



TAX INFORMATION SHEET FOR STOKVELS

INTRODUCTION

The introduction of new withholding taxes and international tax reporting obligations calls for new information that needs to be collected from investors. This document aims to explain all the relevant taxes and international tax reporting obligations applicable to legal entities as well as assist you with the declarations which you are obliged to make to Investment Solutions.

The current withholding taxes consist of Withholding Tax on Dividends (WTD), the taxation of dividends from Real Estate Investment Trusts (REITs), Withholding Tax on Interest (WTI), FATCA, and the upcoming The Organisation for Economic Co-operation and Development (OECD) Common Reporting Standards (CRS) requirements.

Withholding Tax on Dividends (WTD)

Withholding Tax on Dividends was introduced in 2012, and requires regulated intermediaries (such as Investment Solutions) to withhold tax from dividend income at a rate of 15%. In certain circumstances, an investor may however be tax-exempt or subject to a reduced rate. A formal declaration from the taxpayer is required in order to apply the non-standard rates.

Real Estate Investment Trusts (REITs)

REITs have a different approach: Rental income is deemed to be dividends, and taxed as such, unless the investor has provided a declaration indicating that he /she / it is a South African tax resident. If the investor is a tax resident or registered to pay tax in any country other than South Africa, the REIT distribution is exempt from normal income tax and is subject to dividends withholding tax at a rate of 15%. In certain circumstances, an investor may however be tax-exempt or subject to a reduced rate and a formal declaration from the taxpayer is required in order to apply the non-standard rates. If the investor is a South African tax resident the REIT distribution is exempt from dividend tax as it is not a dividend anymore, but is subject to normal income tax. And the investor will pay income tax on the distribution at their marginal rate therefore a declaration is needed to establish the tax jurisdiction of the investor.

Withholding Tax on Interest (WTI)

Withholding Tax on Interest became effective on 1 March 2015 and interest payable by South African residents to or for the benefit of foreign persons may be subject to interest withholding tax at a rate of 15%. The majority of interest instruments however are not taxable, resulting in only a small portion of interest (if any) due to a foreign investor being subject to withholding tax. Should the investor be a tax resident or registered to pay tax in South Africa, no tax on interest should be withheld.

CRS and FATCA

In terms of FATCA (financial account exchanges with USA) as well as CRS (Exchange of information with CRS signatory countries); an investor has to declare his / her / its tax jurisdiction(s). This declaration needs to be obtained from all new investors. Existing investors will be examined via a remediation process.

FATCA is already applicable, and CRS will become effective in South Africa on 1 March 2016, all other International jurisdictions will become effective as of 1 January 2016. For CRS purposes we need to collect the information now to enable us to meet our reporting obligations.

In light of the above, should you be tax resident or registered to pay tax in any country other than South Africa, please read through and familiarise yourself with this document. If you have any questions please contact your tax or financial adviser.

IMPORTANT DEFINITIONS

Income Tax

Beneficial owner (Dividends Tax) -- means the person entitled to the benefit of the dividend attached to a share.

Dividends Tax -- is a withholding tax levied on dividends paid by companies that are residents (other than headquarter companies). Dividends tax is also payable on foreign dividends to the extent the foreign dividend does not constitute the distribution of an asset in specie and it is paid to residents by non-resident companies whose shares are listed on the JSE. Dividends Withholding Tax is levied at the rate of 15% of the amount of the dividend paid.

Interest Withholding Tax -- Interest earned from certain sources which is subject to a 15% withholding tax if the interest is paid to a Non-South African Tax Resident.

Non-South African Tax Resident -- a person who is not regarded as a South Africa Tax Resident; in other words, a person who is a tax resident of another country.

REITs -- are Real Estate Investment Trusts. The income/interest received from REITs is deemed to be dividends, and are subject to Dividend Withholding Tax at 15% if paid by Non-South African Tax Residents.

Reduced Rate -- Dividends or Interest paid to Non- South African Tax Residents may be subject to a lower rate of taxation where a Double Taxation Agreement prescribes a reduced rate.

South African Tax Resident -- is a person who is ordinary resident in South Africa (South Africa is the persons true home), or the person lived in South Africa for at least 91 days for each of the past five (5) tax years, and for more than 915 days in total during those years.

Double Taxation Agreement (DTA) -- means an agreement for the avoidance of double taxation entered into between South Africa and another country, which enables a Non-South African Tax Resident to claim exemption from dividends tax / interest tax or a Reduced Rate of taxation. The Double Taxation Agreements are available under International Treaties and Agreements on the South African Revenue Service (SARS) website.

FATCA

What is FATCA?

The Foreign Account Tax Compliance Act (FATCA) is United States legislation that aims to combat offshore tax evasion by encouraging transparency and obtaining information on accounts held by US citizens and US tax residents ("US Persons") in other countries. US Persons are required to report their financial accounts held outside of the United States and Foreign Financial Institutions ("FFIs") are required to provide the US Internal Revenue Service (IRS) with information about US account holders on an annual basis.

What is an IGA?

South Africa has entered into an intergovernmental agreement with the US Internal Revenue Service (IRS). Financial Institutions are required to register with the IRS and obtain a Global Intermediary Identification Number (GIIN) from the IRS. Relevant information about each client who is a US Person is to be reported by South African FFIs (like Investment Solutions Unit Trusts Limited) to the IRS through SARS.

Active Non-Financial Foreign Entity (NFFE) means any Non-Financial Foreign Entity that meets one of the following criteria:

- Less than 50 percent of the NFFE's gross income for the preceding calendar year or other appropriate reporting period is passive income and less than 50 percent of the assets held by the NFFE during the preceding calendar year or other appropriate reporting period are assets that produce or are held for the production of passive income;
- The stock of the NFFE is regularly traded on an established securities market or the NFFE is a Related Entity of an Entity the stock of which is traded on an established securities market.
- The NFFE is organised in a US Territory and all of the owners of the payee are bona fide residents of that US Territory.
- The NFFE is a non-US government, a government of a US Territory, an international organisation, a non-US central bank of issue, or an Entity wholly owned by one or more of the foregoing;
- Substantially all of the activities of the NFFE consist of holding (in whole or in part) the outstanding stock of, and providing financing and services to, one or more subsidiaries that engage in trades or businesses other than the business of a Financial Institution, except that an NFFE shall not qualify for this status if the NFFE functions (or holds itself out) as an investment fund, such as a private equity fund, venture capital fund, leveraged buyout fund or any investment vehicle whose purpose is to acquire or fund companies and then hold interests in those companies as capital assets for investment purposes. In these circumstances, the Entity will be a Passive NFFE.
- The NFFE is not yet operating a business and has no prior operating history, but is investing capital into assets with the

intent to operate a business other than that of a Financial Institution; provided, that the NFFE shall not qualify for this exception after the date that is 24 months after the date of the initial organisation of the NFFE;

- The NFFE was not a Financial Institution in the past (5) five years, and is in the process of liquidating its assets or is reorganising with the intent to continue or recommence operations in a business other than that of a Financial Institution;
- The NFFE primarily engages in financing and hedging transactions with or for Related Entities that are not Financial Institutions, and does not provide financing or hedging services to any Entity that is not a Related Entity provided that the group of any such Related Entities is primarily engaged in a business other than that of a Financial Institution; or
- The Entity is a Non-Profit organisation.
- The NFFE is an "Excepted NFFE" as described in relevant US Treasury Regulations.

Deemed Compliant FFI means entities classified as such in Annex II of the South African IGA, which includes Non-profit Organisations and Financial Institutions with a Local Client Base.

Exempt Beneficial Owner means a South African Governmental Organisation, an International Organisation (like the World Bank), or a Central Bank or a South African Retirement Fund.

Financial Institution means a Custodial Institution, a Depository Institution, an Investment Entity, or a Specified Insurance Company as defined for the purposes of FATCA.

Financial Account means any equity or debt interest (other than interests that are regularly traded on an established securities market) in an Investment Entity;

Any equity or debt interest in a Financial Institution (other than an Investment Entity) if the value of such equity or debt interest is determined by reference to assets that give rise to US Source Withholdable Payments and the class of interests was established with a purpose of avoiding reporting in accordance with the IGA.

Any cash value insurance contract and Annuity contract issued or maintained by a Financial Institution. The following accounts are excluded from the definition of "Financial Accounts":

- Certain savings accounts
- Certain Term Life Insurance Contracts
- Account held by an estate
- Escrow accounts
- Partner jurisdiction accounts
- Living annuities
- Compulsory annuities.

Non-Participating Foreign Financial Institution means a non-participating FFI, as that term is defined in relevant US Treasury Regulations, but does not include a (United Kingdom) Financial Institution or other Partner Jurisdiction Financial Institution other than a Financial Institution identified as a Non-participating Financial Institution pursuant to a determination by IRS or HMRC that there is significant non-compliance with FATCA obligations.

Passive Non-Financial Foreign Entity means any Non-Financial Foreign Entity that is not an Active NFFE.

Partner Jurisdiction means a jurisdiction that has in effect an agreement with the United States to facilitate the implementation of FATCA.

Partner Jurisdiction Financial Institution means any Financial Institution established in a Partner Jurisdiction, but excluding any branch of such Financial Institution that is located outside the

Partner Jurisdiction, and any branch of a Financial Institution not established in the Partner Jurisdiction, if such branch is located in the Partner Jurisdiction.

Specified US Person means a US Person, other than:

- A corporation the stock of which is regularly traded on one or more established securities markets;
- Any corporation that is a member of the same expanded affiliated group, as defined in section 1471(e)(2) of the US Internal Revenue Code, as a corporation described in clause (i);
- The United States or any wholly owned agency or instrumentality thereof;
- Any State of the United States, any US Territory, any political subdivision of any of the foregoing, or any wholly owned agency or instrumentality of any one or more of the foregoing;
- Any organisation exempt from taxation under section 501(a) or an individual retirement plan as defined in section 7701(a)(37) of the US Internal Revenue Code;
- Any bank as defined in Section 581 of the US Internal Revenue Code;
- Any real estate investment trust as defined in Section 856 of the US Internal Revenue Code;
- Any regulated investment company as defined in section 851 of the US Internal Revenue Code or any entity registered with the Securities Exchange Commission under the Investment Company Act of 1940 (15 USC. 80a-64);
- Any common trust fund as defined in section 584(a) of the US Internal Revenue Code;
- Any trust that is exempt from tax under section 664(c) of the US Internal Revenue Code or that is described in section 4947(a)(1) of the US Internal Revenue Code;
- A dealer in securities, commodities, or derivative financial instruments (including notional principal contracts, futures, forwards, and options) that is registered as such under the laws of the United States or any State; or
- A broker as defined in section 6045(c) of the US Internal Revenue Code.

How does the United States enforce FATCA?

If an FFI fails to comply with FATCA, a 30% withholding tax will be imposed on all forms of income earned directly or indirectly from US investments by the FFI. The United States receives the largest number of inward investment in the world. Very few, if any, international financial institutions would be able to function without investing, directly or indirectly, in the United States, or without dealing with financial institutions that invest in the United States.

Non-compliance will also result in being classified as a Non-participating Financial Institution (NPFI) by counterparties. An NPFI will find it hard to maintain relationships with FATCA compliant counterparties.

Who needs to be identified?

Specified US Persons: US citizens or resident individuals, US Trusts, partnerships or corporations organised in the United States or under the laws of the United States that are not a corporation or organisation as contemplated in the definition of "Specified US Person" in article 1 of the IGA between South Africa and the United States.

What needs to be reported?

Each Reporting Financial Institution (RFI) must obtain and exchange

information on each Financial Account maintained by a RFI and held by a specified US Person or by a Non-US Entity with one or more Controlling Persons that are specified US Persons (US Reportable Account). The following information with respect to each US Reportable Account must be reported and the RFI must report (exchange) this information on an annual basis (within nine (9) months after the calendar year to which the information relates):

- The name, address, and US Tax Identification Number (TIN) of each Specified US Person that is an Account Holder of such account or that is a US Controlling Person in respect of a Non-US Entity.
- The account number
- The name and identifying number of the RFI
- The account balance or value (including, in the case of a Cash Value Insurance Contract or Annuity Contract, the Cash Value or surrender value) as of the end of the relevant calendar year or other appropriate reporting period or, if the account was closed during such year, immediately before closure
- In the case of any Custodial Account:
 - (a) the total gross amount of interest, the total gross amount of dividends, and the total gross amount of other income generated with respect to the assets held in the account, in each case paid or credited to the account (or with respect to the account) during the calendar year or other appropriate reporting period; and
 - (b) the total gross proceeds from the sale or redemption of property paid or credited to the account during the calendar year or other appropriate reporting period with respect to which the Reporting South African Financial Institution acted as a custodian, broker, nominee, or otherwise as an agent for the Account Holder.
- In the case of any Depository Account, the total gross amount of interest paid or credited to the account during the calendar year or other appropriate reporting period; and
- In the case of any account not described above, the total gross amount paid or credited to the Account Holder with respect to the account during the calendar year or other appropriate reporting period with respect to which the Reporting South African Financial Institution is the obligor or debtor, including the aggregate amount of any redemption payments made to the Account Holder during the calendar year or other appropriate reporting period.

How are Reportable Accounts identified?

There are different procedures for each of the following accounts:

- Pre-existing Individual accounts
- New Individual accounts
- Pre-existing entity accounts
- New entity accounts.

OECD

AEOI refers to a standard for automatic exchange of financial account information, introduced by the OECD, in accordance with which member countries exchange financial information regarding foreign investments in those member countries.

Controlling Persons means the natural persons who exercise control over an Entity. In the case of a trust, such term means the settlor, the trustees, the protector (if any), the beneficiaries or class of beneficiaries, and any other natural person exercising ultimate effective control over the trust, and in the case of a

legal arrangement other than a trust, such term means persons in equivalent or similar positions.

Financial Institution means any Financial Institution that is resident in South Africa, but excludes any branch of that Financial Institution that is located outside South Africa, and any branch of a Financial Institution that is not resident in South Africa, if that branch is located in South Africa.

Investment Entity means any Entity:

- That primarily conducts as a business one or more of the following activities or operations for or on behalf of a customer:
 - trading in money market instruments (cheques, bills, certificates of deposit, derivatives, etc.); foreign exchange; exchange, interest rate and index instruments; transferable securities; or commodity futures trading;
 - individual and collective portfolio management; or
 - otherwise investing, administering, or managing Financial Assets or money on behalf of other persons; or
- The gross income of which is primarily attributable to investing, reinvesting, or trading in Financial Assets, if the Entity is managed by another Entity that is a Depository Institution, a Custodial Institution, a Specified Insurance Company, or an Investment Entity described in subparagraph A(6)(a).

OECD -- The Organisation for Economic Cooperation and Development (OECD) is a forum where the Governments of 34 democracies with market economies work with each other, as well as with more than 70 non-member economies to promote economic growth, prosperity, and sustainable development.

SOUTH AFRICAN INCOME TAX ACT 58 OF 1962

Section 50D. Exemption from Withholding Tax on Interest

- (1) A foreign person is exempt from the Withholding Tax on interest if:
- (a) that foreign person is a natural person who was physically present in the Republic for a period exceeding 183 days in aggregate during the 12-month period preceding the date on which the interest is paid; or
 - (b) The debt claim in respect of which that interest is paid is effectively connected with a permanent establishment of that foreign person in the Republic if that foreign person is registered as a taxpayer in terms of Chapter three (3) of the Tax Administration Act.

Section 50E. Withholding of Withholding Tax on Interest by payers of interest

- (1) A person must not withhold any amount from any payment contemplated in subsection (1):
- (a) to the extent that the interest is exempt from the Withholding Tax on interest in terms of section 50D(1); or
 - (b) If the foreign person to or for the benefit of which that payment is to be made has –
 - (i) by a date determined by the person making the payment; or
 - (ii) if the person making the payment did not determine a date as contemplated in subparagraph (i), by the date of the payment, submitted to the person making the payment a declaration in such form as may be prescribed by the Commissioner

that the foreign person is, in terms of section 50D(3), exempt from the Withholding Tax on interest in respect of that payment.

- (2) The rate referred to in subsection (1) must, for the purposes of that subsection, be reduced if the foreign person to or for the benefit of which the payment contemplated in that subsection is to be made has:
- (a) by a date determined by the person making the payment; or
 - (b) if the person making the payment did not determine a date as contemplated in paragraph (a) by the date of the payment.

Submitted to the person making the payment:

- (i) a declaration in such form as may be prescribed by the Commissioner that the interest is subject to that reduced rate of tax as a result of the application of an agreement for the avoidance of double taxation; and
- (ii) a written undertaking in such form as may be prescribed by the Commissioner to forthwith inform the person making the payment in writing should the circumstances affecting the application of the agreement referred to in subparagraph (i) change.

Section 64FA. Exemption from and reduction of tax in respect of dividends in specie

- (1) Where a company declares and pays a dividend that consists of a distribution of an asset in specie, that dividend is exempt from the dividends tax to the extent that it constitutes a distribution of an asset in specie if:
- (a) The person to whom the payment is made has, by the date of payment of the dividend, submitted to the company:
 - (i) a declaration by the beneficial owner in such form as may be prescribed by the Commissioner that the portion of the dividend that constitutes a distribution of an asset in specie would, if that portion had not constituted a distribution of an asset in specie, have been exempt from the dividends tax in terms of section 64F; and
 - (ii) a written undertaking in such form as may be prescribed by the Commissioner to forthwith inform the company in writing should the circumstances affecting the exemption applicable to the beneficial owner referred to in subparagraph (i) change or the beneficial owner cease to be a beneficial owner.
- (2) A company that declares and pays a dividend that consists of a distribution of an asset in specie is liable for the dividends tax at a reduced rate in respect of the portion of the dividend that constitutes the distribution of an asset in specie if the person to whom the payment is made has, by the date of payment of the dividend, submitted to the company:

- (a) a declaration by the beneficial owner in such form as may be prescribed by the Commissioner that the portion of the dividend that constitutes a distribution of an asset in specie would, if that portion had not constituted a distribution of an asset in specie, have been subject to that reduced rate as a result of the application of an agreement for the avoidance of double taxation; and
- (b) a written undertaking in such form as may be prescribed by the Commissioner to forthwith inform the company in writing should the circumstances affecting the reduced rate applicable to the beneficial owner referred to in paragraph (a) change or the beneficial owner cease to be the beneficial owner.

Submitted to the company:

- (i) a declaration by the beneficial owner in such form as may be prescribed by the Commissioner that the dividend is subject to that reduced rate as a result of the application of an agreement for the avoidance of double taxation; and
- (ii) a written undertaking in such form as may be prescribed by the Commissioner to forthwith inform the company in writing should the circumstances affecting the reduced rate applicable to the beneficial owner referred to in subparagraph (i) change or the beneficial owner cease to be the beneficial owner.

Section 64G. Withholding of dividends tax by companies declaring and paying dividends

- (1) A company must not withhold any dividends tax from the payment of a dividend contemplated in subsection (1) if:
 - (a) The person to whom the payment is made has:
 - (i) by a date determined by the company; or
 - (ii) if the company did not determine a date as contemplated in subparagraph (i), by the date of payment of the dividend,

Submitted to the company:

- (aa) a declaration by the beneficial owner in such form as may be prescribed by the Commissioner that the dividend is exempt from the dividends tax in terms of Section 64F; and
 - (bb) a written undertaking in such form as may be prescribed by the Commissioner to forthwith inform the company in writing should the circumstances affecting the exemption applicable to the beneficial owner referred to in item (aa) change or the beneficial owner cease to be the beneficial owner;
- (2) A company must withhold dividends tax from the payment of a dividend contemplated in subsection (1) at a reduced rate if the person to whom the payment is made has:
 - (a) by a date determined by the company; or

Section 64H. Withholding of dividends tax by regulated intermediaries

- (1) A regulated intermediary must not withhold any dividends tax from the payment of a dividend contemplated in subsection (1) if:
 - (a) the person to whom the payment is made has:
 - (i) by a date determined by the regulated intermediary; or
 - (ii) if the regulated intermediary did not determine a date as contemplated in subparagraph (i), by the date of payment of the dividend.

Submitted to the regulated intermediary:

- (aa) a declaration by the beneficial owner in such form as may be prescribed by the Commissioner that the dividend is exempt from the dividends tax in terms of section 64F or that the payment is made to a vesting trust of which the sole beneficiary is another regulated intermediary.
- (bb) a written undertaking in such form as may be prescribed by the Commissioner to forthwith inform the regulated intermediary in writing should the circumstances affecting the exemption applicable to the beneficial owner in item (aa) change or the beneficial owner cease.

The registered office of Investment Solutions Unit Trusts Limited (Reg no 2001/015776/06) (The Manager) is 115 West Street, Sandown, 2196. PO Box 786055 Sandton 2146. **Telephone number:** +27 11 505 6000. The Trustee is FirstRand Bank, acting through Rand Merchant Bank Custody and Trustee Services, First Floor, No. 3 First Place, Bank City, Cnr Jeppe & Simmonds Street, Johannesburg, 2000. **Telephone number:** +27 (0) 87 736 1732.

The Manager and the Trustee are regulated by the Financial Services Board for the conduct of fund services business. Alexander Forbes is a member of the Association for Savings and Investment SA.

Investment Solutions Limited, Registration number: 1997/000595/06 is an authorised Financial Services Provider (FSP 711) under the Financial Advisory and Intermediary Services Act (No. 37 of 2002), to act in the capacity as investment manager. The address is the same as the Manager. This information is not advice, as defined in the Financial Advisory and Intermediary Services Act (No. 37 of 2002). Please be advised that there may be representatives acting under supervision. The complaints policy and procedure, and the conflicts of interest management policy are available on our website <https://sa.investmentsolutions.co.za/Risk-Compliance/Corporate-Governance>

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