Afrifocus PERSONAL WEALTH
MEMBER OF THE JSE AND ZAR X

**HEAD OFFICE**: Afrifocus House, 31 (B) Impala Road, Chislehurston, Sandton, Tel: (+27-11) 290-7800, Fax: (+27-11)- 290-7878
**CAPE TOWN:** Unit 11, Lonsdale Building, 7 Lonsdale Way, Pinelands, 7405, Tel : (+27-21) 528-9900, Fax: (+27-21) 685-1112
**DURBAN**: Unit 8, 8 Richefond Circle, Ridgeview, Umhlanga Ridge, Tel: (+27-31) 584-6491, Fax: (+27-31) 584-6847

**Income tax harvesting in your stockbroking portfolio** **13 February 2019**

Dear Investor,

As we approach the 2019 tax year-end, its once again important to review your portfolio from an income tax harvesting perspective. So what is tax harvesting?

- Capital losses on equities invested in can be offset against capital gains declared. A capital gain on a position is only recognised when a sale is realised.
- If no capital gain is realised for the tax period, then the losses incurred will be carried forward by SARS until a capital gain is realised in future tax years.
- Capital losses cannot be offset against other taxable income unless operated as a business.
- Capital loss harvesting is a trade-off between current lower taxes vs higher future tax. For example: Assume an investor has a realised tax gain of R100 000. Assume stock A has a current market value of R80 000, cost of R120 000 and an unrealised loss of R40 000. Assume that an investor can sell stock A and invest in stock B which both will double next year. Also assume that the effective tax rate for capital gains in 20%.

  The two scenarios will be: Sell stock A next year or sell stock A this year and invest in stock B.

  1. Sell stock A next year

     : Tax on year 1: R100 000 x 20% =R20 000

     : Tax on year 2: R80 000 x 2= (R160 000 – R120 000) x 20% = R8 000

     : Total tax: R20 000 + R8 000=R28 000.

  2. Sell stock A, take the losses and invest in stock B

     : Tax on year 1: R100 000 – R40 000= R60 000 x 20% =R12 000

     : Tax on year 2: R80 000 in stock B doubles. (R160 000 – R80 000) x 20%=R16 000

     : Total taxes: R12 000 + R16 000= R28 000.

The conclusion is that capital loss harvesting results in lower taxes immediately and an increased cash flow.

**As every investor's tax circumstances are unique, we recommend you consult with your tax advisor prior to taking any decisions on your portfolio.**

Regards

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