Volume 19

PCH INSIGHT

PRIVATECLIENT HOLDINGS

Beware the potential tax pitfalls of earnings through Airbnb

By Jeremy Burman

A search on Airbnb reveals over 10 000 property listings in Cape Town alone. If not doing it yourself, many of us know of someone who rents out their property for extra income through this internationally recognised on-line platform.

"But before spending the Airbnb windfall, Jeremy Burman warns that it is important to consider the tax implications of earning this income and ensure that adequate provision is made for any resultant tax liability."

"The earning of rental income, in which category Airbnb income would fall, is regarded as a trade by SARS. The owner of the Airbnb property must declare all rental income received or accrued during the tax year. They will in turn be entitled to deduct any expenses incurred in the earning of this income with the result that only the net profit will be taxable," explains Burman.

"Expenses that may be claimed as tax deductions against rental income earned would include any expenses incurred in owning and maintaining the property e.g. cleaning, security, rates and taxes, electricity, repairs and maintenance and bond interest. Bond instalments must be split into the interest portion which is claimable and the bond capital repayment portion (a capital expense and therefore not claimable)."

Burman cautions that earning Airbnb income does not give the owner the license to deduct all his property expenses however.

"As only part of the entire property expenditure incurred will relate to the Airbnb income, an owner would only be entitled to claim a percentage of these expenses equal to the number of days the property was rented out, divided by 365 days in the tax year".

For example, if bond interest of R 100 000 was incurred by an owner during the tax year and he rented out his property for only two weeks of this year, he would only be entitled to claim a deduction of R 3 835 i.e. R 100 000 x 14/365days.

"Where a person earns taxable income from Airbnb which exceeds R 30 000 per year, they will be required to register as a provisional taxpayer with SARS and submit provisional tax returns on a bi-annual basis in August and February of each tax year. Failure to do so could result in non-submission penalties being issued by SARS. In addition, they will also need to bear in mind potential capital gains tax implications on disposal of the property if this rental activity becomes a regular occurrence.

"Airbnb income is an attractive proposition – additional income with minimal attendant expenditure."

However owners must keep adequate records of this side-line business to ensure tax efficiency and the ability to meet all resultant tax obligations," concludes Burman.

Contact Jeremy at **jeremy@privateclient.co.za** if you have any questions.

The Directors Desk

Due Diligence Tour to USA shows the future is bright!

Earlier this year I was invited by Investec to join them on a trip to the USA to visit 16 companies which are prominent on the US stock exchange - the likes of Microsoft, Amazon, Google, Boeing, Facebook and Tesla. Essentially this was an offshore due diligence tour that allowed us to ensure that the companies we invest in are what they profess to be.

Artificial Intelligence (AI) was one of the biggest trends that we came across during this tour. This along with cloud storage, start-ups and the changing dimensions of global politics will all shape the way we do business in the near future.

I found recent developments in AI incredible. It has been around since the 1950's but is really only starting to gain traction now and it is speculated that by 2025 AI will be generating a revenue of $127 billion. Something referred to as 'SINGULARITY' (where artificial intelligence takes over from humans) was a point of much discussion

AI is a controversial topic and many prominent business people, such as Elon Musk, warn against the risk associated with the development of AI for weapons and warfare and the threat this poses to our societies. Whilst companies such as IBM, Google, Facebook, Microsoft, Amazon and Apple have embraced the efficacies associated with AI in running their businesses and are pro-actively rolling out offerings in this field, controversy remains as to where to draw the line.

Aside from the AI theme, I gleaned some very interesting facts at Microsoft. For example more than 1.2 billion people use MS Office in 140 countries and 107 languages around the world and nothing any of us do on-line is secret, every single movement can be backtracked. Fortunately Microsoft has a 'tech-pledge' which commits to continuously safeguarding information and to fight to retain privacy rights.

I was also fortunate enough to get the chance to drive one of Tesla's zero emissions vehicles and I can say that with technology such as this being developed the future does look bright.

The thought I left the USA with is truly one of change, innovation and the fact that companies and people that are not scared to fail will eventually succeed.

Grant Alexander

HAVE YOU HEARD?

Remembering Madiba

In support of Mandela Day members of the PCH team handed out blankets to those in need in the Claremont area – visiting local shelters and homeless who need extra protection from the cold.

Sicebise Obose receives a Probeta Award

Sicebise Obose, who is studying a SAIPA learnership, has been awarded 3x Probeta Awards for Excellence following the submission of his portfolio of evidence for competency skills on Financial and Investments Decision and Performance Measures. Congratulations Sicebise, you make PCH proud.

Vlakkenberg MTB Trail update

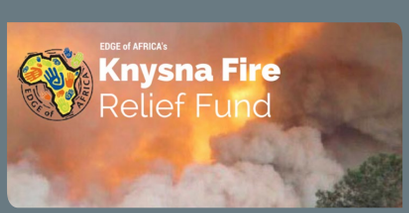
Jonty Berman and the Bicycle Gear team have been working tirelessly to try and extend the Vlakkenberg MTB Trail route in Houtbay. If successful the trail will be three times its current size. PCH is proud to have supported laying the foundation for an amazing asset to the Cape Town mountain biking scene.

PCH continue to sponsor REAP

For the past 5 years Private Client Holdings have partnered with REAP, the Rural Education Access Programme, to sponsor a number of university students who come from remote towns to study in Cape Town. Lizette Philander who is from Beaufort West and is busy studying a B. Accounting at UWC, is currently job shadowing at PCH and it is great to have her as part of the company.

Knysna fire relief and Rotary Club support

A big thank you to all our clients who joined us in supporting the Rotary Club of Knysna in their fire relief efforts and supporting their fire relief fund. Supporting Rotary is one of the cornerstones of the PCH corporate social initiatives and we so admire and appreciate the incredible voluntary work they do. Our ongoing thoughts and prayers to all those effected by these devastating fires.



PCH Wellness Week

Tania van Zyl recently organised a series of interesting and motivating lunchtime guest speakers as part of an initiative to encourage the PCH team to live and eat healthily. Included amongst these speakers was Jess Kotlowitz, a registered dietitian with a Masters degree in Nutrition and Kelcy Van Der Berg. Taebo and Pilates classes were also presented and were very well supported.

To die without a valid Will

By David Knott

At dinner parties one often hears of the horrors of dying without a valid Will; how the bulk of the estate was forfeited to the Government; how an excessive amount of Estate Duty or executors fees was payable; that rightful heirs were disinherited and every other calamity possible. Actually none of this is true and the only real negative to not having a valid Will is that your estate will devolve amongst your close relatives in terms of a formula set out by our law-makers which could cause an inconvenient division of the estate. This formula is known as The Intestate Succession Act 81 of 1987 which applies to persons dying after 18th March 1988 either wholly or partly intestate.

"A person could die without a valid Will, that is wholly intestate or could die leaving a Will but portions of that Will might be impossible to implement."

For example, a legatee could have predeceased the testator without any provision allowed for substitution of that bequest. Partial intestacy would then apply to that bequest with the balance of the estate devolving in terms of the Will.

The manner in which the estate devolves in terms of intestacy will differ as to whether the deceased was married and if so, how he was married, if he is survived by a spouse and if also survived by children. To determine who the intestate heirs and to give each his share could sometimes cause hardships and unnecessary forced sales.

For example, Mr X, married out of community of property without the accrual regime, dies without a Will leaving an estate consisting of a residential property worth R3 million, a share portfolio of R2 million and cash in the bank of R60,000 – in total an estate of some R5,060,000. He is survived by his spouse and three minor children. In terms of the law of intestate succession, his estate is to be shared by his spouse and his children; the estate is shared four ways. The spouse and each child is to inherit R1,265,000. One might consider this devolution no real problem until you realise that the residential property must now be registered in the names of all four intestate heirs resulting in an almost impossibility should the spouse need to sell to move to a more modest home. The spouse would need to convince a Court that the sale was in the best interests of the three children. If the sale was approved, the children's share of the proceeds would be lumped together with their share of the portfolio proceeds and this cash would be paid over to the Guardians Fund, essentially a savings account run by the Master of the High Court. When the children successively attain majority they would be at liberty to claim their inheritance plus simple interest from the Guardians Fund. The widow would almost certainly experience financial hardship in the meantime.

This example would have a very different devolution if Mr X was married in community of property, was married in terms of the accrual regime or was single. However, the simple solution to avoid the vagaries and consequences of the Intestate Succession Act 81 of 1987 is to consult with a trusted advisor and to ensure that a valid Will is in place before you die. A Will must be reviewed whenever one's circumstances change and is probably the most important document one could ever sign.

SEPTEMBER IS WILLS AWARENESS MONTH!

Remember your Will should be updated at least every 5 years or after a major life event such as a death, marriage, divorce or birth of a child in your family. If you already have a Will when last was it updated?

Private Client Trust are offering a complimentary review of any existing Will or drafting of a new Will.

Contact Sarah Love CFP®
sarah@privateclient.co.za or 021 671 1220.

Mark MacSymon CFP®
Financial Planner of the Year finalist

PCH Wealth Manager, Mark MacSymon, has been selected as a finalist in the 2017 FPI Financial Planner of the Year Awards. This is the second time that Mark has entered the FPI Awards – in 2015 he achieved the noteworthy honour of being one of only two runners up in what is considered the highest accolade a professional financial planner can obtain in South Africa.

Mark explains that being selected as a finalist for the Financial Planner of the Year Competition is testimony to the unique value proposition provided by Private Client Holdings and the professionalism of the team that supports its vision.

"The financial planning experience that our clients receive is without doubt a world class service, administered by a team of likeminded professionals, whose mission to nurture the wealth of our private clients and their families, is at the core of everything we do at Private Client Holdings. This recognition by the Financial Planning Institute of South Africa is further evidence of our commitment to the financial well-being of the clients whom we serve."

"It further stress tests the quality and resilience of the financial plans prescribed by the wealth management team at Private Client Holdings and it affirms that the company's business strategy, marketing strategy, operations management, operations, HR, practice management and compliance are all of the very highest standard."

The tax implications of selling your primary residence

By Jeremy Burman

THE REASONS FOR SELLING ONES HOME ARE MANY AND VARIED - NONETHELESS IT IS IMPORTANT TO CONSIDER THE TAX IMPLICATIONS SO THAT YOU ARE PREPARED FOR ANY POTENTIAL LIABILITY THAT MAY ARISE.

Jeremy Burman explains that a capital gain for tax purposes is calculated as the difference between the proceeds i.e. the selling price and the base cost. The base cost of a property would include all costs of acquiring the property (purchase price, transfer duty, legal costs etc.), the cost of capital improvements to the property (these will exclude the costs of maintaining the property) and selling costs such as advertising or agent's commission. Since only the gain after 1 October 2001 is taxable, the portion of the gain that relates to the period prior to this date (for properties acquired before this date) is excluded. This is calculated by using either the market value as at 1 October 2001 or an amount determined in terms of a time based formula.

> **"The Income Tax Act states that where the selling price of the property is less than R2 million the entire capital gain or loss must be excluded for tax purposes"**

The Act also provides that the first R2 million of a capital gain or loss on disposal of a primary residence must be disregarded. Where a property is jointly held, such as in the case of a married couple, the gain as well as the R2 million exclusion must be 'shared' equally by the owners."

> **"It is important for home owners to bear in mind that only one house may be regarded as a primary residence at any one time"**

Therefore if one sells a holiday home SARS would not regard this as a primary residence and one would be unable to claim the R 2 million exclusion.

"With the general growth in house prices over time, it is likely that a capital gain rather than a loss will be generated when disposing of a property that has been held for a number of years. In order to minimise this gain and the resultant tax it is important for home owners to keep a record of the cost of all renovations and improvements incurred on the property over the years so that these can be included in the base cost when the property is eventually disposed of. It is also worthwhile consulting your tax adviser when considering a move to establish any potential tax liability that may need to be factored into your decision," concludes Burman.

Contact Jeremy at jeremy@privateclient.co.za or 021 6711220 if you are selling your home or have any questions.

WHO TO TALK TO

Our Private Client Holdings experts are available to field your questions. Don't hesitate to contact us for wealth management advice.

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