

16 August 2018

Standing Committee on Finance
3rd Floor
Plein Street
Cape Town
c/o Ms Teboho Sepanya & Mr Allen Wicomb

2018 TLAB: TAX TREATMENT OF AMOUNTS RECEIVED BY OR ACCRUED TO PORTFOLIOS OF COLLECTIVE INVESTMENT SCHEMES [Applicable provision: Section 25BA(3) to (6) of the Act]

Coronation is an independent South African fund manager. Our activities include the management of the second largest domestic collective investment scheme. We herewith record our objection to the proposed introduction of a one-year holding period rule with regards to the characterisation of income earned by collective investment schemes. This proposed rule will have far-reaching implications that will be detrimental to millions of ordinary South Africans. It will undermine capital formation by incentivising informalisation of the savings pool and externalisation of assets from South Africa. We urge the policymaker to reconsider the repeated requests made by organised industry to conduct proper technical research into the issues at hand before changing revenue laws in a manner that will have significant unintended consequences. We reiterate our preparedness to assist National Treasury and the South African Revenue Service in any way required as part of this process.

The classic canons of taxation are fairness, convenience, efficiency and certainty. The proposed rule fails on all counts. It is unfair as investors in CIS portfolios will incur tax liabilities due to actions completely outside their control, often when others withdraw from funds while they remain long-term investors. It is inconvenient as the characterisation of the income as revenue will be made independent from the intent of the fund investor and as the additional tax may be raised in a year when the investor suffers a loss on his investment. It is inefficient as it will raise a relatively small amount of additional tax revenue but will require a wholesale change to the administrative systems of the industry (assets are valued on a weighted-average cost rather than a first-in-first-out basis as required by the proposed rule) while at the same time disincentivising regulated saving and making revenue collection more volatile. It is uncertain as the amount and timing of income recharacterised is not a knowable component of the specific investor's gain as well as being divorced from her intentions, making the quantum, manner and purpose of the tax unclear.

It appears that there is a perception that CIS portfolios are only used by the wealthy. Nothing could be further from the truth. Millions of South Africans use these funds to save for retirement, education and emergencies. The retirement income of hundreds of thousands of pensioners are backed by CIS portfolios. These investors make up the bulk of the income taxpayer base and are completely unaware of the implications of this proposed change.

There are circa 40 jurisdictions with well-developed CIS regulatory regimes. To the knowledge of this author, all but one has rejected a rules-based approach as proposed here. The nearly universal recognition is that it is inappropriate to treat regulated long-term investment vehicles aimed at the broad public as potential schemes for profit making. There are better anti-avoidance mechanisms to target the guilty few, rather than raising arbitrary tax liabilities broadly distributed across tax payers from all walks of life.

Regards



Pieter Koekemoer

Coronation Fund Managers