

this issue

Resolutions 2012 P.1

10 tips to help with keeping resolutions P.2

Taxing times P.3

Happy New (tax) Year P.4

Financial resolutions for 2012

While not a particularly academic effort, many believe that the definition of insanity is to keep on doing the same things over and over and expect different results. We have all been guilty of this at times; we make the same types of decisions, and then we wonder, with a sense of bewilderment, how we end up in the same situation once again. Make 2012 different!

Take the time to think about what you can do differently in 2012, so at this time next year, you will look back with a renewed sense of accomplishment and pride. Whatever you need to do, start now. Just taking the first step feels great.

To get you headed in the right direction, here is a list of 10 New Year's Financial Resolutions; small things that can help you make better, smarter financial decisions both for the coming year, and for the rest of your life.

Financial Resolution 1: Know What You Want

Have a clear, concise financial goal for the year. It isn't good enough to say, "I want to have my credit card paid off and more money in the bank". Instead, you should say, "I have the balance on my credit card paid off to R0, over R5,000 in my savings account, and an up to date and fully funded Retirement Annuity."

Financial Resolution 2: Prioritise Your Debts

Not all debt is created equal. Make a list of your liabilities and organise them by the annual interest rate. Those with the highest rates (most likely your credit card debt) should be paid off immediately. It does no good to invest money while you are *paying* high interest rates elsewhere. In a lot of cases, the wisest course of action is to cash in any investments that earn lower returns than the interest you are on debt and settle those accounts. Why? If you owe R10,000 on your credit card and pay 19% interest annually (R1,900 per year), while at the same time you have a deposit at a bank, paying you 4% interest (R400 a year), you would actually save yourself R1,500 a year by paying the debt! It's that simple.

Financial Resolution 3: Create a nest for the future

Rather than just hoping you'll have enough for a

comfortable retirement, resolve to make time for a full financial needs analysis.

Think through the "must-have" expenses, such as housing, and the "nice-to-have" expenses, like annual vacations to the tropics or the Garden Route. Once you've figured out what your future liabilities could be, you can establish a realistic accumulation goal and ensure that you're on course to reach it.

If you don't know how much you are going to need to retire comfortably, how will you know how much to save?

Financial Resolution 4: Enroll in an Automatic Savings Plan

Automatic savings plans are now offered in many forms. Simply call me and let me know that you want a certain amount of money withdrawn from your account each month, on a certain date, and deposited into your investment plan. This way, you are forced to save because the cash is drawn directly from your bank before it is spent. But remember, do this only once you have serviced all your debt!

Financial Resolution 5: Preserve the assets you've accumulated









You may not enjoy thinking about what will happen after you're gone, but failing to plan could cost your family and loved ones. A sound estate plan can help preserve your assets and keep them from being unnecessarily reduced by taxes.

Studies show that more than half of South Africans die without a will. If you don't have one, resolve this year to put together an estate plan that includes an up-to-date will, a power of attorney and a living will, and is capable of utilizing estate-planning tools such as trusts, donations and life policies.



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Making the resolutions are easy but making them stick not so much. Here are 10 tips to help you keep your resolutions:

1. Write it down. Putting pen to paper is a great way to clarify what it is you want to accomplish. You can use a journal or just write a sentence on an index card that you tape to your mirror.

2. Manage expectations. It's OK to break your resolution in the first week, you just have to be willing to get back on the horse. For many, January just isn't the right time. Start fresh in March, or June.

3. Get a buddy to do it with you. Everyone knows it's easier to do things with a partner—grab a friend or family member and work on your resolutions together.

4. Revisit it. You're going to have to review and revise your goals as you go throughout the year.

5. Be SMART. Rather than just toss off a non-specific resolution, set a SMART goal. These goals are specific, measurable, attainable, relevant and timely. If your goals have measurable and specific ends, you'll meet them more easily.

6. Don't remove, add. Replace bad habits with good ones. Framing your resolution positively will make you more likely to want to meet it!

7. Make it public. Tell people what you're up to, you'll be more likely to stick to it.

8. Stick to a schedule. If you plan to exercise more, for instance, build no less than three workouts into your calendar at a time when you know you'll be able to actually do it.

9. Create a vision board. It might sound corny, but having a visual representation of your goals can really help! Cut out images and phrases from magazines, write out your favorite inspiring quote, grab some photos. Place them all on a poster or corkboard and keep them in plain view.

10. Celebrate! The joy in resolutions is in the journey. Accept that this will be an ongoing process and celebrate yourself and your unique experiences. And if you don't quite get there, (hopefully) there's always 2013!



Financial Resolution 6: Make Money Doing What You Love

Most people can name at least one thing they are truly passionate about. One of the ways to enjoy your work is to only do the things you enjoy. Find a way to turn your passions and hobbies into profit. The world is full of amazing jobs such as full-time ice cream tasters and video game testers!

Financial Resolution 7: Check your family's financial security system

Unforeseen calamity can rob you of your savings and investments if you don't have the right financial security system in place. Many South Africans are underinsured, which is a shame because insurance can help protect you and your loved ones from the costs of accidents, illness, disability and death. It is an important part of any sound financial plan.

Your individual need for coverage will depend on your age, family and financial situation. Whatever your situation, resolve this year to make a checklist of the insurance you have -- and equally important, what you lack -- to determine how best to safeguard your family's financial future.

Financial Resolution 8: Give Money

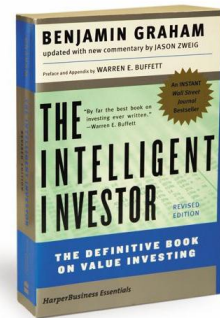
One of the most effective ways to realise the value of money is to give it. The next time you get your salary, take 5% in cash (the physical money in your pocket will make it seem far more real than if you simply wrote a cheque or used a debit card). Walk into an animal or child welfare organisation and make a personal donation. It is a powerful and effective way to change other people's lives for the better while giving you a better sense of freedom financially. Suddenly, you realise just how much promise R200 contains.

Financial Resolution 9: Begin Using Personal Finance Software

Knowledge is power. If you asked ten people on the street how much they spent last year on books or movie tickets, nine of them probably couldn't answer. With a few keystrokes, however, someone using personal finance software can find out. The financially astute print a report at the end of every December and spend an evening studying and going over their income and expenditures for the year. You will be surprised at the amount spent on small items such as ATM bank fees and cappuccino.

Financial Resolution 10: Read a Financial Book Each Month

If you want to learn to cook, you read cookbooks. If you want to learn to fix an engine, you ask someone to show you. The printed word is amazing in that it allows you to communicate directly with the most brilliant financial minds of the past century. By picking up a copy of *The Intelligent Investor*, *One Up on Wall Street*, or *Common Stocks and Uncommon Profits*, you can be taught how to value investments, set up your portfolio, and spot the characteristics of a classic growth stock directly from the men who did it most successfully. Through the written word, their death, retirement, or physical location is rendered meaningless; their ideas, philosophies, and techniques live on. It's as if you are inviting Benjamin Graham or Philip Fisher into your home, any time you choose, at a moment's notice, simply by picking up a copy of their work and turning the pages. Consistently applying yourself to learn as much as you can about the financial markets, the nature of money and investments in general is absolutely essential to creating long-term wealth.





Income tax is only one of the many types of taxes levied by governments to collect revenue. In South Africa, our government employs a host of other types of taxes, including, for example, VAT (Value Added Tax – effectively a tax on consumption), Estate Duty (a tax on the wealth of deceased persons) and various levies and taxes on goods such as petrol, cigarettes and liquor.

While rulers and governments have levied various types of taxes throughout the centuries, income tax (i.e. a tax specifically levied on the earnings of individuals and corporations) is a relatively modern form of taxation.

Socially taxing

This is because the levying of income tax requires a fairly orderly society with a money-based economy and reliable records. Until a few centuries ago, these requirements did not exist and until then the most common forms of taxes were those based on ownership of assets, such as land or slaves.

The first true “income” tax was levied in Britain, introduced by Prime Minister William Pitt the Younger in 1798 to fund the wars against Napoleon. For at least half a century after its introduction the concept of a tax on income was a major political issue and income tax was abolished and reintroduced a number of times. During the Second World War, the highest rate of personal income tax in Britain peaked at a whopping 99.25%, and remained at 95% until the late 1970’s.

On the warpath

In the USA, income tax was first introduced by Abraham Lincoln in the 1860’s to fund the Civil War. The maximum tax rate reached 91% during World War II and remained there until the mid-1960’s. Today, in addition to Federal income tax, most American states and certain cities levy income tax.

Income tax was only introduced in South Africa as recently as 1914, with the passing of an Income Tax Act that had its origins in the New South Wales Act of 1895.

In most countries today, with a few exceptions, personal income tax forms an important component of a government’s revenue. Comparison of

Taxing times

As we say goodbye to 2011 and usher in a new (leap) year, at the same time the current tax year nears its conclusion. The 2012 income tax year for individual taxpayers ends on 29 February 2012 and it seems an appropriate time to take a closer look at income tax.

tax rates around the world is a difficult and fairly subjective exercise. Also, services provided by governments in return for taxation vary, making comparisons all the more difficult.

For example, in many European countries, governments provide national health care, while in other countries healthcare must normally be paid for by private individuals.

Tax heaven

Some countries choose not to levy personal income tax on their fortunate residents. These include Middle Eastern states such as Kuwait and the United Arab Emirates (which includes Dubai), and also countries like Monaco and Uruguay.

Of course as popular as income tax is with governments, it has never been quite as popular with the subjects on which it is imposed, and most of us pay up somewhat begrudgingly. However, in times past, the imposition of taxes on a government’s subjects (and commonly on the subjects of conquered territories) was often the cause of internal insurrection by the reluctant taxpayers. For example, in 60 A.D. the Queen of East England rebelled against corrupt Roman tax collectors. She succeeded in recruiting 230,000 warriors to fight the war, and when it was over, some 80,000 men had been killed. In 1369, the reason for the renewal of the 100 Years War between England and France was the rebellion of the nobility against the tax policy of Edward, the Black Prince.



Unhappiness with tax obligations has also provoked other forms of protest – one of the most famous tax rebels was the Englishwoman, **Lady Godiva**. In the 11th century, Lady Godiva successfully reduced the taxes imposed on the citizens of Coventry by her husband, the Earl of Mercia, by riding naked on a white horse through the town streets.

Today, such tactics would be unlikely to move the taxman, and taxpayers should resort to simpler ways to reduce their tax burden such as contributing to a Retirement Annuity.



Arthur Godfrey

I am proud to be paying taxes in the United States. The only thing is I could be just as proud for half of the money.

Albert Einstein

[on filing for tax returns] This is too difficult for a mathematician. It takes a philosopher.

John S. Coleman

The point to remember is that what the government gives it must first take away.

Dr. Laurence J. Peter

America is a land of taxation that was founded to avoid taxation.

John Maynard Keynes

The avoidance of taxes is the only intellectual pursuit that carries any reward.

Will Rogers

The difference between death and taxes is death doesn't get worse every time Congress meets.

Ronald Reagan

The taxpayer: that's someone who works for the federal government, but doesn't have to take a civil service examination.

Dan Bennett

There's nothing wrong with the younger generation that becoming taxpayers won't cure.

Martin A. Sullivan

There may be liberty and justice for all, but there are tax breaks only for some.

Jean-Baptiste Colbert

The art of taxation consists in so plucking the goose as to obtain the largest amount of feathers with the least amount of hissing.



The 2012/13 tax year starts this quarter, on 1 March 2012, and some fairly dramatic changes to the personal tax regime are expected to take effect during this tax year.

New medical tax credit system

In the 2011 Budget speech the Minister of Finance announced the intention to reform the current medical tax deduction allowance by replacing it with a new medical tax credit system. It is proposed that with effect from 1 March 2012 the deduction system for medical scheme contributions will convert to the "tax credit" system.

The difference between the two systems is that under the current (2011/12) system medical aid contributions (capped in the case of persons under 65 years) are deductible from taxable income, whereas under a tax credit system a set Rand amount will be deducted from the taxpayer's actual income tax liability.

The reason given for the change is that higher income earners benefit more from the current regime in that a deduction which reduces taxable income results in a tax saving calculated at the taxpayer's marginal tax rate. Under a tax credit system all taxpayers benefit equally.

It is proposed under the new tax credit system that if one's medical aid contributions exceed four times the tax credit, one will be able to claim the excess as a deduction from taxable income at the marginal rate (i.e. an element of the old system is retained). Medical credits can reduce tax liability, even to zero, but after that excess contributions will not be refundable by SARS; the credits will operate in the same manner as the primary, secondary and tertiary rebates.

Taxpayers aged 65 and over will (for the time being) not fall within this new system and will be able to claim the full deduction for medical aid contributions. Retirement contributions also see a few changes in 2012 and will require a re-look at your current planning.

Retirement contributions

It was also announced in the 2011 Budget speech, that as from 1 March 2012, the deductions available for contributions to one's retirement funding would be consolidated.

Under the current regime (i.e. for the 2011/12 tax year) tax deductions for contributions to pension, provident and retirement annuity funds are calculated using different formulae, potentially resulting in anomalies. Under the current regime up to 7.5% of one's income is deductible for pension fund contributions (along with a maximum of 20% contributed by an employer). If one invests in an RA a fairly complex formula applies in terms of which if one makes no pension or provident fund contributions, then contributions to an RA are deductible for tax purposes up to a maximum of 15% of income. (If one contributes to both pension or provident fund and an RA, then a smaller portion of the RA contributions will be tax deductible).

To illustrate the potential anomalies created in terms of the current rules, take a taxpayer earning R100,000 p.a. and contributing R10,000 to a pension fund – he or she would receive an annual tax deduction of R7,500 while a taxpayer earning the same amount and contributing R4,000 to a pension fund and R6,000 to an RA would receive a tax deduction of only R5,750. A taxpayer earning that amount and not belonging to a pension or provident fund would be entitled to deduct up to R15,000 in RA contributions. It is proposed that from 1 March 2012 taxpayers in formal employment will face a "fringe benefit tax" on company contributions to their pension and provident funds. But then, however, all taxpayers will be able to deduct up to 22.5% of taxable income in respect of contributions to pension, provident and retirement annuity (RA) funds.

The proposed new system is intended to simplify the retirement deduction regime and it makes sense to review one's situation during 2012.