



Dear Client

Please find enclosed our BVSA newsletter for October 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,

The BVSA Management Team



To trust or not to trust – section 7C amendments: the game changer?

The South African Revenue Service (SARS) adopted the much discussed “anti-avoidance measure” with effect from the 1st of March, 2017. The intention is aimed at curbing the tax-free transfer of wealth to trusts by means of low interest or interest-free loans.

In terms of section 7C of the Income Tax Act, an ongoing and annual donation is triggered whenever an interest-free or low-interest loan is made to a trust either by:

- a natural person or
- a company that is a connected person in relation to a natural person that made the loan to the trust.

Where section 7C applies, the company or natural person making the loan should be a connected person in relation to the trust or connected to another person that is connected to the trust.

The amount of the deemed donation is determined by calculating the difference between the interest charged on the loan and the interest that should have been charged to the trust, had the interest been charged at the official rate of interest. This applies for each year of assessment of the trust that the loan remains outstanding and is taxed in the hands of the natural person at a rate of twenty percent.

There have been various attempts by taxpayers to manoeuvre around the section in the act. These “schemes” have been thwarted by the introduction of the latest Draft Taxation Laws Amendment Bill, issued on the 19th of July, 2017 which has extended the ambit of section 7C of the act.

Two such schemes have been highlighted by SARS.

One scheme attempts to show the taxpayer advancing an interest-free or low-interest loan to a company where the shares are held by the trust. The logic is that by advancing the loan to the company, the anti-avoidance measure in section 7C does not apply, as the loan has not been made

The other so-called scheme is where the loan claim of a natural person making a loan (or company making a loan indirectly for a natural person) is ceded to another natural person. The taxpayer's argument is that the link is effectively broken and as a result, the regulations of section 7C are avoided.

The extensions to the provisions of section 7C now put forward in the Draft Taxation Laws Amendment Bill have effectively stipulated that:

1. all interest free or low-interest loans made by a natural person or a company to a company that is a connected person in relation to a trust will be considered as connected to the Trust.
2. any person who acquires a claim from another natural person or company will be deemed to have made the amount of that claim as a loan to the trust.

As noted by many before, the ramifications of section 7C of the act and its subsequent amendments are far-reaching and will have a major impact on the way that trusts are viewed in the future. Whilst they still assist to safeguard assets from possible creditors (providing that all necessary administrative and other procedures have been taken care of), the days of asset-shifting via a loan account are done!

Article by Sean le Sueur



Q3Y17 Report - Keep calm in unsure times

In the previous report we warned that North -Korea will continue with threats and the testing of weapons. This happened and will continue to happen. Prepare for unsteady markets and exchange rates fluctuations as the next round unfolds.

There was a sigh of relief after the French election, but now Spain is at the brink of a political split. If Catalonia declares independence from Spain it will in all probability not be acknowledged internationally, but it will cripple Spain (as it is functioning at the moment) and the European Union will be in a precarious position in deciding which side to choose.

At this time the Brits are also regretting the vote to leave the European Union.

Locally we are out of a recession, according to the definition of a recession, with a positive growth number of two and a half percent for the second term of 2017. Unfortunately, if we look at what South Africa and the people need most - namely work for the unemployed - the news is bleak. In the second term thirty-four thousand jobs were removed from the economy. It is not only the people who have lost their jobs who suffer, but their dependents are also not benefiting from their income any longer.

Job creation is what will help South Africa out of the current economic crisis. At the moment we have an oversupply of labour hours - from unqualified hours to qualified hours - regardless we are still not able to create jobs. Even though we are the gateway to Africa, global companies still refrain from investing in South Africa.

Luckily this might all change after the election of the new ANC leader in December.

The stock market performed well in the past quarter, but this is little consolation in the bigger picture of the economy. Naspers steers the growth in the stock exchange and without that growth, returns will look very different. We want to reiterate that growth in the stock market has to be supported by economic growth.



America is the biggest consumer of goods in the world. Their economy is showing signs of life and the fact that their Reserve Bank wants to increase interest rates, shows that there is hope for the world economy.

The most important thing now is for investors to deal judiciously with investments. Speculation and timing of the markets will prematurely age you. Quality and time in the market is what will yield fruit now.

Boshoff Visser Konsult focuses on earning income for their clients through their investments. This is earned through dividends, rental income and interest. The re-investing of this income delivers growth in a low growth environment. Asset allocation remains important to ensure that our clients are not exposed to too much risk. We retain our "overweight" position in property for the growing rental income our clients are currently earning in this asset class.

Hedging of your local portfolio against the Rand is a safe option. You should do this as a hedge and not to earn short term profits with exchange rate fluctuations. Stocks that can be used here is Bidcorp and British American Tobacco. Both of these stocks pay a dividend and thus receive preference for our clients.

In the property sector Growthpoint Properties is a favourite because of its size and Rand hedge. About thirty percent of Growthpoint's assets are offshore, mainly Australia, and for the past five years their dividend grows on average of between eight and nine percent annually.

Q4Y17 What lies ahead...

The ANC presidential election is at the back of everyone's minds. This important election is going to determine the direction of our country: economically, politically and morally.

On a positive note I would prefer South Africa's problems - where we know what the solution is - above those of Spain, the UK or Europe.

Article by BVSA Financial Services

The importance of stakeholder engagement

Stakeholders are the people or groups that are influenced or impacted by your company's operations. Engaging with these stakeholders helps in paving the way to the triple bottom line. The triple bottom line consists of social, environmental and financial corporations who may have a stake in your company. Stakeholders include - but are not limited to - the following groups:

- Customers
- Suppliers/service providers
- Owners/directors/shareholders
- Affected communities
- Government
- Employees
- Activists
- Non-Governmental Organisations (NGO's)

Your relationship with each group of stakeholders will be different and therefore the approach and tools that you use to engage with them should adapt accordingly. Manage your stakeholders in a manner that will mitigate risks, while building trust, credibility and support. Effective communication with your shareholders can minimise negative publicity and lower the risk of some stakeholders taking legal action against your company. Shareholders who are not directly impacted by your company, like NGO's or activists, may still take an active interest in your company. Keep these groups informed and engage with them regularly to lower the risk of bad publicity.



Consult with all your internal stakeholders, like employees and directors. Involve them in all planning, developing and communication. Engage with these stakeholders honestly and on an ongoing basis. Differ the way in which you communicate with your internal stakeholders from the way in which you communicate with external stakeholders.

Effective communication with your stakeholders should include the following:

- Identify your stakeholders. Assess your company's risks and all the stakeholders who could be affected.
- Prioritise your stakeholders based on the group that will influence your company the most. The groups that can damage your company, should be communicated with more frequently and focused on more strongly.
- Compile a communication strategy to effectively engage with your stakeholders.
- Start engaging early.
- Provide them with meaningful, honest and accurate information.
- Be cultural sensitive.
- Provide your stakeholders with an opportunity to engage in two-way communication with your company.
- Record and keep track of all the issues involved.
- Give feedback on how these issues have been resolved or are being addressed.
- Take responsibility.

It is very crucial to keep all your stakeholders informed and provide an active platform for them to comment and make their suggestions. Keep your finger on the pulse from the word go, this will enable you to identify problems early and address them timeously to keep your business at the top of its game.

Article by BVSA Communication

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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.

For more information, please visit:
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