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CMEFS WEEKLY INVESTMENT NEWS

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Hello and welcome to this week's edition of Investment News.

Before we go into this week's discussion, let's see how the CMEFS Flexible fund has done for the year thus far as compared to the All Share Index (ALSI)

Fund	Last week Thursday	This week Thursday
ALSI	-8.66%	-11.54%
CMEFS Flexible Fund	-1.05%	- 1.00%

As talked about in the last two weeks in this newsletter, please note that **I have now given an instruction** to move the 50% exposure to the Coronation Balanced Defensive Fund portion of the CMEFS Flexible Fund into either the Coronation Jibar Plus Fund (first choice) or where this choice is not available, then into a Money Market Fund.

This because, as I am concerned that we are going to see markets soften, and then remain soft for an extended time in the months to come, as the full extent of the damage done to the world economy by government actions internationally to combat the virus start to sink in.

Please note however that although I have given the instruction to "switch" funds (there are no cost implications to you for so doing) this switch will not necessarily take place today or even in the next few days.

Rather, it will depend on the internal systems of the various product providers as before they do the switch, they need to ensure that all debit orders have been processed and that all incomes have been paid, amongst other things.

I would imagine, though, that by the 15th of next month, this switch instruction will have been processed by all product providers.

Although there will be no cost implications, for those of you who have investment accounts with us, there may be a small capital gains tax implication, but I do not believe it will be material to the majority.

Once the switches have been processed, we will pull a capital gains tax report off of the various provider's systems and then provide you with this specific information so that you can keep this gain in mind when you do your tax return for the tax year ending 28/02/2021.

But again, in my experience, this will not impact significantly on the vast majority of investors.

This is because the first R40 000 of any capital gain made in the year is excluded from capital gains tax and only 40% of the balance remaining thereafter is added to the tax-payers taxable income.

Let me show you an example, assuming a capital gain made of R100 000

Gain	R100 000
Less exclusion amount	R 40 000
Net Capital gain	R 60 000
Inclusion rate	40%
Inclusion amount	R 24 000

It would be this amount of R24 000 that would then be added to the taxpayer's normal taxable income.

When this is added, depending on other taxable income earned, the tax payable on this amount will be somewhere between 0% up to a maximum of 45% of this amount.

So **<u>at worst</u>**, in the above example, the actual tax payable on a gain of R100 000 is 45% of R24 000 = R10 800.

This is equal to a tax, at worst, of 10.8% on the gain which is way lower than the minimal marginal rate of tax applicable to other income earned which starts at 18%.

To pay tax at the marginal rate of 45% however, you would need to be earning a fully taxable income of R125 000 per month.

I would anticipate that most (99%) of our clients will pay at worst, tax at a marginal rate of 26% (many at 18%) which would bring the tax payable on the above gain to R6 240 (or R4 320 at 18%)

Please also keep in mind that capital gains tax is not something you can avoid in any shape, form, or fashion.

All that happens as the years roll by, is that your capital gains tax liability steadily increases until an event (such as a fund switch but it could also be a redemption) occurs which triggers this liability making it payable at tax year-end.

Thus it can only be deferred, but never avoided.

All of the above, however, only applies to investment accounts.

If you own any of the following, there will be zero capital gains tax implications with no capital gains tax payable no matter what your marginal rate of tax.

- Retirement Annuities
- Pension Preservation Funds
- Provident Preservations Funds
- Living Annuities
- Tax-Free Savings Accounts

If you are invested in an endowment, something slightly different happens.

In this instance, the capital gain is calculated within the endowment itself and then the tax due paid over to SARS by the product provider itself, thus not affecting your liability for tax at year-end.

I know this all might sound a little bit complicated to you, and I apologise for this.

It is, however, necessary that I bring to your attention the fact that there may be a capital gains tax implication arising out of the switch, but again, it is not likely to be material and you will be advised by your consultant

1. If there was any capital gain.
2. If there was, the amount of the capital gain.
3. If there was a capital gain amount, the likely tax that might be due by you after bringing the exclusion amount and inclusion rate to account.
4. When this tax might be due (somewhere between June and December of next year).

A final thought to keep in mind is that this switch has been made to protect capital during these extremely volatile and uncertain times and needs to be weighed against suffering a possible permanent capital loss of 20% or so should the markets fall by as much as 60% or so over the coming months.

Keep in mind that this 60% or so loss was a very real “possibility” (certainty at some point in time) even before the Covid-19 crises arrived on our doorsteps.

Things have only got exponentially worse since, and although people are going back to work, it is not an indication that things are getting better. They simply have to.

One then needs to add on top of this – and these are just a few things that come quickly to mind – the list is not comprehensive

- the current process of “de-globalisation” that is taking place (Brexit. Trump/China. EU licking its wounds after Covid-19 showed significant cracks in their “Union”.)

- the fact that this is coming at us right on top of the credit crises of 2008 which was not anywhere near even beginning to be resolved when Covid-19 hit. (The world has just been living on credit since then. And now we’re getting even deeper into debt!)

- In a SA context, we got hit in 2008, followed almost immediately by the wholesale stripping of assets from SA for 10 years by the Zuma/Gupta cabal, almost immediately thereafter being hit by Covid-19. I am afraid to ask “Can it get any worse for us!” We were just getting up off the canvas after being dealt a body-blow and when on our knees, have been knocked to the canvas once again. Getting up is going to be even harder now.

- The current tension building between China/Hong Kong and the rest of the Western world. Unless China backs down, this is going to end badly for all of us. It matters not whether Trump is defeated in November and is replaced by Joe Biden who we sincerely hope will bring a bit of stability and sanity back to US politics.

Like I said last week, never a dull moment in this industry!

I hope you enjoyed the read.

Until next time then, do take good care of yourselves.

Kind regards, Nine, Charles, and all at CMEFS.