Government's strategy on right path towards fixing the economy

The Minister of Finance's 2015 Budget is a bitter sweet one for high net worth individuals, with this year's tax blow softer than expected, and good news on foreign regulations.

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Even though personal tax and tax on trusts have increased by 1%, and the transfer fees on homes over R2.5m have gone up by 3%, the fact that government did not propose a wealth tax or increases in capital gains tax or estate duty as predicted from some quarters this year, may be seen as a big positive, says Henry van Deventer, head of Wealth Development at Old Mutual Wealth.

"Government has taken a big step in addressing one aspect that particularly affects the wealthy, by relaxing exchange controls, with the current R4m allowance increasing to R10m (or R20m per family) per year. In addition, there is an added R1m discretionary allowance," he says.

"The move increases the opportunities to diversify assets worldwide and gives some leeway for converting the weaker rand into hard currencies when travelling. It further acknowledges the fact that many wealthy South Africans reside overseas part time and it opens the door to funding offshore studies. It's a move in the right direction by government and sends out a positive message to both locals and foreign investors. It effectively dismantles exchange controls for most investors."

Weak rand

Van Deventer says that with the current weakness of the rand and the increasing pressure on the SA economy, the move allows wealthy South Africans to put more of their investment funds abroad. Already a large portion of investments in SA equities have international exposure, but this will allow for direct foreign investment as well.

He says the relaxation of exchange controls came as a surprise, although it has been many years since the government addressed the issue. The last relaxation was four years ago when the investment allowance was raised to R4m per annum, and the travel allowance increased to R1m per annum.

"A further aspect which should bring a smile to investors is the recently promulgated tax free savings legislation which comes into effect next month and allows individuals to save R30,000 annually or R500,000 over a lifetime without having to pay tax," says Van Deventer.

But it's not all good news for the rich and famous. "On the negative side, the wealthy could yet feel the pinch more than others as indirect taxes on various aspects of the high life could compound to inflict some nasty dents on previously impervious pockets," says Van Deventer.

Sin tax

The increases in sin tax will push a bottle of wine up by 15 cents, while those with a penchant for champagne will pay 48 cents more. Whisky drinkers will cough up R3.77 more per bottle. "Higher earners will also be penalised for their larger cars and bigger homes, which have higher electricity consumption.

"The additional 80,5 cents a litre, thanks to the increase in the general fuel levy and the contribution to the Road Accident Fund levy, as well as transfer fees for more expensive homes, might see a downsizing in petrol guzzling cars and impact negatively on property prices.

"But the better than expected current account deficit clearly shows government's strategy is on the right path towards fixing the economy, which will ultimately benefit everyone, including the wealthier segment of the market," Van Deventer concludes.