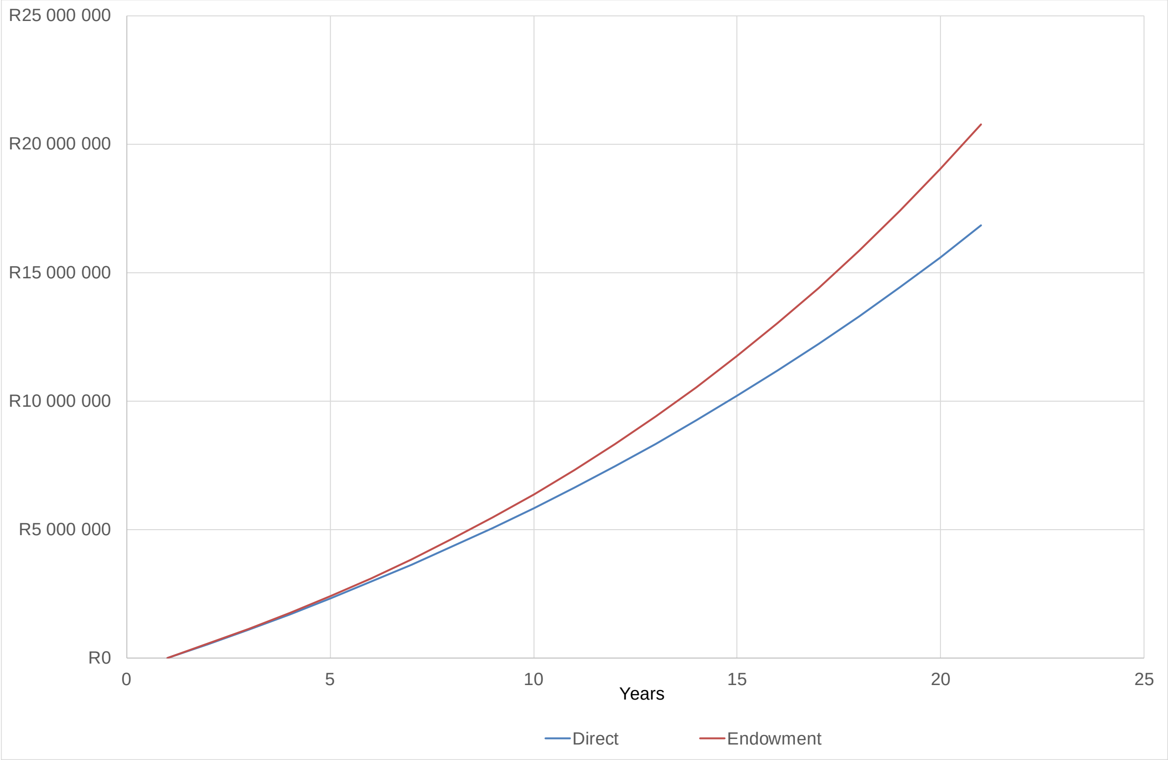


Figure 1: Enhanced return inside trust by using endowment to age 65, R2,055,324

Figure 2: Enhanced return using tax-free and RAs to age 65, R 3,957,873

ENHANCED OUTCOME

TRUST ENDOWMENT

R2mn cash @8% growth.

- Enhanced return of R35,000 p.a. (45%).
- R 2,05mn enhancement at age 65.

TAX-FREE GROWTH AND RAS

R530,319 p.a. @9% growth.

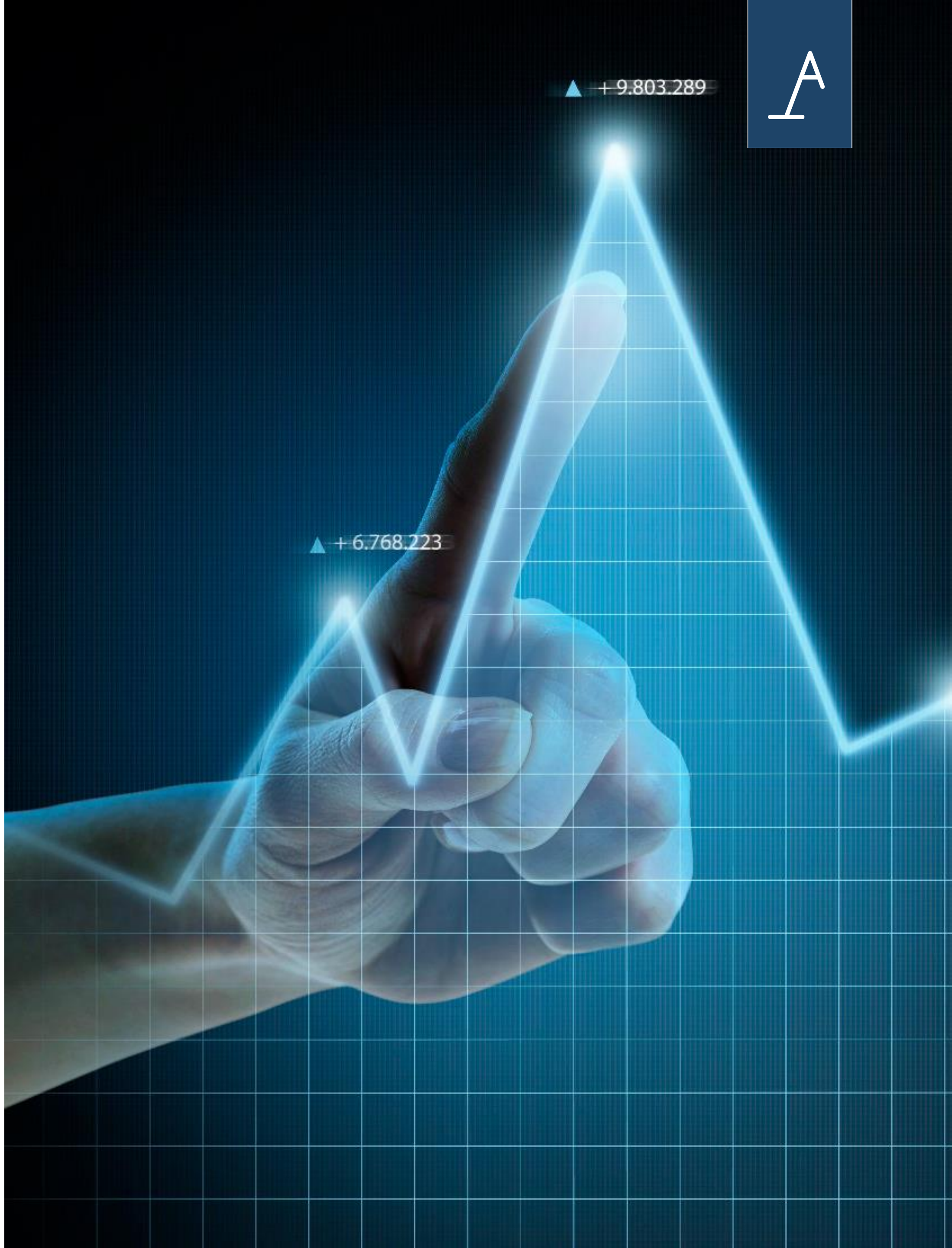
- Enhanced return of R21,478 p.a. (82%).
- R 3,95mn enhancement at age 65.

TOTAL ENHANCED RETURN TO AGE 65

R 6,000,000 enhanced retirement assets.

OFFSHORE ROLL-UP FUNDS

- Roll-up of distributions into capital gain.
- Potential translation of individual income tax at 45% into capital gains at 18%.



TAX MATTERS

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The actual investment performance will differ based on the initial fees applicable, the actual investment date and the date of reinvestment of income and dividend withholding tax. Dealing prices are calculated on a net asset value, and auditor's fees, bank charges and trustee fees are levied against the portfolios. Income distributions are included in performance calculations prior to deduction of applicable taxes. Performance numbers and graphs are sourced from Bloomberg and Anchor. Investment performance is for illustrative purposes only. Risk profile of the fund ranges from moderate risk to high risk, with a moderate risk potentially associated with moderate rewards and a high risk with potentially higher rewards. Foreign securities may be included in the portfolio from time to time and as such, may result in the following: potential constraints on liquidity and the repatriation of funds; macroeconomic risks; political risks; foreign exchange risks; tax risks; settlement risks and potential limitations on the availability of market information. Certain investments, including futures, options, equity swaps, and other derivatives, may give rise to substantial risk and might not be suitable for all investors.

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RISK WARNING

The risk/return profile of a fund illustrates the amount of risk undertaken by an investor in order to have a high probability of achieving a particular return on an investment over a period of time. The risk/return trade-off tells us that the higher risk gives us the possibility of higher returns. The risk and return profile of the fund is based on the portfolio construction methodology applied in order to achieve a level of return over a period of time. In addition to the risk warnings included elsewhere in this document, it is important to note that there are many other risks associated with investing in collective investment schemes. These can include but are not limited to the following: general market risks (such as general movements in interest rates; external factors [war, natural disasters and such like]; changes to the law and regulatory frameworks; governmental policy changes; global, regional or national economic developments), risks related to a specific security (like the possibility of a company's credit rating being downgraded); and loss in the purchasing power of an investment as a result of an increase in the price of consumer goods (known as inflationary risks). The portfolio may invest in foreign securities. There are potential material risks associated with investing in foreign securities. These include but are not limited to: potential constraints on liquidity and the repatriation of funds, macroeconomic risks, political and social instability, foreign exchange risks, tax risks, settlement risks and potential limitations on the availability of market information, all of which may have an impact on fund performance. In addition, risks associated with investing in emerging markets (which are generally less mature than those in developed markets) include but are not limited to currency risks, the possibility of expropriation, confiscatory taxation or nationalisation of assets and the establishment of foreign exchange controls which may include the suspension of the ability to transfer currency from a given country. Hedge funds use complex hedging strategies that include the use of leverage to increase the exposure of the portfolio beyond the capital that is employed to an investment. Leveraging includes the use of derivatives. Derivatives derive their value from the value of an underlying asset. The use of leveraging within a portfolio involves risk because depending on how the leveraging is structured, the portfolio's losses or gains may be unlimited. Other risks include counterparty risk and liquidity risk. Counterparty risk is the risk that the other party to a transaction may not be able to perform their obligations. Liquidity risk means that during volatile periods, the tradability of certain instruments may be impeded.

NAVIGATE **TAX-SMART INVESTMENT** STRATEGIES

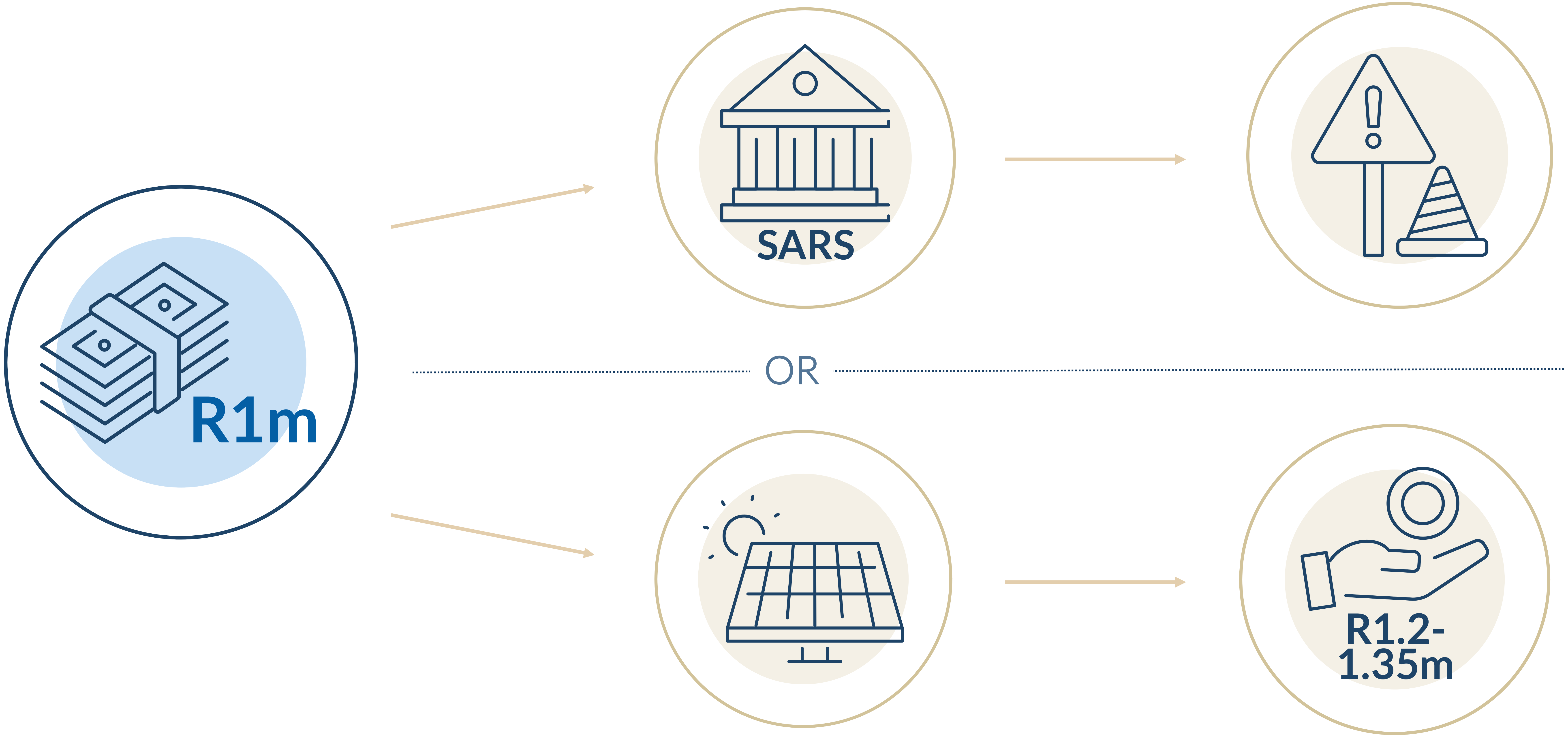
ANCHOR | NAVIGATING CHANGE

2024

12BA DISCUSSION

BY MATTHEW NORWOOD-YOUNG

WHAT IS THE OPPORTUNITY?



**Assumes the investor is an individual/trust that pays tax at the maximum marginal tax rate of 45%.*

S12BA – ENHANCED ALLOWANCE FOR RENEWABLE ENERGY GENERATION

S12BA IS AN ENHANCED TAX DEDUCTION ANNOUNCED IN THE 2023 BUDGET SPEECH.

- S12BA allows for a 125% deduction of costs of assets invested into in Year 1.
- The section is in effect for two years, the 2024 and 2025 tax year.
- The investor is required to own the underlying assets.
- Assets disposed prior to 1 March 2026 will result in an increased recoupment of an additional 25% of the assets cost.
- The section was written into law on 22 December 2023.

TAXPAYER

TAXABLE INCOME (NO 12BA) – TAX AT 45%

Taxable income: R3.125 MILLION

Tax payable: R1.233 MILLION

Net income: R1.892 MILLION

Allocation to 12BA: **R1 MILLION***

TAXABLE INCOME WITH 12BA – TAX AT 45%

Taxable income: R3.125 MILLION

12BA deduction: R3.125 MILLION

Taxable income: R0 MILLION

X 45% = R0 PAYABLE TO SARS

SARS

Debt 60% **R1.5 MILLION**

Equity 40% **R1 MILLION**

Solar assets acquired: R2.5 MILLION

SECTION 12BA deduction @ 125%

Tax deduction: R3.125 MILLION

ROUGH MATHS

YIELD → 15% ON ASSETS, ESCALATING 6% P.A.

SERVICES & SETTLES DEBT, TAX AND FEES

CASH RETURN PROFILE

> First year – receives tax benefit. Approximately 1.2-1.35 times money.

> Years 1 to 5 – yield earned services and settles debt, taxes, and fees.

> Year 5 – exit option – pays the remaining debt, resolves taxes, and pays investor cash flow of 55%-60% of original equity.

> Year 5 – no exit, exchanges solar assets for shares in the solar business.

TIMELINE

MAR APR MAY JUN JUL AUG SEP OCT NOV DEC JAN FEB

Capital deployment

WHAT MAKES THIS OPPORTUNITY SO ATTRACTIVE?

THE OPPORTUNITY IS DESIGNED FOR INVESTORS SEEKING THE FOLLOWING:

An investment that provides an attractive upfront tax break.

A full return of cash invested within a targeted 2-year period, providing a de-risked investment*.

Predictable semi-annual contractual cash flows during the investment Period or a facilitated exit structure with no downside.

Investment into green energy-focused projects.

Low investment volatility and correlation relative to traditional investments.

*Assumes the investor is an individual/trust that pays tax at the maximum marginal tax rate of 45%.

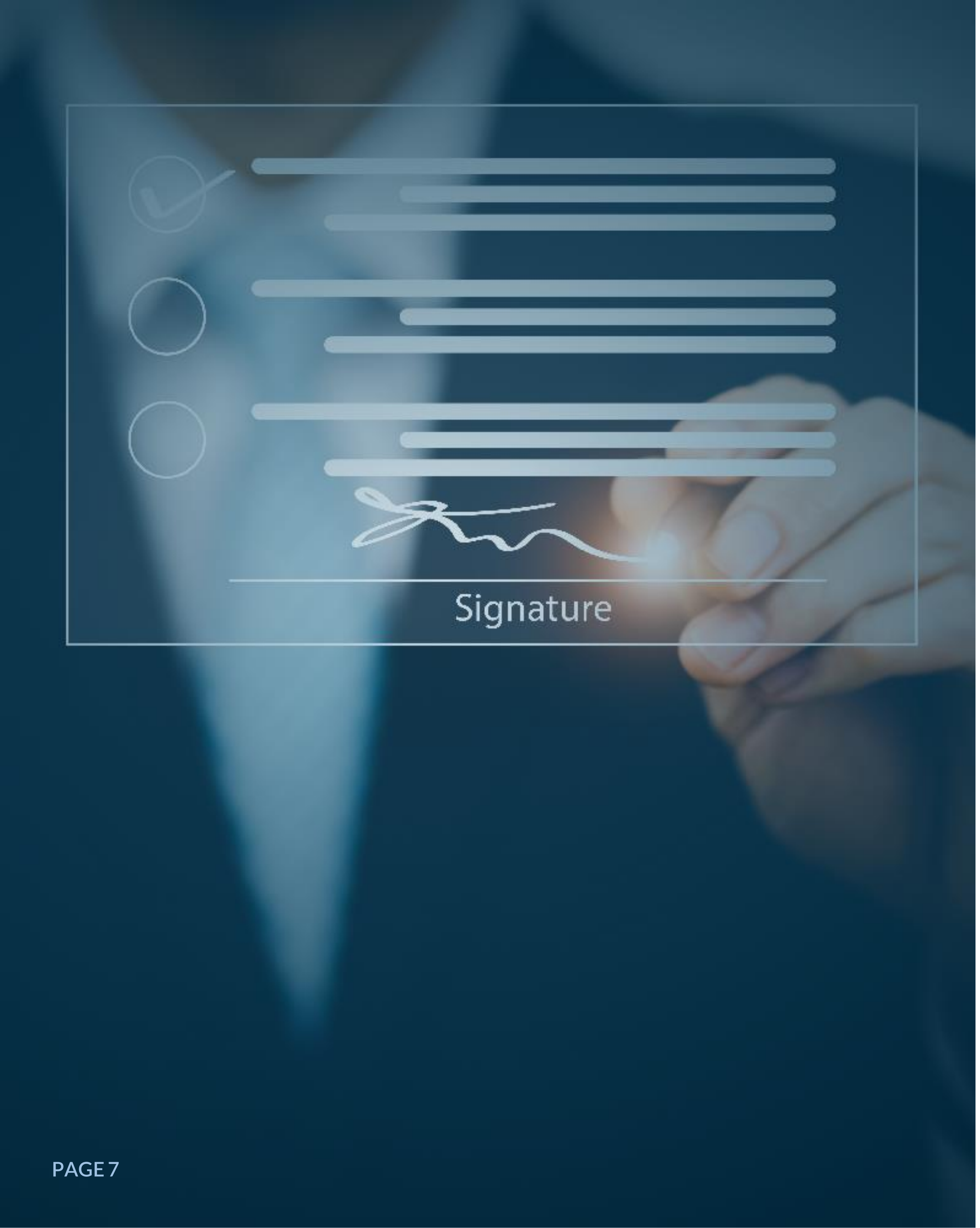
CLAIMING THE TAX DEDUCTION AND PROCESS

> Section 12BA provides for unlimited investment/deduction p.a. for individuals, companies, and trusts. There is a practical limit, which is the investment in projects that have been brought into use and generate electricity.

> Investors can claim their tax relief by either reducing their estimate of taxable income when submitting provisional tax returns or by obtaining a tax refund through their annual income tax assessment.

> Since Section 12BA forms part of the normal tax return, it can be used against all forms of income tax, including capital gains tax. Dividend tax is excluded.

> The 12BA provider will issue the total Section 12BA deduction amount to the investor before the end of the 2024 or 2025 tax year. It must be noted that for some 12BA solutions, the provider will invest in multiple underlying en commandite partnerships. This will create an administration requirement for the investor, as each en commandite partnership will need to be captured in the tax return as a separate investment.



TAX REPORTING

INVESTOR REPORTING

- **Ad hoc investor updates upon:**
    - Successful completion of a material transaction.
    - Successful sale of a transaction.
    - Any other material event affecting the portfolio.
- Semi-annual fact sheets providing a general update on the portfolio and performance for the half-year period ending February and August (sent within 30 days);
- Semi-annual investment statements for the half-year period ending February and August (sent within 30 days) and
- Tax statements annually based on a February tax year.

NAVIGATE **TAX-SMART INVESTMENT** STRATEGIES

INVESTEC LIFE FLEXIBLE PORTFOLIO

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INVESTEC LIFE FLEXIBLE PORTFOLIO

- The Investec Life Flexible Portfolio provides clients with access to a diversified, actively managed and administered multi-asset portfolio (reference portfolio).
- The reference portfolio is contained within a market-related investment policy.
- Minimum investment: R2 million once-off initial investment through an Anchor model portfolio.
- Up to a maximum of 50% exposure to income-targeted investments.
- Total return and roll-up structure until the end of the term (5-year minimum policy term).
- Optional - Capital protection available over the reference portfolio at 0.60% p.a.
- Optional – Gearing capped at a maximum of 50% of the value of the reference portfolio @ prime less 1% (currently).
- Optional – Loan “working capital facility available” against a capital protected structure @ prime less 1 % (currently).
- Access a unique product that is typically not available through investment policies.
- Compound growth.

Within the Investec Life Flexible Portfolio, the Reference Asset Portfolio requires a minimum equity exposure of 50% at all times.

The reference portfolio comprises the Anchor Stable Retail Hedge Fund, a conservatively managed local hedge fund with an exceptional long-term track record, and the Anchor BCI Core Income Fund. We believe that this asset allocation will produce a consistent return above the money market and has a low-to-moderate risk profile. The performance of this reference portfolio will determine the Flexible Portfolio return.

The capital protection can be terminated at any time prior to the end of the Capital Protection Period without any penalties. The Capital Protection Period may vary between 3 and 5 years.

One withdrawal is permitted within the first five years per policy (which cannot exceed the initial investment + 5% compounded annually), after which the policy may be terminated at any time.

INVESTEC LIFE
FLEXIBLE PORTFOLIO – INDIVIDUAL COMPARISON TABLE

BASIC ASSUMPTIONS	
GENERAL	
Initial Investment	**R5 000 000**
Per Year Withdrawal	0
Number of Policies	10
Number of Years	5
Investec Endowment/FIH cost	0.80%
Advice fee	0.25%
Anchor Core Income Fund Return	9.30%
Anchor Stable Hedge Fund Return	12.00%
Expected Blended Return P.A.	**10.40%**
Personal CGT	18.00%
Personal Income Tax*	40.00%
Endowment/FIH Tax Rate	12.00%
Money Market Return	**8.50%**

**indicative tax rate used for illustrative purposes*

INITIAL FIVE YEAR PERIOD

INVESTEC ENDOWMENT/FIH

Year	Starting value	Capital Growth	Tax on Return	Investec Endowment/FIH	Ending value
1	R5 000 000	R520 000	R0	-R40 000	R5 480 000
2	R5 480 000	R569 920	R0	-R43 840	R6 006 080
3	R6 006 080	R624 632	R0	-R48 049	R6 582 664
4	R6 582 664	R684 597	R0	-R52 661	R7 214 599
5	R7 214 599	R750 318	R0	-R57 717	R7 907 201
			Total Structure Fee	**-R242 267**	
			CGT on Withdrawal		**R348 864**
			NAV Post CGT Value in 5 years		**R7 558 337**

MONEY MARKET INVESTMENT

Year	Starting value	Capital Growth	Annual Yield	Tax on Yield	Ending value
1	R5 000 000	R0	R425 000	-R170 000	R5 255 000
2	R5 255 000	R0	R446 675	-R178 670	R5 523 005
3	R5 523 005	R0	R469 455	-R187 782	R5 804 678
4	R5 804 678	R0	R493 398	-R197 359	R6 100 717
5	R6 100 717	R0	R518 561	-R207 424	R6 411 853
			Total Tax on Yield	**-R941 236**	
			CGT on Withdrawal		**R0**
			Post CGT Value in 5 years		**R6 411 853**

Cash Alternative Benefit	**R1 146 483**
% Benefit	**22.9%**

INVESTEC LIFE
FLEXIBLE PORTFOLIO – COMPANY COMPARISON TABLE

BASIC ASSUMPTIONS	
GENERAL	
Initial Investment	**R5 000 000**
Per Year Withdrawal	0
Number of Policies	10
Number of Years	5
Investec Endowment/FIH cost	0.80%
Advice fee	0.25%
Anchor Core Income Fund	9.30%
Anchor Stable Hedge Fund	12.00%
Expected Blended Return P.A.	**10.40%**
Corporate CGT	18.00%
Corporate Income Tax*	27.00%
Endowment/FIH Tax Rate	22.40%
Money Market Return	**8.50%**

indicative tax rate used for illustrative purposes

INITIAL FIVE YEAR PERIOD					
INVESTEC ENDOWMENT/FIH					
Year	**Starting value**	**Capital Growth**	**Tax on Return**	**Investec Endowment/FIH**	**Ending value**
1	R5 000 000	R520 000	R0	-R40 000	R5 480 000
2	R5 480 000	R569 920	R0	-R43 840	R6 006 080
3	R6 006 080	R624 632	R0	-R48 049	R6 582 664
4	R6 582 664	R684 597	R0	-R52 661	R7 214 599
5	R7 214 599	R750 318	R0	-R57 717	R7 907 201
			Total Structure Fee	**-R242 267**	
			CGT on Withdrawal		**R651 213**
			Post CGT Value in 5 years		**R7 255 988**

MONEY MARKET INVESTMENT					
Year	**Starting value**	**Capital Growth**	**Annual Yield**	**Tax on Yield**	**Ending value**
1	R5 000 000	R0	R425 000	-R114 750	R5 310 250
2	R5 310 250	R0	R451 371	-R121 870	R5 639 751
3	R5 639 751	R0	R479 379	-R129 432	R5 989 698
4	R5 989 698	R0	R509 124	-R137 464	R6 361 358
5	R6 361 358	R0	R540 715	-R145 993	R6 756 081
			Total Tax on Yield	**-R649 509**	
			CGT on Withdrawal		**R0**
			Post CGT Value in 5 years		**R6 756 081**

Cash alternative benefit	**R499 907**
% Benefit	**10.0%**

INVESTEC LIFE FLEXIBLE PORTFOLIO

Benefits of the Policy

a. Beneficiaries:

- The investor (policyholder) may appoint a **Beneficiary for Ownership** (natural persons only) meaning that should the investor pass away the Beneficiary for Ownership shall step into his/her shoes and the Policy shall continue.
- The investor may also appoint one or more **Beneficiary/ies for Proceeds** meaning that should the investor pass away and the Beneficiary for Ownership does not take on the Policy, then the investment policy proceeds shall be paid out to the Beneficiary/ies for Proceeds.

FLEXIBLE PORTFOLIO

- On death of an individual policyholder, if beneficiaries have been nominated, the Policy shall be excluded from the calculation of executor's fees and also from the estate windup process, which can prove lengthy. The Policy or proceeds are transferred directly to the beneficiaries nominated by the policyholder.

b. Tax Efficiency:

- Per South African legislation, tax shall be applied to the underlying investment within the Policy according to the type of investor.
- This may prove beneficial should an investor reside in the upper tax brackets.
- The investor is relieved of the tax administration associated with his/her investments as tax calculations, payments and reporting are managed by Investec Life.

c. Creditors:

- The Policy may be excluded from the pool of assets pursuable by an investor's creditors (subject to certain conditions per legislation, for example the Policy must have been held for at least three years).

Fees and costs

All the fees and costs are calculated and accrued daily and deducted monthly from the Reference Portfolio.

The costs (Hedging Cost, Capital Protection Cost and Gearing Cost) are subject to change over time. Should they change, the investor will be notified by Investec Life.

Adviser/wealth manager fee	Represents an ongoing advice fee due from the investor as negotiated with his/her adviser.
Investec Life Policy Administration Fee	0.40% per annum multiplied by the prevailing Reference Portfolio net asset value ("NAV")
Hedging Cost	0.40% per annum multiplied by the prevailing Reference Portfolio NAV. This is the cost associated with Investec Life's hedging of the Flexible Portfolio.
Capital Protection Cost on the Reference Portfolio (if applicable)	0.60% per annum multiplied by the value of the Capital Protection.
Gearing Cost on the Reference Portfolio (if applicable)	Investec Bank Limited's prime lending interest rate less 1.00% per annum.

[3] Should the investor request Capital Protection, the approval thereof is at the discretion of Investec Life.

[4] Should the investor request Gearing, the approval thereof is at the discretion of Investec Life.

[5] Arising from the investment policy construct, not from the terms of the Flexible Portfolio as an underlying product.

[6] Barring events which may extend the Restricted Period, per legislation.

What are the risks of the Investec Life Flexible Portfolio?

01 The investor is exposed to the market risk of the Reference Portfolio as well as the credit risk of both Investec Life (the issuer of the Policy) and the Hedging Party (Investec Bank Limited).

02 The investor may lose some or all of his/her investment should the Reference Portfolio not perform; however the election of Capital Protection may largely mitigate this.

03 The investor may suffer losses as a result of implementing Gearing.

04 Although liquidity is available for the Flexible Portfolio (within the bounds of the Policy liquidity restrictions), the Flexible Portfolio is intended for investors with a long term investment horizon.

05 The Investor is not and will not be the registered or beneficial owner of the reference assets within the Reference Portfolio or any hedge positions in relation thereto.

THE FIH EQUITY FUNDING SCENARIO

LISTED EQUITIES

LISTED EQUITIES

Utilize swap technology from listed equity or portfolio of listed equities into the performance of reference asset.

Capital guarantee available on reference asset at 0.6% p.a.

Gearing available subject to approval by Investec.

Exit is either a capital event into cash or taking delivery of equivalent value of initial listed equity or portfolio.

Reference portfolio

- Domestic listed equities
- Domestic collective investment schemes
- Structured products
- Alternative investments

Benefits

- Capital account
- No DWT
- Rollup until exit – compound on full value
- Ability to swap back out into listed equity

SECTION 42 TRANSFER

CGT is deferred until exit from the unit trust.

Effective diversification tool for significant exposure to a single stock.

Affect a Section 42 transfer into a variety of Anchor funds.

Transfer their existing shares into a unit trust without triggering a tax event in exchange for units within the fund.

A tax opinion in support of Section 42 transfers has been provided by GT.

THE SEC 42 PROCESS – SECTION 12J USE CASE

S12J INVESTMENT
CGT PREGNANT

Utilize Section 42 rollover relief to transfer existing investment into the hedge fund.
*cash investments can also be transferred into the fund.

Compounding on the total value of the investment, without the frictional cost of CGT.

Base cost carried.

<u>**Qualified Investor Hedge Fund (QIHF)**</u>

- Offshore and local equity funds
- Fixed income funds
- Local and offshore segregated share portfolios
- Structured products
- **Alternative investments**

QUALIFIED INVESTOR HEDGE FUND

Traditional hedge fund regulations have changed, and hedge funds are now considered collective investment schemes (CIS).

They are now approved and regulated by the Financial Services Board (FSB) in the same manner as unit trusts.

A CIS offers investors an efficient tax solution during the life of the investment, as tax becomes payable only on exit from the fund.

Based on the size of the investment, we can apply for a bespoke fund to be managed exclusively on behalf of a client.

The investment mandate is agreed upon upfront in collaboration with the client and can be fully flexible. It also allows for global diversification across asset classes.

Hedge funds offer investors access to the complete global investment toolset, including:

- Direct investments
- Options and derivatives structures
- Alternative funds
- Private equity and other unlisted equity
- Gearing

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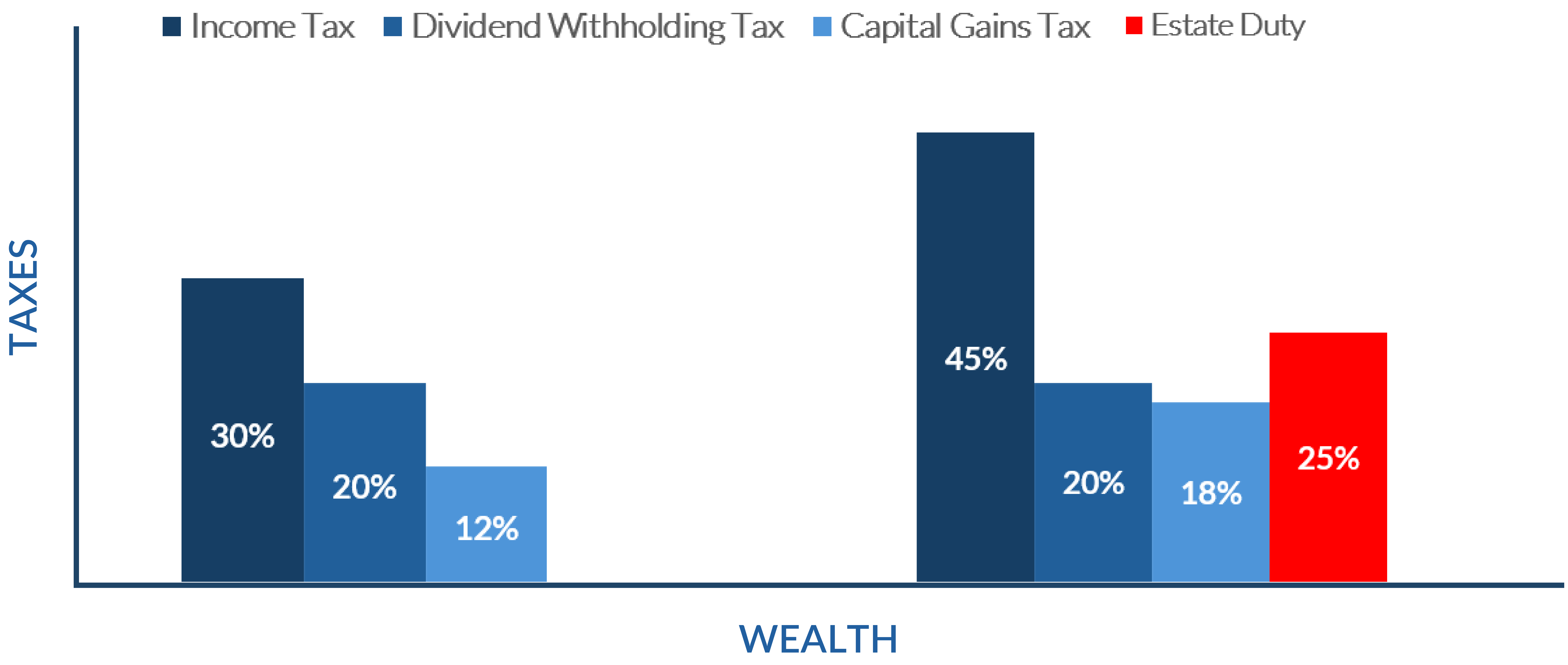

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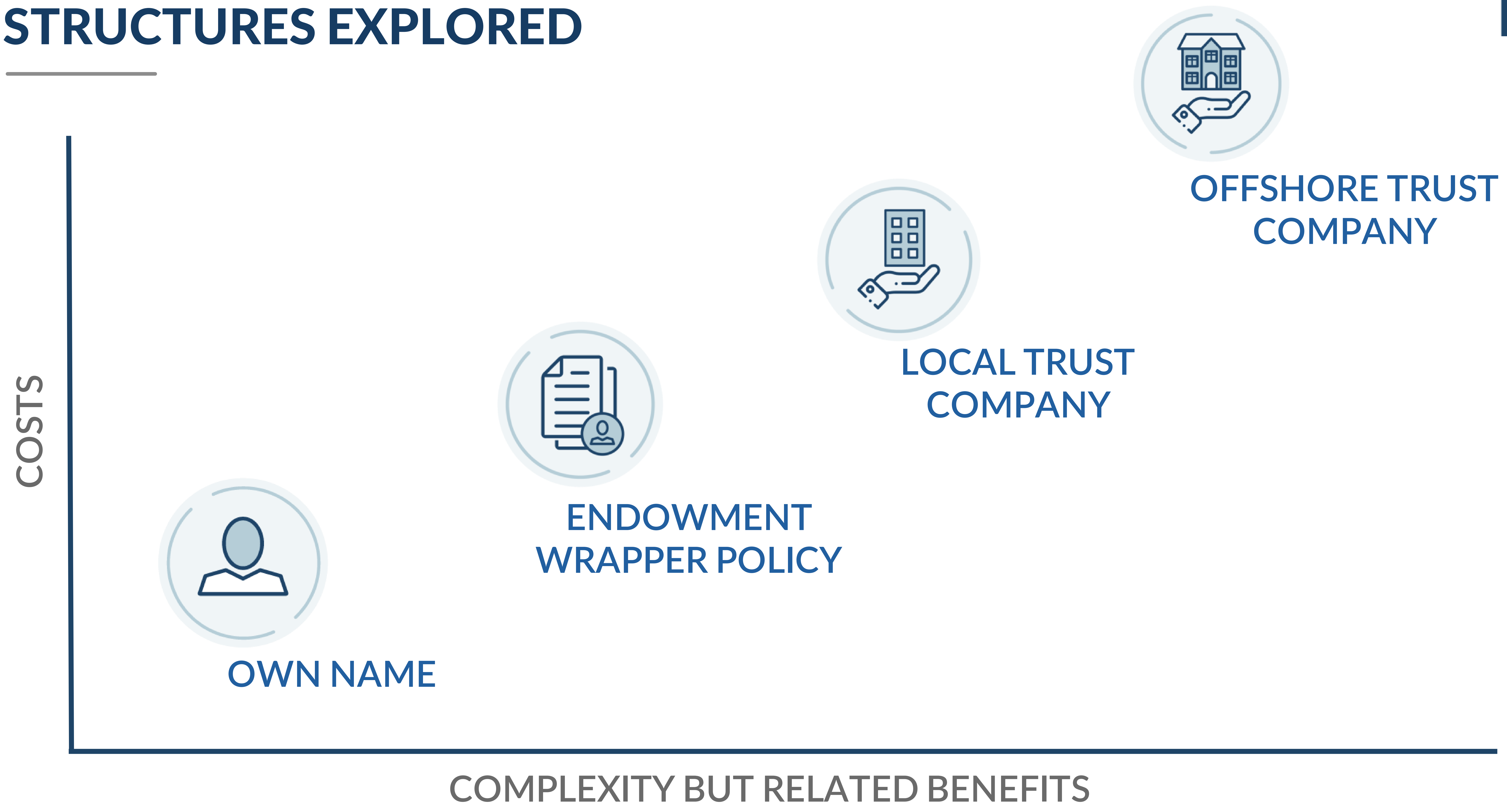
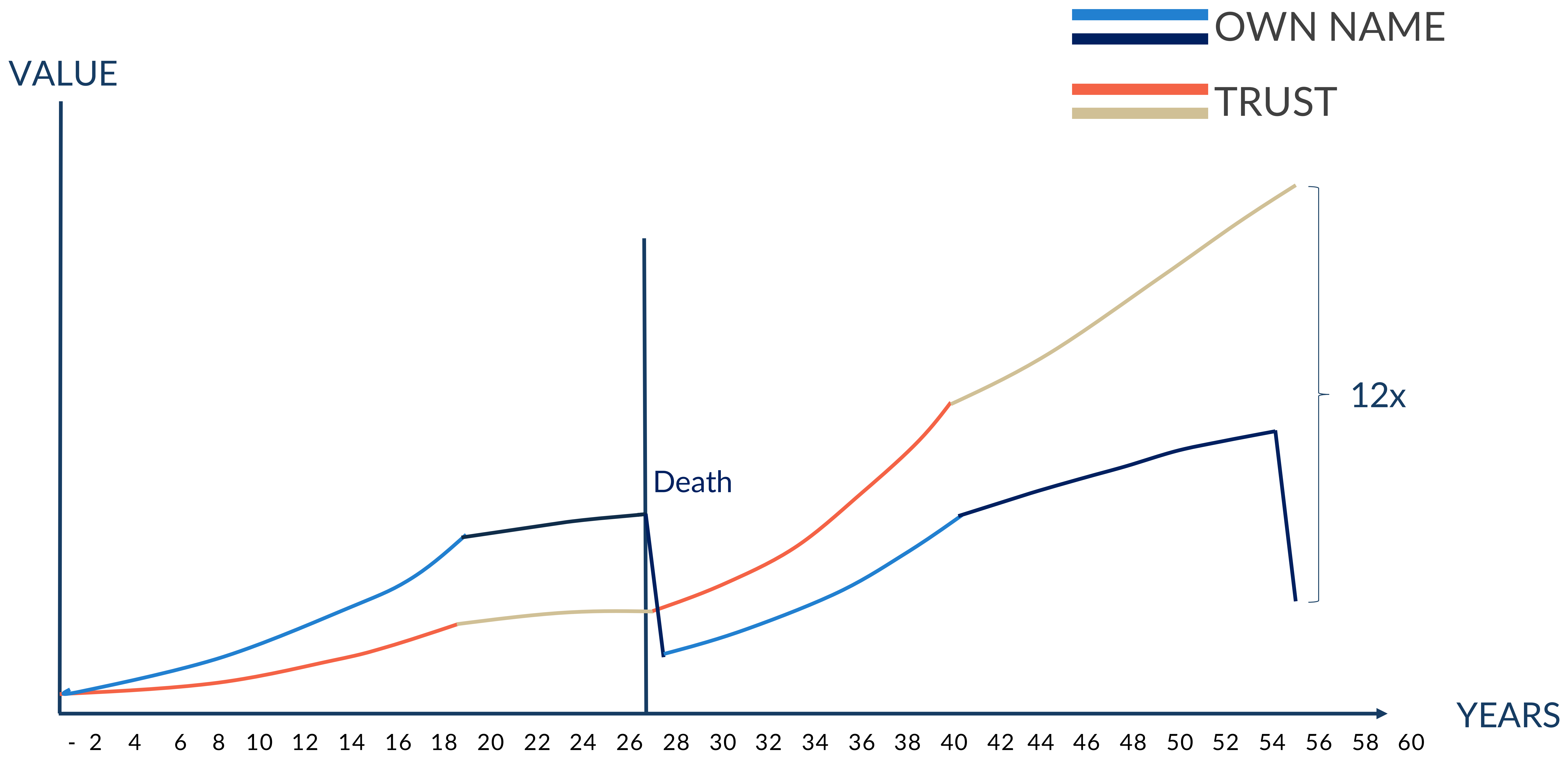


PRACTICAL EXAMPLE



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