



Dear Client

Welcome to our BVSA newsletter for April 2017.

The content of this newsletter has been compiled especially for you and we hope you will enjoy this publication and find it informative.

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If you have any queries or would you like more information, please contact us by sending an email to info@bvsa.ltd.

Kind regards,

Pieter Wessels



Tax consequences of the vesting of shares by employee share incentive schemes

Employee share incentive schemes, as a matter of course, involve the utilisation of trusts to hold the relevant shares, until it rests in the hands of the employees.

The tax implications of equity instruments acquired by persons by virtue of their employment, are determined in terms of section 8C of the Income Tax Act. As a result, many incentive schemes concentrate solely on this provision in the Income Tax Act.

However, "Binding Private Ruling 259" (BPR 259) as issued by SARS, indicates that the capital gains tax (CGT) implications when the shares housed in a trust vest in the names of the employees, is a further aspect to be considered.

BPR 259 applies to an arrangement, in terms of which a parent company sets up an employees' trust, to incentivise qualifying employees employed by various subsidiary companies of the parent company.



The parent company will issue shares to the employees' trust. The subscription price of the shares is to be settled by the relevant subsidiary companies that employ the participants (qualifying employees) with respect to the share incentive scheme in question.

A qualifying employee will acquire participation units in the trust, without making any contribution to participate in the scheme, which would afford the relevant employee the right to trust income distributions over a period of 5 years, as well as an entitlement to the underlying shares, should the qualifying employee still be employed by the group on expiration of the aforementioned 5-year period.

BPR 259 reinforces the fact that the employees' trust will not realise a capital gain or loss on the disposal of the underlying shares at the time when it vests in the qualifying employee.

This confirmation is significant for the reason that a taxable capital gain in the hands of the employees' trust, would have increased the operating cost of the employee share incentive scheme for the relevant employer (subsidiary of the parent company).

BPR 259 therefore emphasises, to taxpayers, to consider the impact of a share incentive scheme which incorporates a trust, as well as the potential tax cost that could be incurred due to the involvement of a trust in the structure.

Article by Erick Marx



Does direct property have a place in an investment portfolio?

Various opinions are constantly expressed on whether an investment in direct property has a place in the sun in a private investors' portfolio. Direct property investments typically mean an investor buys an apartment or a house and leases it. A direct property investment is usually compared to listed property trusts. Even though both investments, direct property and listed property trusts, have property as their underlying asset, I find it unfair to compare the two directly with each other. For this article, I would rather look at the question: "Does a direct property investment have a place in an individual's investment portfolio?"

At the time of writing this article SA's inflation rate is 6,6%. The main purpose of any investment decision surely is to beat inflation over the long term. The table below is a real example of a client who made an investment in a direct property is used. Obviously, the assumptions used are not exact and the possibility exists that property value can grow with less than 8% or rent can stagnate. In a 10-year time frame building costs, inflation and the demand for rentals will at least keep up with inflation. Our calculation and conclusion is that a reasonable rental's Internal investment return can reach up to 13% over a 10-year period. This is not bad at all and definitely has a place in an investment

CURRENT VALUE OF CONTRIBUTIONS	R -4 324,48	R -4 302,96	R -4 281,56	R -4 260,25	R -4 239,06	R -4 217,97	R -4 196,98	R -4 176,10	R -4 155,33	R -4 134,65
INFLATION : 6%/12	0,50%									
Total Owners Contributions : PV										
20% Deposit	150 000,00									
Costs	68 340,00									
Monthly Contributions	R 137 899,97									
	R 356 239,97									
Property value @ 8% growth/yr										
Waarde	750 000,00	810 000,00	874 800,00	944 784,00	1 020 366,72	1 101 996,06	1 190 155,74	1 285 368,20	1 388 197,66	1 499 253,47
ROE : CURRENT VALUES										
NET MONTHLY	4 346,10	4 346,10	4 346,10	4 346,10	4 346,10	4 346,10	4 346,10	4 346,10	4 346,10	4 346,10
BUY/SELL	218 340,00									
	222 686,10	4 346,10	4 346,10	4 346,10	4 346,10	4 346,10	4 346,10	4 346,10	4 346,10	4 346,10
IRR	13,04629%									
% GROWTH/YR ON CAPITAL										
CURRENT VALUE OF CAPITAL	R 356 239,97	R 356 239,97								
FUTURE SALES VALUE	-1 499 253,47	-1 204 359,55								
% GROWTH / YEAR	14,45758%	12,24302%								



Individual investors usually make the following mistakes when it comes to direct property investments:

Self-management

Most of us feel that it is easy to lease your property yourself. Of course, it is, until your tenant complains about the geyser bursting on a Sunday afternoon. Rather consider a good rental agent. Not only will the owner receive market related rent, but his investment will also not inconvenience him on a Sunday afternoon.



Buy to Sell

We all want to have a quick return on an investment. It is possible in some cases but property's optimal return lies in the long term usually 10 years or longer. Usually in 10 years' time an investor cannot believe how cheap the investment property was 10 years ago. Investors are also prone to want to sell property at the first case of vacancy or unplanned repairs.

Bad Tenants

Nowadays it is not necessary to have a bad tenant. Again, a good agent can assist you with investigating potential tenants to ensure the owner is not disappointed.

A Direct Property Investment has a place in any individual's investment portfolio. It can in the long term richly reward an investor, if it is managed correctly.

Article by BVSA Financial Services

The value of a brand

When looking at a brand, we look at a logo, symbol, or name related to a product or service. Your brand is a summary of your total offering to your customers; what it stands for, what personality it has, the experience it promises to deliver to your clients and the language, tone of voice and messages it uses to communicate.

The impact that a brand has on the consumer's purchases of a product is known as brand collateral. Here we refer to an equity, which indicates that an asset was generated. In this case, the asset is intangible and is measured in terms of the value assigned to it when a consumer buys the product or service. A brand's equity can also be measured by consumers' judgement to select a product or service over another.

How to measure brand-collateral:

How does one go about measuring an intangible asset? According to the Customer-Based Brand Equity (CBBE) model, the following six steps can be used as a diagnostic tool that combines displayed statistics and help create branding strategies.

1. A brand must be recognisable: If your brand does not have recognition in the market place, it is necessary to develop and implement a tactical brand strategy with a fully integrated branding plan. Brand recognition increases by repeated exposure.



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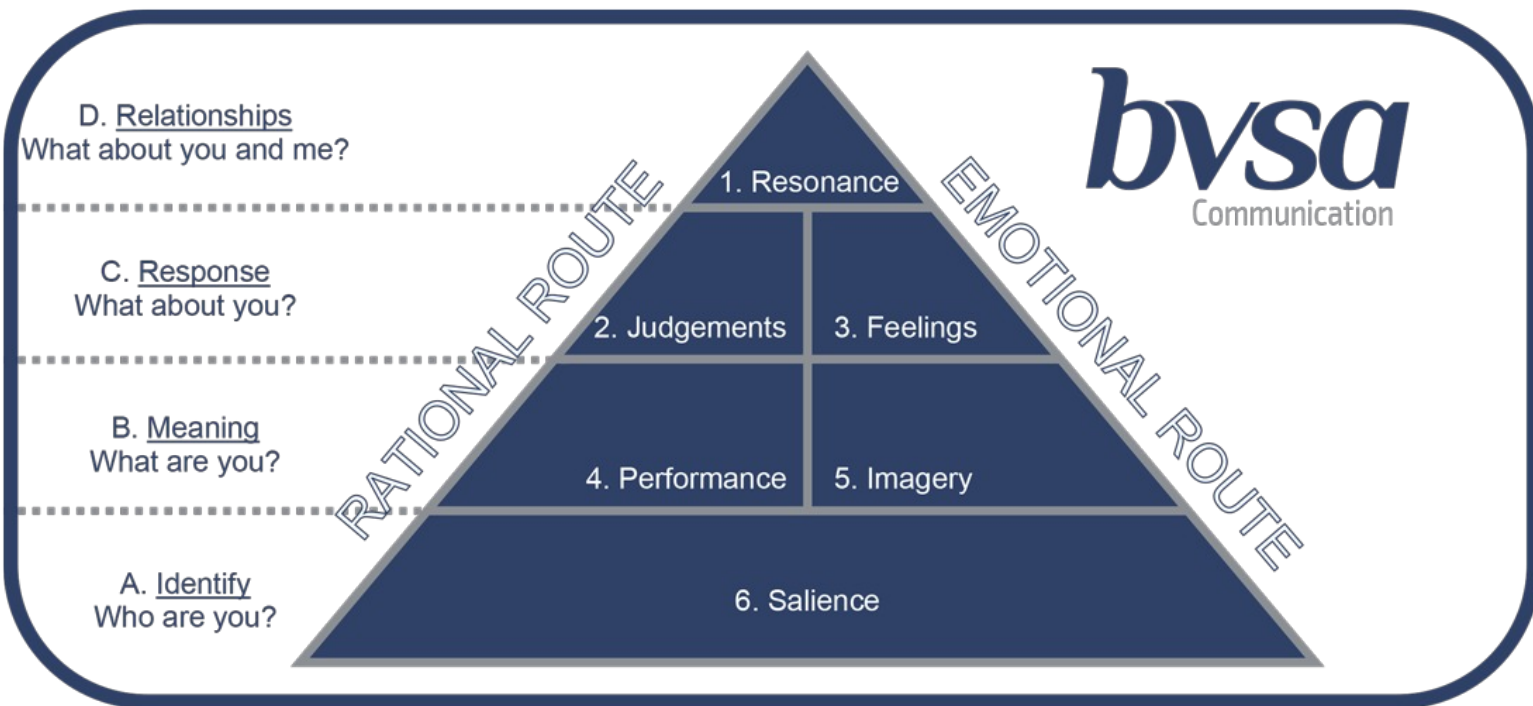
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2. The brand name must be unforgettable: The brand name should be of such a nature that it will resonate in your mind after hearing it the first time. If this does not happen, inform your target market about what your brand offers and why it's unique. However, it is important to realise your claims on both an emotional and rational level.

3. A brand name should be considered favourably: As we often remind our customers, it's not enough for people to be aware of a brand name. The target audience should also feel that it is able to meet their needs with the trust and respect that represents the brand.

4. A brand must be distinctive: When consumers are ready to buy an item (product or service), they should feel obliged to look at your product, because they feel your product offers a unique brand promise, better than that of your competitors. We call this trade perception, and it takes place on functional and emotional levels. The purpose of this is to place your brand effectively, by emphasising features that motivate purchases.

5. The brand must be preferred: Ideally, customers will choose your brand over all others and be willing to buy it repeatedly. If the preference of your brand is low, you must determine the reason for this by means of a brand audit.

After that, re-evaluations and interventions can be made, based on the analyses and findings thereof. Basically, if you want to build long-term brand loyalty, you need to build brand-confidence.

6. Your market must be satisfied with the brand name: Ideally, customers will be so happy with what your brand offers, that they are not only personally satisfied, but would like to recommend your brand to friends and family - that is, brand champions. If this is not happening, you may need to evaluate where the dissatisfaction lies and work to improve your product or service in terms of both perceived and actual levels.

Effective measurement of brand collateral is critical to the development of a marketing strategy and ultimately supports the return-on-investment analysis. This brings us back to the financial equity on collateral.

Article by: BVSA Communication

BVSA Communication is a division of the BVSA Group. We plan and implement communication assignments for the group, as well as our clients, and support them with professional communication activities in their pursuit of maintaining and growing a successful business in a cost-effective and co-operative manner.

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