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Proposed amendments to the National Budget 2012/13

The 2012/13 National Budget proposes new regulations in the finance industry

The following article summarizes the budget changes and proposals which are relevant to the financial planning industry, as outlined by financial and insurance provider Old Mutual in its post-budget announcement circular.

In the 2012/13 Budget presented in Parliament on 22 February 2012, Finance Minister Pravin Gordhan has indicated a series of proposed changes with regards to the taxation regime for employer owned policies, with effect from 1 March 2012.

The new taxation regime provides for the following:

--- The fringe-benefit taxation (in the hands of the relevant employees covered) of all employer paid premiums in respect of policies which will benefit either the employee or their surviving spouse or dependants.

--- Employer paid premiums in respect of these policies are then deductible if the premium was fringe benefit taxed.

--- Unapproved group life policies: Fringe benefit tax on the employer paid premium and proceeds are tax free.

--- Unapproved group disability income policies: Fringe benefit tax on the employer paid premium but a reciprocal deduction for the employee which can be processed on their monthly payroll so as to produce a tax-neutral effect for the employee. The income protection benefits produced by these policies are then taxable at the marginal rates of the recipient.

--- Employer owned key man policies: The introduction of an elective deduction regime for these policies as follows:

- For existing policies, the employer policyholder needs to advise the insurer whether or not they want the premiums to be deductible after the 1st of March 2012. If the policyholder does require this, the policy needs to be endorsed prior to the 31st of August 2012.
- All policies issued after 1 March 2012 must indicate that the employer policyholder wishes to claim a deduction for the premiums paid.

The budget proposed no amendments to the above, other than to indicate that there is an intention to make it clear that premiums for business

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contingency policies will not be deductible as SARS's view is that they fund a capital loss rather than a business operating loss.

As of 1 March 2014, employer contributions to retirement funds will be fringe benefit taxed. Individual member taxpayer deductions for pension, provident and retirement annuity funds are to be consolidated with the following caps: contribution deductions will be capped at 22.5% of the higher of employment or taxable income and with a maximum rand amount of R250 000 for those below age 45 and 27.5 per cent with a maximum rand amount of R300 000 for those above 45. These contribution limits will include the risk benefit and administration cost component of the contributions. Any employer contributions that have been fringe benefit taxed will be included in these caps.

Low income earners will be entitled to deduct R20 000 even in cases where their contributions do not warrant this when applying the deduction scales. For example, where a taxpayer's taxable income is R80 000, in the normal course of events the taxpayer would be entitled to a total deduction of R18 000 (R80 000 x 22.5%). The minimum deduction referred to above would allow this taxpayer a deduction of R20 000 if he in fact contributed an amount of R20 000 to retirement funds in total. Where a contribution is not deductible (i.e. over 22.5%) in any year of assessment, these may be rolled over in all retirement funds for later use (e.g. at retirement against the lump sum or against the annuity income). Previously disallowed contributions were allowed against retirement lump sums in all cases and against annuity income only in the case of retirement annuity funds.

The Minister has also proposed a uniform approach to retirement fund withdrawals. Currently lump sum withdrawals upon retirement from pension and retirement annuity funds are restricted to a maximum of one-third of accumulated savings, whereas this restriction does not apply to provident funds. Consultations will be held with interested parties on a uniform approach to retirement fund withdrawals, taking into account the legacy issues pertaining to provident funds in particular. Overall, the retirement reform proposes the establishment of a mandatory statutory fund to provide pension, life insurance and disability benefits. In this regard there will be consultations with trade unions and other industry parties during 2012. Also, the four funds approach applicable to long term insurers will be revised in 2013. A short paper on long term insurers will be circulated for comment in mid-2012. To read the entire circular, go to website **www.oldmutual.co.za**.

Message from IING President

Andrew Geyer, IING President

Does the IING have a rightful existence in today's modern insurance industry? Do you think the IING adds value to you and to the industry? Are you aware of what we are doing at the IING and what we have planned for you in 2012? Are you a member yet?

It is within this context that I personally invite you to become actively involved with the IING. We value what you think and what your needs are, in order to better position ourselves for future events. Our team has grown from strength to strength in 2011 and if you have missed out on our last year's events, do not miss us again and enjoy the benefits of joining IING as a member.

How do I become member? The cost to become an IING member is minimal per annum. You can find all the information on our website **www.iing.co.za**. All you

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need to do is register on the website and we will contact you!

Did you know that…Most of corporate brokerages and insurers are already IING members or are in process to become members. This means that if you are employed by one of these corporate companies, you automatically become an IING member.

Existing Members Renewals. We are in process to send out our 2012 renewals to all our existing members. Therefore, we will be asking for champions at your offices to whom we can liaise with regularly, in order to ensure effective communication.

We are investing a lot of energy into the IING as we are embarking on a journey to bring you stuff that really matters and will add value to you. We also want to bring back some "FUN" in the industry and its people - all of us need it from time to time. Our theme for the year is living green and you will find related articles in every issue of the Communicator. Enjoy our February issue, covering the latest amendment to the National Budget that influence our industry, a comprehensive guide to retirement annuities and yes, green technologies and sustainability issues.

Looking forward to have you on board and wishing you a great and green 2012!
president@iing.co.za

Carbon Tax could be a reality in South Africa from 2013

South Africa needs more sources of alternative energy

In his 2012/13 National Budget speech on 22 February, South African Finance Minister Pravin Gordhan proposed the introduction of a carbon tax effective from 2013, which would aim at reducing harmful greenhouse gas emissions in the country.

If promulgated, the Carbon Tax would have a massive impact on the country's industry at large and especially in the energy, mining and manufacturing sector, where pressures of rising power and wage costs are already threatening profits and economic growth, as reported by news agency Reuters.

To minimize adverse impacts on industry competitiveness and effectively manage the transition to a low-carbon economy, the Minister will impose temporary thresholds. Therefore, the Treasury proposed a 60% tax-free threshold on annual emissions for all sectors, including electricity, petroleum, iron, steel and aluminium. Two thirds of emissions will be tax-exempt until 2020. All industries would be able to claim additional relief of at least 10%, with the exception of electricity.

The carbon tax was indicated at R120 per ton of carbon dioxide emission above the already mentioned thresholds, with an increase by 10% annually until 2020. If approved by Parliament, the tax will come into effect as early as next year.

The carbon tax should also encourage industries to move towards clean sources of energy and greener policies. Currently, South Africa's power is dependent on Eskom's coal-fired plants and, although some progress has been made into alternative energy, the country still has a long way to go to ditch "the continent's biggest polluter" label.

The carbon tax proposals will be revised in a draft policy publication due for publication later this year.

Top Green Technologies and Innovations Beyond 2012

Wireless charging, energy harvesting, smart pills and batteries for renewable electricity storage and electric vehicle batteries are some of the top fifty technologies and innovations identified by Frost & Sullivan in their recent research report titled TechVision 2020.

TechVision 2020 is an annual research initiative with a primary goal of key technologies that will impact business in this decade. Not surprisingly, the selected technologies, representing research and development, technology and innovation activities in various industries, include a widespread reference to clean and green technology that have “the maximum potential for wide-scale launch and mass commercialization", as affirmed by Rajiv Kumar, Partner at Frost & Sullivan.

In the clean and green technology space, one of the hottest trends currently is the advancement in battery technologies for renewable electricity storage and electric vehicle batteries, which will increase the adoption of zero-emission power generation and automobiles. Solar powered and wireless charging of electronic devices is another hot topic, which provides a solution to our need for increasing mobility and saves electricity in the same time. “Wireless power chargers will be deployed in public places such as airports, cafes, and restaurants”, explains Kumar.

Africa will strongly benefit from green initiatives

Cloud computing and online services, including e-books and digital documents, are already gaining popularity in parts of Africa, with great savings for the IT, retail and manufacturing sectors, well aware of their crucial role in protecting our environment and natural resources.

According to a 2011 study by the Computing Technology Industry Association (CompTIA), reduced energy consumption and e-waste recycling were the strongest green principles adopted by companies nowadays. One in five organizations have dedicated budgets to green initiatives, while almost 50% of surveyed companies declared there are moving towards this goal.

Living green will go far beyond reducing electricity and waste, by using LED lighting and solar powered geysers, as future trends indicate a need for smart and eco-friendly control systems as in flexible electronics, which will completely revolutionize our perspective on devices.

"Imagine a personal electronics device, which is completely flexible – can be rolled, twisted and does not get damaged; could also have capabilities such as being scratch resistant, hydrophobic, dust repellant and so on – wouldn't that be amazing. It would have applications in multiple sectors such as consumer electronics, healthcare, military, logistics, gaming in the coming years", says Kumar. Such one-does-all device could also mean a reduction in electronic waste and manufacturing and shipping costs.

If technology moves towards user-centered and flexible devices with minimum or no impact on the environment, in the life sciences and biotechnology arena, future trends indicate personal genome sequencing and personalized medical treatments. Other applications will include an

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analysis of the best cosmetics to use and even the type of food that will provide the best nutrition and which environmental triggers to avoid. Living green should involve a balanced, healthy and natural diet and organic foods are already a choice for today's consumers.

Living eco-consciously is as relevant as ever and the current decade will prove the extension of green consciousness in our lives, with technology, energy, healthcare, wellness all virtually interlocked. According to Frost & Sullivan, the vast arrays of current and future applications of these dynamic technologies are interdependent and overlapping. These technologies are rapidly evolving and form a vortex of innovation driving new concepts, products, and services in an increasing green world.

If you are interested in more information on the TechVision 2020 report, visit **www.frost.com.**

Opinion: Prototype of an Eco Village in South Africa

I am a successful business woman in my own right. When I look at my life currently in South Africa, I am becoming increasingly disillusioned with this western way of living.

The ecovillage of Khulla Dhamma in the Eastern Cape

I feel I am paying more and more taxes to support an unsustainable way of life. Nothing serves me. The farming system that provides my food does not serve me or the earth, the pharmaceutical system does not serve my health. It does not prolong life, sustain life, elongate life, support life or any of the things that a normal human being needs in order to have a normal balanced, harmonious life.

The economic system only serves the rich resulting in the rich getting richer and the poor getting poorer. The education system strives to make our children zombies who are afraid to voice and be their individual selves. The reason that we go to school for twelve years of our lives is that this is how long it takes to mould people to be so called ' law abiding citizens' who don't question the system.

In short, I believe I am currently living in a grid that does not serve me on any level. I wish to create a new grid that will serve my children and all children on all levels. This would not involve destroying the old grid altogether, just replacing it with a more human friendly system.

I recently visited a community in Mpumalanga. I found that there were very few people between the ages of 18 and 60 living in that community. **continues on page 6**

The ecovillage Umphakatsi near Swaziland

They have all seen on their newly acquired TVs that life is much better in the cities. They have taken the corrugated iron from their roves and gone into the cities in search of a better life. They have left behind their plantations, fruit trees, vegetable gardens, chickens, goats and cows to find themselves in a shack village on the side of a highway to eek out a living. Leaving home around 4am and getting back home at 8pm, they are paying as much as 33 percent of their salary for transport for no benefit at all.

According to German statistics, there are four million tax payers supporting 80 million people in South Africa. The pressure on the cities is reaching breaking point. Back home, the women are struggling to till the soil and make ends meet as the local governments in the rural areas have totally collapsed or are not functioning as they should. My vision is to create a model for a sustainable community where everyone benefits, including the rural people, the earth, our children and ourselves. I propose we make alliances with tribal leaders. Land cost can then be minimal and simple structures can be erected using the latest off the grid technology. This would create jobs and the stress of current living would be alleviated while providing jobs, top class education and producing namely organically grown food and medicinal herbs. The only help we will need is for a community centre to be established, complete with a hall, kitchen, ablution facilities, dining room, therapy rooms, a shop and an office. A few classrooms and some rooms for elderly people, as well as some workshops, can be added. This will form the heart of the community. We would be able to reinvigorate the whole area from this starting point, cutting on rates and taxes and the huge pressures of the cities in general.

I would like to create a simple home for under R100.000 using the latest green technologies to reduce the strain on the planet, with the focus on eco-friendly and sustainable processes. This would be a donation to the community with the home being owned by you, the dweller, until it is no longer needed by you or your family. Also, I would like to see people contributing their skills to the community and receiving the fruits from others with minimal purchasing from outside.

The community should be sustainable and self funded. I am sure there are models out there that we can adopt. It will not be a hippy community, but a community of highly educated, skilled, professionals who are successful and hardworking individuals. I envision we need to put our working efforts in what we love and can do. We could have a proper system of creating money and generating wealth in the community using the current financial grid. Our motto should include 'do no harm'. The laws that govern us would closely look at nature and see how nature deals with the problems herself. May this initiative be a blessing to all that have the courage to be part of it.

This article was written by Chamilla Sanua, a South African entrepreneur, owner of Weleda Health and Pharmacy and the inspiration behind the Naturally Yours Centre, a medical practice focusing on natural remedies and therapies. Chamilla is passionate about a sustainable, caring and eco-friendly South Africa and ultimately world. For more information email Chamilla at weleda@global.co.za or visit www.weledapharmacies.co.za.

Why should I consider Retirement Annuities as a long-term savings option?

Wynand Louw, VP IING

A retirement annuity or (RA), as you might already know it, is a savings vehicle structured specifically for retirement, where you are able to claim all or a portion of your contributions as a tax deduction against your income.

Originally RA funds were introduced to give self-employed taxpayers the opportunity to makeprovision for retirement while enjoying tax benefits similar to those available to pension fundmembers. However, they are also beneficial to employed individuals who belong to their company's pension or provident fund.

As most companies in South Africa moved to 'cost to company' remuneration model, the tax benefit of a RA is one of its major draw-cards. Individuals can claim up to 15% of their non-pensionable income (subject to certain conditions) as a tax deduction.

Many Company Funds have changed from Defined Benefit Funds (Final Salary Funds or Fixed BenefitFunds) to the Defined Contribution Funds (Fixed Contribution Fund). With the former, the employer carried the risk and had to pay for the shortfall. These funds were also mainly free standing pension or provident funds. Now most employers have transferred the risk to the employees and have joined Umbrella Pension or Provident funds to share the costs with other employers. This is another reason to ensure that your RA will give you additional income when you retire one day.

Under current legislation, individuals can claim the following as a tax deduction:

The greater of:
--- 15% of their non-pensionable income after certain tax deductions; (Rental Income also counts)or
--- R3.500 minus the current contributions to a retirement fund; or
--- R 1.750.

You can contribute more than this amount to a RA. Any excess may be carried forward to the next tax year. RA funds are not subject to income tax, so there can be a tax advantage even if the full contribution is not tax deductible.

Your tax benefits of a retirement annuity are as follows:

1. Contributions are tax-deductible up to a certain maximum. For example, a self-employed person with a non-retirement funding income of R600.000 (after certain deductions) for the year can contribute R90.000 (maximum 15% of non-retirement funding income) to a RA on a tax-deductible basis. If the person falls in a 40% marginal tax rate, they save R36.000 in tax.

2. A lump sum of up to R315.000 is currently tax-free on death or retirement (cumulative total on all retirement funds). This takes special withdrawal benefits into account as well.

3. If you contribute more than the claimable limit, the amount that exceeds the limit may be claimed in future tax years, provided that the contributions in the years in which they claim, remain within the limits.

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Don't call when it's too late, the earlier you have a RA fund, the better

4. A RA fund is not subject to Capital Gains Tax (CGT) or income tax during build-up of the fund. In a high equity invested RA, no tax will be paid on the build-up, as dividend income and capital appreciation are tax-free.

5. A RA fund can be used to preserve the retirement benefit. When employees resign from their employer fund they can transfer their retirement fund benefit tax-free to a RA. It is important to note that the transfer to a RA will be subject to the 1/3 limitation upon retirement from the RA.

6. At retirement, either a conventional annuity or an investment-linked living annuity can be purchased. With an investment-linked living annuity an individual'sincome can be managed. They may receive between 2,5% and 17,5% of the capital amount each year, and consequently also manage their income tax position.

7. A RA can be used to build up a fund for post-retirement medical expenses in a tax-efficient way. Most people experience a large increase in medical expenses when they retire. Once the age of 65 is reached, medical expenses become fully tax deductible. Although the annuity is fully taxable at retirement, the extent to which it isused to cover medical expenses (which are deductible), can in essence make it tax free.

8. The benefits paid out on death, by way of an annuity, are free of estate duty. This provides a planning opportunity for the wealthy estate owner to make a largesingle-premium contribution to a RA to reduce his or her estate for estate duty purposes.

9. Another RA Fund benefit is that lump sums or annuity contributions are not subject to estate duty. RA contributions can reduce the dutiable value of an estate for those with an estate duty problem.

Tax advantages are not the only benefits of a retirement annuity. Many people are not aware of the following two crucial RA benefits to individuals:

--- Protection from creditors. A limited number of institutions or people may claim froma RA. They include the South African Revenue Services (SARS) for unpaid taxes and previous spouses when a benefit accrues maintenance orders (only in terms of the court-approved divorce settlement). Creditors may claim from the RA when the individual retires, but then only from the lump sum amount paid to them, subject to the limits set by Section 37A of the Pension Fund Act.

--- Disability. If one becomes disabled before the minimum retirement age of 55, then the early retirement rules will apply: access to a one-third lump sum benefit, while the remaining two thirds must be used to purchase an annuity that will pay an income in future.

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Lastly, a RA fund is similar to any other retirement fund, in that it must have trustees who set the rules of the fund, ensuring the money in the fund is properly managed and that the benefits are correctly paid out. As far as investment security is concerned, Regulation 28 to the Pension Fund Act imposes limits on the investments of retirement funds, to protect the fund against making imprudent investments once the requirement to invest in prescribed assets had fallen away. Current maxima for the various asset classes are as follows:

--- Equities (including foreign equity exposure): 75%
--- Property (including foreign property exposure): 25%
--- Offshore*: 25% (*In terms of legislation 15%, but 25% when the retirement fund has been exempted by the Registrar of Pension Funds)

From all of the above it is evident that the RA is more than just a disciplined savings plan, but holds rewards to individuals pre- and post-retirement.

With the 2011/2012 tax year coming to a close, it will be worthwhile to contact your advisor and remind them of the window available to you to reap the full benefit of their RAs for this tax season. You and your advisor should not only plan for pre- and post-retirement, but through retirement to a date in the future. People tend to retire at a younger age in South Africa, whilst the rest of the Western World have increased their retirement age to between 65 and 70. Social Pension age was reduced to 60. This places an extra burden on the tax payer.

Generally the contractual products at most insurers will include Retirement Annuities, Preservation Pension Funds, Preservation Provident Funds, and the Investment-Linked Living Annuity (ILLA). Most companies would offer you an array of investment choices, from Collective Investment Schemes to Share Portfolios, Guaranteed Solutions, as well as Cash Instruments.

Wynand Louw is the Vice President of the IING and owner of Aquilla Financial Solutions. Contact Wynand at **wynand@afsonline.co.za** or visit **www.afsonline.co.za.**

Getting to know...

This month IING President Andrew Geyer and Michael (Mike) Pierce, Executive Manager of the Insurance Institute of South Africa (IISA), tell us about their involvement with the Institute and some of their favourite hobbies:

Andrew Geyer, IING President and Key Account Manager at Santam

Michael (Mike) Pierce, Executive Manager at IISA and member IING

Q: How did you get involved with the Insurance Institute of Northern Gauteng?

Andrew: Right time, right place!

Mike: Through my association with members of the IING and my involvement, over 27 years, with the IIG, the IISA and the East Rand Institute.

Q: What is your vision for the Institute?

Andrew: My vision is simple, to grow our IING to become as recognized as the IIG (Insurance Institute of Gauteng).

Mike: To see the IING realize its vast potential as a successful, leading Institute and influence in our industry.

Q: What do you enjoy the most at your workplace?

Andrew: Enjoyment at work consists of a lot of components. To sum it up, "it is the difference I make that really counts!"

Mike: Endeavouring to make the Institute concept relevant to the industry, effective and successful through the involvement of people.

Q: If there's one thing you cannot live without, what is that?

Andrew: My salary!

Mike: My family and home (Plot).

Q: How do you unwind?

Andrew: I love farming and try to make time on weekends to go out and live my dream.

Mike: Reading and participation in sports: squash, tennis, golf, horse riding, fly fishing and birding.

Q: What is your favorite travel destination?

Andrew: Mozambique, since 2000.

Mike: Many venues in our beautiful country.

Q: Do you volunteer or get involved in community social work?

Andrew: I am guilty of not being too involved, but have participated in a few events.

Mike: Yes. Willows Community Policing, sport development.

Q: If you had the power to change one thing in South Africa, what would that be?

Andrew: Proper education for all.

Mike: Factors influencing harmony, peace and integrity and eradication of poverty.