THE AUTOMATED **PERSONAL ASSISTANT**

BONUS

Chapter 2.5

Understanding GCT For Individuals

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Understanding capital gains tax for individuals

THE LIFESTYLE FRAMEWORK

An individual is not required to register separately for capital gains tax in South Africa. The annual tax return that you file will incorporate this tax that you need to pay.

Capital gains tax is payable on assets that you sell. For the situation where you sell your primary residence, you are allowed a rebate on the amount of capital gains tax you pay (this is very important).

Capital gains tax is also applicable when you donate an asset, when an interest in asset vests from a trust to as (as a beneficiary), and when you die.

With your assets that you hold, it is very important to keep **adequate documentation** to prove the amounts you paid for it. This will help to determine the capital gain (or loss) of an asset in the scenarios listed above (sale, death, etc).

The next important bit is to determine what is known as the inclusion rate. Not all the gain that is calculated (see the basic formula below for calculating the gain) is taxable. For example, 40% of the capital is currently taxable in South Africa.

Basic formula

After this bit, you will need determine your **marginal rate of tax**. This is your current rate of tax (in South Africa this rate is determined on a sliding scale and is based on the amount of income you earn).

The basic formula for calculating a capital gain is as follows:

Proceeds from sale of asset	XXX	
Less: What you paid for the asset	(XXX)	
Less: Any allowed costs *	(XXX)	
Net gain	XXX	(Note if this value is negative, no capital gains tax is payable)
Less: Exclusions or Abatements	(XXX)	
Capital gain	XXX	
Capital gains tax	XXX	(Capital gain * inclusion rate * marginal rate of tax)

* Allowed costs include estates agents commission, the cost of improvements to the property, etc.

Example 1:

I bought a house that I live currently in for 3,5m. I performed renovations for 500,000 and sold the house for 7m. I paid an estate agent a commission of 50,000. My marginal tax rate is 45% and the current inclusion rate for individuals is 40% (i.e. only 40% of the capital gain is taxable). The current exclusion (or allowance) on primary residences is 2m.

The capital gains tax applicable is as follows:

Proceeds (7m) less base cost (3,5m + 500,000) less exclusion (2m)

All multiplied by 40%

All multiplied by 45%.

The capital gains tax is calculated as 180,000.

Example 2:

I purchased a painting as an investment for 1m. I sold it for 2,5m. My marginal tax rate is currently 30% and the current inclusion rate for individuals is 40%.

The capital gains tax applicable is: (2.5m-1,5m) * 40% * 30% = 120,000

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Note: The above examples were basic to help you with a rough calculation for estate planning purposes. The rules for CGT are a lot more complex and involve the date at which the asset was purchased. If the asset was purchased on or before 1 October 2001, a more complex formula applies, in terms of the tax legislation for South Africa.