MISCELLANEA GENERALIA 23

UNISA

HOW TO PLAN YOUR MONEY MATTERS

after school and university

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UNIVERSITY OF SOUTH AFRICA
PRETORIA

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FOREWORD

The fact that only about 6% (six out of every 100 people) of the population are able to retire in a state of financial independence underlines the tremendous need for education on personal financial planning in South Africa. This problem starts at and after school when thousands of uninformed young people begin their adult lives with no grasp of how they should plan their finances. These young people also underestimate the importance of early financial planning and the adverse financial implications of a lack of planning. This book is an attempt to discuss the most important aspects of and factors in personal finances that can affect the young person's financial future.

ALL SCHOLARS, especially those in Grades 11 and 12, ALL STUDENTS AND ALL YOUNG PEOPLE, especially young married couples, SHOULD HAVE A COPY OF THIS BOOK. PARENTS WOULD BE WELL ADVISED TO BUY THIS BOOK FOR THEIR CHILDREN.

1 THE UNCERTAIN FINANCIAL FUTURE

- DO YOU WANT TO BE ONE OF THE 6% (SIX OUT OF EVERY 100) OF PEOPLE IN SOUTH AFRICA WHO ARE FINANCIALLY INDEPENDENT WHEN THEY RETIRE?

The long-term financial goal of personal financial planning is financial independence after retirement. What does financial independence mean? Financial independence means a retired person who is not dependent on family, the state or friends for an income. Moreover, such a person does not have to continue working after retirement in order to survive. A financially independent person's own investments are sufficient to live on after retirement.

- WHAT HAPPENED TO THE OTHER 94% (94 OUT OF EVERY 100)?

They either failed to plan or they did not plan correctly because they did not learn how to plan their money matters early in life.

PERSONAL FINANCIAL PLANNING IN THE NEW SOUTH AFRICA IS NO SIMPLE MATTER

People are confused largely by the following factors:

- the changing economic and political climate
- affirmative action
- inflation
- the large variety of new financial institutions and financial products
- conflicting advice on personal finances
- reports in the media on personal financial matters
- the thousands of brokers at our disposal
- changing legislation
- individuals' different lifestyles, attitudes to risk, financial situations, needs and short-, medium- and long-term objectives

DON'T BE DISCOURAGED

All that has happened is that changes that have occurred have meant that people's planning periods have been shortened from twenty years to three years at the most. Today you need knowledge and objective advice to be able to plan your financial future properly. Allow yourself to be guided by sound and proven financial principles.

Yes, by learning how to plan you can be one of the 6%.

PEOPLE DON'T PLAN TO FAIL,
THEY FAIL BECAUSE THEY DON'T PLAN.

Remember: YOU ARE A WINNER!

START PLANNING THE SIZE OF YOUR VICTORY NOW.

2 ONLY A LIFETIME

When you are young a lifetime seems infinitely long. Granted, life may well be long but the question is what are you going to do with it? For many individuals who have already retired (94%) life was too short to generate enough funds and capital for retirement. A lack of systematic and especially early financial planning is usually the cause of this distressing and negative situation. Generally, the wrong investments or no investments at all are made because of a lack of knowledge and/or financial discipline (people make no provision for retirement because they live only for the moment) spanning a lifetime.

It is already too late for these people to implement their financial plans *now.* Most of them are too old and/or sick to continue working, earning an income and using it for living expenses and investments. These people are on borrowed time without the necessary means for survival at the end of a lifetime. Personal financial planning must start at the beginning of a young life (especially after school) if this scenario is to be avoided. Similarly, sustained planning must be done over a whole lifetime (see the human life cycle until retirement in figure 1 on page 6).

WHAT DO YOU DO WITH YOUR TIME?

Whether you do something or nothing time passes just the same. Yet it is strange how many wealthy successful people have so much time and others, who can hardly survive, so little. The difference lies in the fact that the former category PLAN and utilise their time objectively. This is also why we can say that someone's money or possessions are an indication of that person's vitality or energy.

If you allow the following things to waste your time you are not PLANNING: personal visits, incoming telephone calls, saying 'yes' to everything, deciding too slowly, self-imposed crises, no delegation – doing everything yourself. Planning comes down to DISCIPLINE in your life.

- PLAN AND GET YOUR CAREER ON TRACK

Planning forces you to think about your life (the only one you'll have). You become aware of your objectives and, as a result, the priorities to which you should be devoting your time, attention and activities. Discipline yourself to live with purpose. Remember, if you aim at nothing in life, you will surely get it.

- ALL OF US LACK FINANCIAL DISCIPLINE

As statistics in South Africa show, 94% of individuals have never exercised financial discipline in their lives. Life probably seemed very long to them too – initially. Financial discipline means financial independence after retirement. PLAN and cultivate FINANCIAL DISCIPLINE in your life and in your money matters.

MY PERSONAL FINANCIAL PLANNING CYCLE

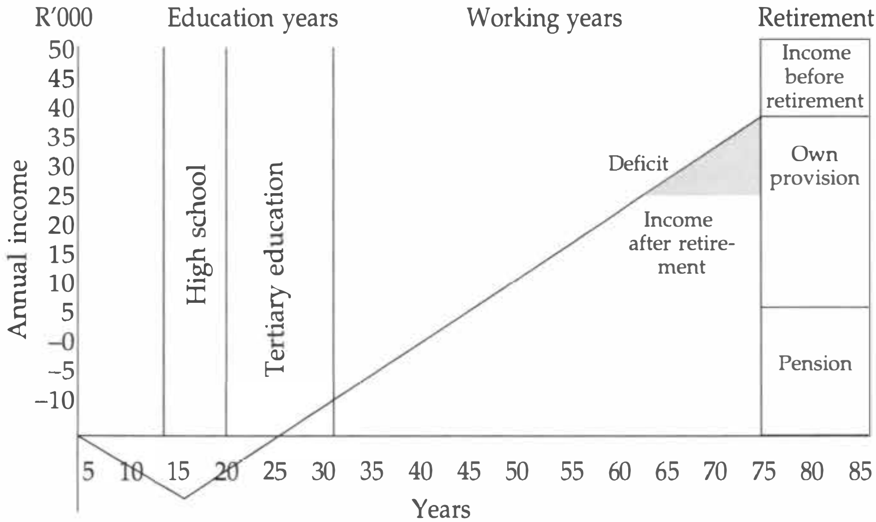
The figure reproduced on page 6 shows the human life cycle. From the figure we can see that we all devote a certain span of years to education. Following these are the working years and, finally, retirement. Everyone retires eventually, for the following reasons, among others:

- age
- illness
- unemployment
- accepting a package at a relatively advanced age (for example, 55 years and older)
- affirmative action
- not being fit for work
- voluntary retirement

Early, systematic personal financial planning, or the absence thereof, will determine each individual's financial future. Some will starve to death (after retirement), others will just survive, some will be relatively comfortable and a few will retire very wealthy. Choose now how you and your family will retire one day – with or without money to meet your basic and other needs.

The time for establishing and developing the correct foundation for personal finances is during the education years. Planning and financial discipline should be learnt at this stage. Then, if someone has money at his or her disposal during his or her working years (a salary and other benefits) he or she will know what to do with it – especially with a view to retirement. All one's money should not be wasted during the working years on trifles or unnecessary or expensive holidays and cars. No, the necessary investments (even if you do belong to a pension or provident fund) must be made, especially with a view to capital growth. These investments should be kept until retirement – even after retirement, if more growth is required.

Figure 1 Human life cycle to retirement



Source: Adapted from N J Swart, 1996, *Personal Financial Management*, Cape Town: Juta.

A pension is never enough after retirement. People who rely on their pensions alone are worse off financially after retirement than before. A deficit in income arises which can be made good only by additional investments that have been made over a lifetime. Otherwise the individual will have to settle for a far lower standard of living after retirement. A pension will meet on average only 50% of your needs after retirement.

Therefore, the only way to eliminate this deficit in income after retirement is to make separate provision for it yourself.

Retirement and the possible income deficit at that stage should be clear from the graph. You know where you are in the life cycle (school, tertiary education, working years). Select your current position in the life cycle and call it point A. Now select a point B to indicate when you want to retire financially independent. Your planning can make it possible for you to reach point B. You know where you are now and where you want to go – just as if you were travelling by car. Now you plan the best financial route to get there.

This is precisely how simple financial goal achievement can be if we plan our financial future according to specific guidelines, purposefully and in good time. Look at the following blank cheque with your name on it. You fill in the life amount you would like to have. This is precisely the effect of planning. It allows you to move from your point A to your point B. PLANNING guarantees your cheque will pay out at point B.

LIFE BANK

To the reader: Your name

R Your amount

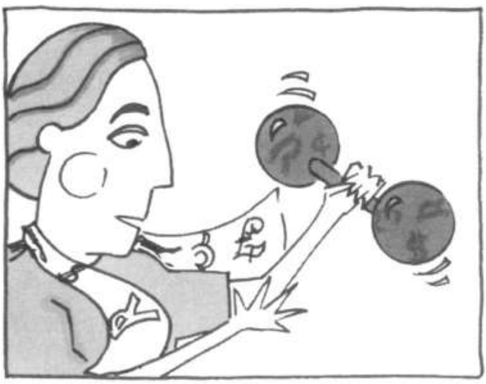
PLANNING

MAKE YOUR DREAMS COME TRUE – PLAN NOW!

ARE YOU FINANCIALLY FIT?

What is financial fitness? You are financially fit if you not only know the answers to the following questions but have applied them in your life:

- Do you know your current financial position? (Do you know what your point A in the life cycle is?)
- Do you have a point B?
- Do you know how to get to your point B?
- Are you aware of all the factors that affect your personal financial planning?
- Do you know all the different personal financial planning areas?
- Do you know how to do personal financial planning?



For most young people the answer will be a resounding NO. Don't let this worry you – read on to find out how to design your FINANCIAL EXERCISE PROGRAMME.

PLAN, BECOME FINANCIALLY FIT,
BECOME A FINANCIAL WINNER.

3 PLANNING EARLY IN LIFE

MUST I REALLY START PLANNING THIS EARLY?

In fact, personal financial success depends entirely on planning early enough. The sooner you start the better. By the same token, the longer you do it the better. Think back to point A and point B in your life cycle. You may have indicated point B at the age of 50 years, but this does not mean you will be cashing in all your investments at 50. Keep investments you do not need to live on for as long as possible. This will mean that your capital growth (the increase in the value of your investment) will be high and more rapid because you are earning interest on interest without having to pay any tax on it. Let's look at a practical example: you invest R100 per month for periods of 20, 25, 30 and 40 years at 15% interest per annum. Now let's look at what the future investment values would be over the different terms:

Term	Amount	Interest rate		Future value
20 years	R100	15%	=	R149 723,95
25 years	R100	15%	=	R324 352,96
30 years	R100	15%	=	R692 327,96
40 years	R100	15%	=	R3 101 605,47

Let's express the same example in slightly different terms: four people invest R100 per month at 15% per annum till the age of 60 years. They begin at 20, 30, 35 and 40 years of age, respectively.

Age	Amount	Interest rate		Future value
20 years	R100	15%	=	R3 101 605, 47
30 years	R100	15%	=	R692 327,96
35 years	R100	15%	=	R324 352,96
40 years	R100	15%	=	R149 723,95

In other words, the person who starts investing at 20 years of age gets more than R3 million from a single investment. If you wait until you are 40 years old before you start investing you will have to be satisfied with about R150 000 at the age of 60.

Imagine the long-term return if you also invested in unit trusts for an equally long period (and you earned capital growth at more than 25%). This is how you protect yourself against inflation.

START PLANNING AND INVESTING IMMEDIATELY.

WHAT IS INFLATION?

Inflation is the decreasing buying power of money. This means that today

R1 will be able to buy more than that same R1 in ten years' time. To calculate the effect of inflation on the buying power of money you use a factor of 72. Say the inflation rate is 12% per annum. Divide 72 by 12 and you get 6. This means that inflation halves the buying power of money every six years.

For example, in six years' time R100 will only be able to buy what R50 can buy in today's money values.

HOW SHOULD I PLAN?

Remember your points A and B. Where are you and where do you want to go? Planning is about the way you are going to get to point B. First you must know your current financial position or situation. Now set yourself short-, medium- and long-term goals. For example, you may want to have R1 000,00 in a savings account in six months' time (short term). You may also want to use the returns on unit trusts (that you don't have yet) as a deposit on a second-hand car (medium term). In five to 20 years' time you want to use an endowment policy for a certain purpose (long term).

Now you must draw up a budget for yourself in order to determine if you will have the money every month for these three kinds of investments. If you do and your budget works, implement your plans: open a savings account, start buying unit trusts and take out a policy.

If your budget does not work, set more realistic short-, medium- and long-term goals. For example, confine yourself to buying only unit trusts for the present.

Revise your plans on a continuous basis and remember this is a planning process that goes on all your life if you want to be a financial winner.

Guard against constantly changing your investments (unnecessarily) – this costs a great deal of money. The planning process or the steps in planning are outlined in what follows.

Determine your current financial position (your point A). Determine your short-, medium- and long-term goals (your point B). Draw up a budget and see if you will be able to achieve your goals and if you will have enough money to set aside. Implement your plans if your budget allows (take out a policy, invest in unit trusts). Change your objectives if your budget cannot accommodate them. Revise your plans on a continuous basis.

HOW DO I DRAW UP A BUDGET?

Example	**Jan**	**Feb**	**March**	**...**	**Dec**	**Total**
Income (a) (b) (c)						
1 Total income						
Expenses (a) (b) (c)						
2 Total expenses						
3 Surplus (+) or deficit (–) (1–2)						
4 Cumulative surplus or deficit						

A surplus occurs when your income exceeds your expenditure. A deficit means that your expenses exceed your income. The surplus or deficit should be as close as possible to nil. Large deviations (– or +) point either to poor planning (unrealistically high or low estimates of income and/or expenses) or to serious financial problems (too much debt, perhaps).

PLAN REALISTICALLY AND
KEEP TO YOUR BUDGET – AFTER ALL,
FINANCIAL DISCIPLINE IS YOUR WATCHWORD!

4 CHOOSING A CAREER: STUDIES, WORKING FOR SOMEONE ELSE, YOUR OWN BUSINESS

Hurrah! No compulsory military service! Training and study are more important today than ever despite affirmative action, and the new South Africa offers many opportunities for young people. If you consider that the South African Defence Force kept so many people out of society for ten to fifteen years of their lives with compulsory military service and military camps, the absence of any such obligations today is a tremendous advantage.

WHAT WILL MY STUDIES COST ME?

Those who wish to further their studies must weigh up the cost of doing so carefully against the financial benefits (salary package) of an occupation (provided, that is, they will be able to get a job on completing their studies) or working for themselves. Study costs include the following factors:

- distance to be travelled to and from the university or technikon
- number of classes to be attended
- subjects to be registered for

- the costs of transport (car or train)
- the availability or not of a bursary
- the course in question
- the number of family members studying at the same time
- the accessibility of lecturers and a library

Remember holiday or part-time jobs or a second job as options for meeting these expenses.

• SHOULD I STUDY PART TIME OR FULL TIME?

Your parents' financial position will determine the answer to this question. Someone who studies full time and must pay study expenses himself or herself will struggle to do so if there is no part-time work available. Part-time studies (while you work, for example through Unisa or Technikon SA) eliminate this problem. However, it is more difficult to study part time and it requires far more self-discipline.

• HOW MUCH WILL I EARN ONE DAY?

Your qualifications, skin colour, the profession and industry you will be joining and the city, neighbourhood or town you are in will all determine how much you will earn.

• HOW WILL I BE AFFECTED BY AFFIRMATIVE ACTION?

Depending on your skin colour, affirmative action will have a direct positive or negative effect on you. Affirmative action will affect you indirectly where, for example, your mother or father or family lose their jobs and you can no longer rely on them for money.

HOW DO I CHOOSE A CAREER?

Most people change careers a number of times. The choice of a career is actually a process rather than a single event. Since your choice of job determines your standard of living and your life, it is an important choice.

KNOW YOURSELF

You must know who you are and what you like. Never confuse a career with a hobby, unless you want to fashion your own business around your hobby. Do you know if you like working with people, on your own or in a team, if you like taking risks or prefer stability, if you like initiating work yourself, if you are motivated by money or by recognition of other kinds, if you like travelling long distances or working in one place, or whether or not you want to further your studies.

KNOW WHAT CAREERS ARE OUT THERE

Get information on careers you may be interested in. Find out what industries (groups of businesses or occupations) are experiencing marked growth and where many new business opportunities are likely to occur on a sustained basis. Look especially at what the work entails, the workplace, the remuneration package, the requirements for the job, quality of life and job satisfaction.

HELP, I AM UNEMPLOYED

BE POSITIVE AND NEVER GIVE UP! Even if you feel a failure, inferior and frustrated, you simply cannot afford to give up. Talk to friends and family and watch the newspapers and advertisements for job opportunities. Accept any kind of ethical work, even if it is just temporary. Decide that no work is beneath you. Whatever you manage to find, be it washing cars or windows or garden work, do it very well so you can use it as a reference for other work. Register with the Department of Labour and always keep a curriculum vitae (CV) to hand.

Don't give up, you just can't!

ALWAYS HAVE AN UPDATED CV HANDY

A curriculum vitae (CV) is a document mapping out your life up to the present. Your school, employment, sporting and other achievements are recorded in it. Always keep this short document up to date so you can submit it to a prospective employer at short notice. You market yourself in your CV – draw it up with this in mind. Make sure that your CV

- is neatly typed on high quality paper
- is short and to the point
- is objective about your life

- gives some personal particulars (name, surname, date of birth, marital status, sex, nationality, language proficiency, state of health)
- contains information about your educational qualifications (highest standard attained, awards at school, tertiary education, positions of leadership, extramural activities and sport)
- describes your current employment (period employed, position held, tasks, responsibility, merit awards, salary, benefits, reasons for leaving)
- outlines your job history (as above)
- gives general information about your hobbies and other interests
- gives names, addresses and positions held by referees, whom you should inform in advance of the fact that you wish to use them in this capacity

YOUR FIRST INTERVIEW

For you the purpose of this interview is to sell yourself, your services and your abilities to an employer. Therefore, create the most favourable impression you can without lying, exaggerating or impugning other people. Avoid a poorly completed application form or CV or any disagreement during the interview. Be punctual and neat and don't be the one to end the interview. Answer only the questions that are asked. Feel free to ask questions about the employer, but be sure to find out a little more about the employer before you go – this always impresses. Make sure you answer questions put to you fully and unambiguously.

START YOUR OWN BUSINESS

There are thousands of business opportunities in the new South Africa. School leavers and young people should take advantage of these opportunities. Besides, the best time to start your own business is when you stand to lose the least (perhaps an old car at the most). Your father and mother, who have long become accustomed to the stability and security of, say, the Public Service, would not easily accept the risks involved in a privately owned business.

Someone who starts his or her own business or buys an existing business is called an entrepreneur.

If you want to become an entrepreneur you first have to be able to recognise a business opportunity. Many scholars run their own businesses today, and this will transform them into millionaires within five years of leaving school. Others start speculating with shares while at school and will not have to work after the age of 30, unless they want to. Yes – from sausage rolls to millionaire – there are countless opportunities out there.

Think of a service that isn't being provided or a product that doesn't exist yet but that would make people's lives easier if they had it. Do something better, cheaper or quicker. Yes, there are too many opportunities (ideas that could work as future businesses) to mention. The following are some examples:

- Develop a new game that can promote relaxation and health.

- Provide a service by renting empty rooms in houses to people.
- House-sit on a large scale (40 to 50) during the holidays.
- Look for work for other people.
- Teach people's children certain skills at home.
- Market health products.
- Start network marketing – a concept that is taking the world by storm and leaving thousands of healthy and wealthy people in its wake.
- Do maintenance work on houses.
- Transport small items quickly between cities.
- Help people to plan their holidays.
- Take people on tours (Game Reserve, Garden Route, Kalahari).
- Teach people life skills.
- Make something to sell at flea markets.
- Sell something at flea markets.
- Start a nursery school.
- Polish cars.

Certain ideas will seem to be beyond your reach because of, for instance, insufficient knowledge, money, skills and finance. Sit down and plan until they are within your capabilities or choose another idea you know you can manage now.

You should work from an idea to a business opportunity and then devise your business plan.

WHAT FORM OF BUSINESS SHOULD I CHOOSE?

Once you have registered your business for tax purposes you must register the name of your business. You must run the business in the form of a one-man concern, a partnership, a close corporation or a company.

If you are alone in the business you must run it as a one-man concern or a close corporation. If there are two or three of you you can form a partnership or a close corporation. I recommend a close corporation as a business form for young people.

- *A one-man concern:* The business has only one owner who has the sole share in all profits, risks and losses. The sole owner can never separate his income from that of the one-man concern and this option entails few tax benefits.
- *A partnership:* Two to twenty people can form a partnership. Like a one-man concern, a partnership does not exist separately from the partners when it comes to liability for the debts of the partnership.
- *A close corporation:* One to ten people can form a close corporation (CC). Members of the CC have limited liability (they are liable to some extent) for the debt of the CC, in other words members' personal assets are protected. This is certainly the most suitable form of business for young people starting out. There are many tax benefits.
- *A private company:* One to fifty people can form a company of this nature. Like a CC a company is a juristic person which exists independently from its members. It is far more complex to establish than a CC and is subject to many more legal requirements. Except when it comes to estate planning, the CC is the most suitable form of business to choose.

Get more information on close corporations by writing to:

The Registrar of Close Corporations
PO Box 429
PRETORIA
0001

Further information is obtainable from

- the Small Business Development Corporation
- deposit-taking financial institutions (banks)
- universities and technikons
- the Small Business Advice Bureau
- the Chamber of Commerce
- magazines such as *Your Own Business, Black Enterprise* and *Entrepreneur/ Enterprise*

FIRST DEVISE A BUSINESS PLAN

A business plan is a breakdown of all your business's activities and affairs. A business plan is the what, how, when and why the entrepreneur wants to do what the business has been set up to do. The benefits of a business plan for the entrepreneur include the following:

- It forces the entrepreneur to examine the business objectively.
- Research is done into many facets of the prospective business.
- Business plans are not only written down, they are expressed in financial terms.
- The plan can be submitted to the suppliers of funds (banks, businesspeople) to acquire funding for financing business activities.
- The entrepreneur is forced to evaluate his or her managerial abilities and resources (assets, staff).
- Risks, opportunities, threats and strong and weak points are identified.

A business plan can feature the following, among other things:

- A cover bearing the name of the undertaking, the owner's particulars and the business's logo, and a table of contents indicating the structure of the business plan.
- An explanation of why the type of business in question was chosen. Give the feasibility study (a study done beforehand to determine the undertaking's chances of success) and the business goals.
- A description of the undertaking with reference to the product/service, the market (those who will use the product/service) and location.
- A marketing plan (selling plan) for the business's product service.
- A financial plan (expenditure, income, capital requirements, income and balance sheet, break-even point, own funds) indicating the financial activities and administration.
- A staff plan (number of employees, post requirements).
- A summary of why the undertaking and the application for funds (financing) should succeed, with the necessary facts and substantiation.

I WANT TO BUY A BUSINESS

Be careful, an existing business entails many pitfalls for the novice or layperson. Generally, a low price seems like a good buy, but this can very quickly become a very expensive mistake. By the same token, a high price is no guarantee that the business will be a profitable one. Don't accept the seller's reasons for selling at face value. A seller (owner) is often under tremendous pressure to sell, hasn't enough managerial know-how or virtually no business experience.

If the most recent financial statements (consisting of income and balance sheet) are available, engage an accountant to check them for you. Failing this, financial statements should first be drawn up. (Consult N J Swart, *Personal Financial Management*, Cape Town: Juta for more information.)

NOW YOU NEED BUSINESS INSURANCE

Once you have started a business in the form of a partnership, close corporation or company, you must find out more about

- purchase and sales agreements
- business insurance
- insurance for key individuals

5 COOL DECISIONS FOR A COOL KID (HOW TO PLAN)

To know exactly how school leavers and young people should plan when the financial future is so uncertain is no simple matter, primarily because choices and decisions made in the present can only be proved right in five, ten or twenty years.

WHAT ARE THE CHALLENGES YOU FACE?

Today's young person faces a dual challenge. On the one hand, he or she must survive in the short term, in other words secure a job and earn an income. On the other hand, he or she must attain the long-term objective of financial planning, namely to be able to retire financially independent. From the job and the income investments must be made with a view to long-term capital growth and meeting this greater challenge.

THE PROBLEM WITH MANY PEOPLE IS THAT THEY ...

- don't know what they should plan
- don't know anything about personal finance
- were not taught these life skills at school (with a view to the future)
- want an unduly high standard of living after school

- want everything of the best immediately
- don't realise how their decisions at and after school affect their financial futures
- want to start off with an excessively expensive car
- rent an expensive property instead of buying their own affordable property as soon as possible
- don't have a book like this one to point them in the right direction

THE SOLUTION?

The solution is to be found in SYSTEMATIC, SUSTAINED PERSONAL FINANCIAL PLANNING, or FINANCIAL DISCIPLINE.

CRITICAL GUIDELINES FOR YOUR FINANCIAL FUTURE

- Learn about personal finances.
- Start planning systematically for the short, medium and long term.
- Buy your own home as soon as possible.
- Drive an older model car for as long as possible.
- Keep your standard of living low at first.
- Incur expenditure according to priorities.
- Plan according to your own budget.
- Invest from your very first salary.
- Aim at financial independence after retirement and NOT AFTER SCHOOL.

- Live with your parents for as long as possible.
- Make a valid will (see chapter 8).
- Take care to avoid an unplanned baby.
- Plan your own children's financial future, even if they are still at school.
- Become aware of all the factors that could affect personal financial decisions.
- Start your own business for a future South Africa as soon as possible (however, be careful of trade unions if your business is labour intensive).
- Draw up your antenuptial contract (ANC) as a purely financial agreement (see chapter 10).
- Adopt a 'waste not, want not' strategy. You will not need a great deal of money if you do not waste it.
- Incur debt judiciously.

Right reasons for incurring debt

- You are getting a real bargain – the same thing will be double the price the next day.
- The price of the item is rising so rapidly that it is not possible to save up for one.
- The current asset's repair and maintenance costs are too high – it would therefore be cheaper to replace it.

Wrong reasons for incurring debt

- Being convinced by a sales person or representative that you must buy something that you do not really need.
- Buying unnecessary expensive items simply in order to compete with other people or businesses.

- Buying that cannot be accommodated by your budget.
- Buying just to be in fashion.

Be aware of the disadvantages of credit/debt

- It is more expensive than cash because you pay interest.
- People are wrongly encouraged to buy what they don't need or cannot afford.
- Interest makes credit purchases very expensive and credit purchases require security.
- The availability of credit often results in impulse buying. This is often accompanied by additional expenses such as life and disability insurance.

Remember the difference between desires (what you would really like to have) and needs (what you really need).

Know how to handle a debt crisis. You may have to

- sell unused household articles, such as a bicycle or a refrigerator
- allow the service contract for the television to lapse or terminate the M-Net contract
- use one car to get to work
- sell the second car
- go to work by bus
- stop eating out
- buy fewer luxury food items
- discharge the domestic worker
- do the gardening yourself
- wash the car and clean the house yourself
- rent out outside rooms

- stop using the telephone, except when strictly necessary
- halve insurance premiums temporarily (keep the life and disability cover)
- drastically curtail social activities and sport
- sell your more expensive house or flat at a good price and buy a more reasonable home (without a swimming pool) closer to your business, the children's schools, etc

Know your domestic risks and make financial provision for certain contingencies, for example insure your car, house contents and home, if you own one, against theft, fire and political unrest, and insure your business share if you are your own boss.

6 DRIVE POOR BUT STAY WEALTHY (A CAR)

For a school leaver or newly-wed couple a car is no investment. In fact, it is not even an investment in middle age. For at least the first fifteen years after you have left school you should invest as little money as possible in a car. Many young people, and older people, spend too much money on various vehicles throughout their lives. This is a drain on retirement money.

- WHY DO SO MANY YOUNG PEOPLE HAVE SUCH EXPENSIVE CARS?

This is no mystery – a flashy new car makes you look good, especially in an affluent neighbourhood. People often buy four-wheel-drive vehicles as second vehicles to further impress and improve their competitive edge. Many people think you are what you drive – but nothing could be further from the truth.

Rather invest your money as soon as possible in property (a home) and pay off your bond as quickly as possible. The man down the road may be buying one beautiful car after another, but ten or fifteen years from now you will be buying ONE PROPERTY AFTER ANOTHER in just as quick succession. For twenty or thirty years what you drive will be less impressive, but your millions of rands' worth of property and other investments will make up for it. After many years your properties will start to look after you and allow you to buy expensive vehicles BECAUSE YOU CAN AFFORD THEM AND YOUR FINANCIAL FUTURE IS ALREADY ASSURED.

HOW TO FINANCE YOUR CAR

If you are one of the lucky ones you will be able to secure a personal loan from your parents, subject to their conditions. If this is not possible, approach a bank or building society for an overdraft facility. Perhaps your parents have a policy or some other security to cede (hand over) to the bank on your behalf until your car is paid off.

A more expensive method is to use a hire purchase agreement. According to this method you, the buyer, pay a 10% deposit after which you pay off the car over a period of up to 54 months. A hire purchase agreement is financed either directly (by the bank) or indirectly through the seller of the vehicle (the seller, in turn, enters into an agreement with the bank). With a direct transaction the agreement is concluded at the bank's premises. With an indirect transaction the agreement is concluded at the seller's premises. He or she then refers it to the bank by telephone, telex/fax or personally for assessment.

The buyer takes immediate possession of the car but the seller retains the right of ownership until the last instalment has been paid. The car therefore remains the seller's security should the buyer fail to meet his or her obligations. Always include credit life insurance in your hire purchase agreement so that the car debt will be paid in full in the event of your death. Remember that a seller may never sell you a car 'as is' with such an agreement.

You can also borrow money (with the necessary consent, of course) against your parents' mortgage bond, provided the monthly instalments are repaid at the current interest rate (that is to say with interest).

However, the last word on this subject is always:

DRIVE POOR BUT STAY WEALTHY!

7 CITY CHILDREN IN THE POUND SEATS (A HOME)

YOUR BEST INVESTMENT

Buying a home is the biggest investment in money terms that most people will make for much of their lives. It is certainly also the most important, because if you buy right you will be set for life and easily make a million more than the person who buys unwisely. Not everyone is in the privileged position of being able to buy well, for the following reasons, among others:

- They work in a small rural town with the result that their home will never be worth anything relative to a similar home in a city.
- They experience a lack of funds or have insufficient funds.
- They have no jobs and therefore no funds.
- They lack knowledge of the importance not only of driving poor and buying rich but of buying in the right place.

WHERE SHOULD I BUY?

Always buy in the best possible neighbourhood (in other words the wealthiest, most expensive area) you can afford. The smallest house in the best neighbourhood is always a better investment in the long term than a larger house in a poorer and cheaper neighbourhood. This is also true of townhouses. Remember the value of a townhouse that is situated between residential houses is always higher than one that is part of a group of hundreds of townhouses all located together. Even more important is:

BUY WHAT YOU CAN AFFORD!

THE DANGER OF RISING INTEREST RATES

Interest rates are the rates at which you pay for the mortgage bond for the purchase of a home. The price is paid in interest and this interest is expressed as a percentage, for example:

- For every R100 a home buyer borrows, R15 must be repaid in interest.
- The home buyer repays R115 per month to the supplier of the funds over a period of 20, 25 or 30 years (the mortgage term).
- The R15 represents interest at 15% per annum (15/100 × 100/1).

Say a person buys a house for R200 000. A mortgage bond for this amount is applied for. The buyer (mortgager) will have to repay a total in excess of R800 000 over a period of twenty years to the supplier of the funds (mortgagee). This R800 000 plus consists of the R200 000 mortgage loan and more than R600 000 in interest at a rate of 15% per annum – the mortgage interest rate or, simply, the interest rate.

The mortgage payment is the amount the buyer has to pay to the mortgagee every month. On R200 000 the monthly instalment at an interest rate of 15% per annum over a period of twenty years is therefore R2 633,58.

Should the interest rate rise to 20%, the new monthly payment would be R3 397,65, which may be too high or not affordable for the buyer. Therefore, bear rising interest rates in mind when you buy.

Many home owners have bought a home when the interest rate was at, say, 15%. The same people had to sell these homes within two years because they could not afford their monthly instalment at an interest rate higher than 20%.

SHOULDN'T I RATHER RENT?

Most certainly not! To rent for several years is extremely unwise and a clear sign of a lack of informed personal financial planning. Thousands of people who don't know any better and who rent other people's properties for years and in the process pay them off could have paid off their own homes within the same period. They could even have paid off more than one!

BUY A CHEAPER FIRST HOME

Remember, the price of property often rises more quickly than the rate at which you can save or invest for a deposit to put down on a home of your own.

BUY NOW ... IF NOT SOONER!

WHO CAN ADVISE ME ON MY CHOICE?

Your father, mother, friend or, if you are prepared to pay for it, a developer or a sworn valuer. Alternatively, another estate agent will be able to give a valuable opinion on the property. However, be sure to choose an estate agent who works with the kind of property you are buying. For example, if you are interested in buying a townhouse choose an agent who specialises in selling townhouses.

WHAT FEATURES INCREASE THE VALUE OF A HOME?

Apart from location, the following positive features increase the value:

- quality finishes
- a new house
- an older house without cracks
- a large number of different rooms even if they are smaller
- a veranda or a lapa
- an entertainment area with a swimming pool and thatched roof/tiled roof
- a neat garden with lots of plants
- brick instead of asbestos walls
- sunny rooms
- safety features of the house and the neighbourhood
- the proximity of schools, places of work, access roads, gyms, churches, entertainment spots, parks
- the absence of factories with noise, refuse dumps, industries that emit foul odours, lots of smoke or soot
- no servitude across the property/residence
- the absence of clay soil

- the possibility of enlarging the residence
- the distance to private schools

ALL THE COST ITEMS WHEN YOU BUY

There are many cost items of which first-time buyers, in particular, are unaware because they are never mentioned in the media. Some estate agents will not disclose these costs because they are afraid buyers will be put off and they will lose their commission.

The following is an example. Say you buy a two-bedroomed house for R150 000 with a bond of R150 000 at an interest rate of 18% per annum.

Let's look first at general cost items that are incurred, regardless of whether or not you use a bond.

A General cost items

- *Transfer duty:* Transfer duty is payable by the buyer if fixed property is bought. A natural person, in other words you, pays 1% transfer duty on the first R60 000 of the purchase price, 5% on the amount between R60 001 and R250 000 and 8% on an amount over R250 001. Juristic persons (close corporations, companies and trusts) pay 10% on the full purchase price. On R150 000 transfer duty amounts to R5 100 for a natural person and R15 000 for a juristic person.
- *Conveyancing fees:* These are paid on the transfer of property between persons. Conveyancing fees are determined according to tables that appear in the *Government Gazette*. On R150 000 they amount to R2 055 + VAT and constitute a fixed amount to be paid.
- *Occupational rent:* The buyer pays occupational rent if he or she occupies the property before the property is registered in his or her name. Where

the seller continues to live on the property after it has been registered in the buyer's name, the seller pays the buyer occupational rent.

- *Loss of interest on capital:* If you have to pay a deposit try to keep it in your own account for as long as possible so that you can earn the interest on the money. Otherwise the attorney or the agent or financial institution earns your interest.
- *Agent's commission:* The seller normally pays the agent's commission. The agency will determine the percentage of the commission, which ranges between 2% and 8% of the purchase price.
- *Municipal accounts:* The registered owner must pay this account up to and including the end of the month, even if the property was registered in the name of the buyer in the interim.
- *Valuation costs:* A buyer can elect to ask a sworn valuer to value the property. The costs are determined by the distance the valuer has to travel, whether or not a substantiated report must be drawn up, and a basic cost.
- *Moving costs:* These costs arise when furniture has to be transported over a relatively long distance. The costs are determined by the distance, the time of the month, storage and insurance on the load.
- *Telephone service connection costs:* The amount is determined by the type of telephone, the number of lines (different numbers) and their installation.
- *Water and electricity:* Most city or town councils require a deposit of about double the buyer's previous electricity account. No deposit is required for water.
- *Miscellaneous expenses:* Make allowance for expenses such as curtains, carpets and new furniture.
- *Additional improvements (optional):* The residence may need repainting or new carpets throughout.

B Cost items with a mortgage bond

Bonds are used in the majority of cases, and entail the following cost items:

- *Deposit:* A deposit of no more than 10% is normally required once the purchase contract has been signed. Keep the deposit in your own account until the property is registered in your name.
- *Mortgage payments:* A mortgage payment of R2 315 is payable over a period of twenty years at an interest rate of 18%.
- *Bond registration costs:* On R150 000 these are R1 710 plus VAT.
- *Inspection fees:* An inspection fee is payable to the valuer of the financial institution which is granting the bond and is debited against the bond; in other words it is added to the bond amount.
- *Interim interest:* The financial institution which grants the bond charges interest from the date the property is registered but the buyer pays the first instalment only at the end of the next month. In this way additional interest for the account of the buyer arises in the month of registration.
- *Home owner's insurance:* Buyers must insure their home contents against theft, fire and political unrest. Make sure that the home contents are insured for the full replacement value and guard against underinsuring.
- *Bond insurance:* The financial institution which grants the bond expects the buyer to insure the house against fire and political unrest by means of a life policy so that its security for the bond (the house) is safeguarded.
- *Cancellation costs:* If you cancel a previous bond with another financial institution you will have to pay an amount by way of a penalty for the cancellation.

What follows is an example of a form home buyers can complete to determine what their new home will cost them.

CHECK LIST FOR COST ITEMS WHEN YOU BUY A HOME

GENERAL COST ITEMS	
Transfer duty	- - - - - - - - - - - - - - - -
Conveyancing fees	- - - - - - - - - - - - - - - -
Occupational rent	- - - - - - - - - - - - - - - -
Loss of interest on capital	- - - - - - - - - - - - - - - -
Agent's commission	- - - - - - - - - - - - - - - -
Rates	- - - - - - - - - - - - - - - -
Valuation costs	- - - - - - - - - - - - - - - -
• Valuation	________________
• Costs for distance travelled	________________
Moving costs	- - - - - - - - - - - - - - - -
• Distance 0–100 km (21st to the 7th of the month)	________________
• Distance 0–100 km (7th to the 21st of the month)	________________
• Distance further than 100 km (7th to the 21st of the month)	________________
• Distance further than 100 km (21st to the 7th of the month)	________________
• Packing costs	________________
• Insurance costs	________________
• Storage costs	________________
Telephone connection costs	- - - - - - - - - - - - - - - -
• Installation for a single line	________________
• Rental for a single line	
– Protea telephone	________________
– Disa telephone	________________
– Erika telephone	________________

• Installation for an extension	
– The same telephone number	
– A different telephone number	
• Additional rental for an extension	
Water and electricity	
Miscellaneous expenditure	
• Carpets	
• Curtains	
• Furniture	
• Fittings	
• Garden services	
Additional improvements	
COST ITEMS WITH A BOND	
Deposit	
Cash (balance of purchase price not covered by the bond)	
Mortgage payment	
• Subsidy	
• Member's contribution	
Bond registration costs	
Stamp duty	
• Collateral bond	
• Additional property	
• Notarial bond	
Inspection fee (financial institution)	
Interim interest	
Levy commission in respect of first bond, second bond, collateral security (if applicable)	
Home owner's insurance policy	

Diminishing term life insurance policy	________________
Endowment insurance	________________
Cancellation costs of existing bond	________________
• Cancellation cost	________________
• Penalty (where applicable)	________________
• Additional bonds	________________
TOTAL	R________________

(For more information consult N J Swart, 1996, *Personal Financial Management*, Cape Town: Juta.)

YOUR PURCHASE CONTRACT

Read the contract before you sign it and ask an objective third party to explain anything you do not understand. The purchase contract is for the most part a standard document, certain clauses (sections or parts) of which are deleted. The buyer usually makes an offer to buy the property of the seller. Once the seller has signed this offer it becomes a legal purchase contract between the two parties. The buyer must know what is being bought and what conditions have to be met before the property can be registered in his or her name.

The purchase contract usually contains a suspensive condition which stipulates that the buyer must secure a bond for a certain amount within thirty days or the purchase contract becomes null and void.

The purchase contract is always a written contract in the case of fixed property and no verbal agreement has any force of law whatsoever.

Remember, your matrimonial property system (see chapter 10) will determine whether or not your spouse (if you are married) or the person you are living with (see chapter 12) has to sign the purchase contract too.

HOW DO I FINANCE THE PURCHASE?

First-time home buyers usually use a bond. Find out if your employer pays a housing subsidy and what you have to do (documentary proof you must provide) to qualify for one.

HOW DOES A MORTGAGE BOND WORK?

This type of loan, which is obtained from a financial institution, is called a mortgage bond. Other people or institutions also grant bonds but bonds are mostly secured from deposit-taking institutions, namely banks and building societies.

The term of the bond varies between 20, 25 and 30 years. The twenty-year term is the most common and is the recommended option. If someone borrows R100 000 on a mortgage loan, that person will repay more than R400 000 to the financial institution over a period of twenty years. Therefore, pay your bond off as quickly as possible and save a lot in interest. If, for example, you repaid R100 extra a month on your bond you would pay your bond off seven years faster and save thousands of rands in interest. Your payments rise and fall with the interest rate. Try to keep your payment the same at all times.

The Access type of bond gives you the option of using the portion of your bond that you have already repaid (say R20 000) by simply transferring it to your current account and withdrawing it at an automatic teller –

without having to apply specially to do so or discussing it with the financial institution beforehand.

WHAT SIZE OF BOND WILL I BE ABLE TO GET?

The bond you get is determined by the requirement that your mortgage payment may not exceed 30% of your and your spouse's gross monthly income. Therefore, calculate what 30% of your joint income is and compare it with the mortgage payment on the property you want to buy.

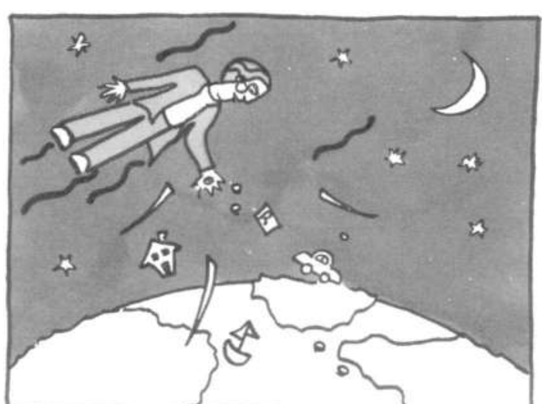
Remember, the bigger your deposit, the smaller your mortgage payments will be and the smaller the amount of interest you will be paying during the period of the bond.

YES, DRIVE POOR TO STAY WEALTHY!

8 MY POSSESSIONS AFTER MY DEATH ... (WILL)

WHAT IS A WILL?

A will, or testament, is a document which you draw up and in which you say what must happen to your possessions after your death. In it you say what person(s), juristic persons (close corporations or companies) and/or body/bodies must receive your possessions and in what proportion.



WHO MAY HAVE A WILL?

Every person of 16 years of age and older may have a valid will.

WHO SHOULD DRAW IT UP?

Any person or body may draw up your will. You may even do it yourself.

IT MUST MEET CERTAIN LEGAL REQUIREMENTS

The person whose will it is, that is the testator (man) or testatrix (woman), must sign each page in full. Two witnesses over the age of 14 years must sign the last page in full in the presence of the testator/testatrix. The testator/testatrix and the witnesses must acknowledge all alterations to the will by making their full signatures next to each alteration. No witness may be a beneficiary/heir under the will.

WHAT IS A CODICIL?

A codicil is a separate document which supplements and contains additions to an existing will. It is subject to the same legal requirements. Instead of making an entirely new will, you can effect alterations to your will in a codicil.

TYPES OF WILL

The ordinary will can be divided into three categories, namely an individual, a joint and a mutual will. A single individual records his or her wishes in an individual will. A joint will contains the wishes of more than one individual. A mutual will is a joint will (usually of two people) drawn up by individuals who intend to benefit one another reciprocally.

THE HEADING

It is important that the will should indicate whose will it is, for example whether it is an individual will or a joint will. The forenames, surnames and identity numbers of the testator(s)/testatrix(es) are required here.

- REVOKE PREVIOUS WILLS

All previous wills and codicils must be revoked if you are making a new will.

- HEIRS/BENEFICIARIES

Any person or body who is to benefit under the will of the testator/ testatrix in the future must be named. The will should also indicate precisely which beneficiary(ies) are to inherit which asset(s).

- APPOINT AN EXECUTOR

The executor is the person (father, mother, wife, friend or attorney) or body (bank, building society, insurance company) who must administer your estate after your death. 'Estate' means everything you own and 'administer' means how your possessions will be dealt with (passed by inheritance) after your death.

- WHAT IS THE POWER OF ASSUMPTION?

Normally an executor is appointed in a will. Executors are, however, not always (in fact, very seldom) able to administer the estate from a legal point of view, usually because they lack the necessary expertise. If the testator grants the executor the power of assumption in his will then the incompetent executor may appoint a professional person such as an attorney or financial institution to administer the estate on his or her behalf. The two executors now share the executor's fee in terms of a percentage division, as agreed between them.

- EXEMPT THE EXECUTOR FROM FURNISHING SECURITY

In fact, every executor is obliged to furnish security to the Master of the Supreme Court. This means that the executor must have sufficient assets or capital before the Master will permit him or her to administer the estate (wind up the estate according to the legal procedure). These assets or capital must therefore be approved by the Master beforehand. However, not all executors are wealthy enough to pass this test. Likewise, not everyone will be prepared to act as an executor if he or she has to undergo this kind of selection process. This is why it is important to exempt the executor from furnishing security to the Master.

- TRUSTS AND AN ADMINISTRATOR

A testator/testatrix nominates an administrator if his or her estate or a part of it must be put in a trust.

Important matters here include the following: the names of the trust, income and/or capital beneficiaries, the name of the administrator, names of trustees, the content of the trust deed and when and how the trust is to be terminated.

- LIST YOUR ASSETS AND LIABILITIES

It is especially important for the executor to know about all the assets and liabilities in the estate he or she must administer.

- SIMULTANEOUS DEATH

A will should make provision for different scenarios (possible situations or events). In the case of an individual will, alternative (in the event of death) beneficiaries, executors, administrators (if applicable), trustees and bodies should be named. Similarly, provision should be made against a husband and wife dying together and leaving behind a joint mutual will that no longer serves its purpose.

- GUARDIAN FOR MINOR CHILDREN

It is vital to appoint a guardian for minor children (any person under the age of 21 years) since the husband and wife may die at the same time.

The guardian of a minor child usually receives immovable (fixed) property and other property on behalf of the child. It is recommended that a trust be created for minor children.

- MAINTENANCE OF DEPENDANTS

Indicate how the needs of dependants should be met during the administration of the estate.

- INHERITANCES AND FUTURE MARRIAGES

The testator should exclude all inheritances from heirs' matrimonial property systems. This is very important in order to keep an estate in the hands of heirs for future generations. A child can marry into the most unsavoury family imaginable. Fortune hunters as relatives by marriage could mean that the child's spouse (husband or wife) could initiate a divorce and walk away with half of the testator's/testatrix's (and the child's or heir's) estate.

DEATH WITHOUT A VALID WILL

Should you die without a valid will, your property is passed by inheritance intestate, which means that individuals you do not like and whom you would never have made beneficiaries may inherit your property.

SEVERAL COPIES

Keep a number of original copies of your will in safekeeping at your house, with your parents or with an attorney.

9 I ONLY INVEST IN ... (INVESTMENTS)

- NEWSPAPERS AND MAGAZINES CONFUSE ME – WHAT SHOULD I DO?

Even if the media create the erroneous impression that it is imperative to invest in a different product every month or two or replace one investment with another, there are many investment strategies that will put you in a position to retire financially independent. No single investment is so important that it can replace all the other investment alternatives.

- YOU NEED SEVERAL INVESTMENT OPTIONS

Just as people's financial situations differ, so do their objectives and their personal financial needs. Investments must help you to achieve your objectives (meet your needs) in the short, medium and long term. Consequently, you must make a range of different investments.

HOW DO I COMPARE DIFFERENT INVESTMENTS?

You can use the following investment criteria to compare different investment alternatives (your specific need(s) will determine what criteria are important for your specific personal financial situation, risks and objectives):

- *Income:* A young person should invest for capital growth and not in an investment that generates a return.
- *Capital growth:* Choose investment options with capital growth (for example general unit trust funds and specialist funds, property and shares). Take as much of a risk as you can with your investments while you are young. This way you will be investing against inflation.
- *Safety of capital amount:* Capital should be relatively safe in the long term with most investments.
- *Flexibility:* This is a reference to the possibility of converting one investment into another quickly – not necessarily important at this stage (age).
- *Liquidity:* Very important. Unit trusts, for example, can be encashed within ten days, which is useful if you suddenly need money (emergency, vehicle breakdown, bargain on a car).
- *Taxability:* Choose an investment(s) with capital growth so that there is no income on which tax is payable.
- *Easy to manage:* Most investments are managed by experts (fund managers). Decide for yourself if you want to speculate with shares in your own time and on the basis of your acquired know-how (courses you can do).
- *Risk:* Take as much risk as possible with your investments (for example, choose the most risky unit trusts with up and coming growth companies).

- *Return:* Choose investments that generate the highest return after tax and after inflation.
- *Term:* Do not invest money for, say, five years when you are going to need it in a year's time.
- *Amount:* The amount you want to invest will determine what you should invest in, for example R50 per month or R50 000 as a lump sum.
- *Transaction costs:* Be aware of the costs associated with the buying and/or selling of investments.
- *Timing:* Long-term investments are handled differently from speculative investments (for example the buying and selling of shares). When it comes to speculation the timing of buying and selling is vital.
- *Diversification:* By making more than one kind of investment you spread your investment risk and bring down the average risk of all your investments.
- *Control:* If you are young, control over your investments has yet to become very important.
- *Know-how or managerial skills:* Very important if you want to speculate with shares or invest in a hotel or a holiday resort.
- *Inflation:* Invest to counteract inflation; make investments that have capital growth.
- *Investor's objectives:* Your objectives are always the most important consideration in choosing an investment.

WHAT INVESTMENTS SHOULD I START WITH?

Start with a life policy, a retirement annuity and unit trusts. If your funds permit, start with all three at the same time.

Life policy

Take out a life policy to cover domestic risks. In the event of your death, your parents could benefit, debts could be settled, or a spouse and children could benefit. You could also use the policy later for the purposes of bond insurance, business insurance and the estate duty which is payable on your estate if you die.

Retirement annuity

Invest in a retirement annuity and enjoy the tax benefits permitted by the law. An annuity is a series of payments or investments which are made in equal amounts.

A retirement annuity is a tax-efficient way of providing for your retirement. For every R100 invested in a retirement annuity you get R45 (45%) back from the Receiver. The investor therefore pays only R55 for every investment of R100.

If you already have a four-year post-school qualification take out a PPS annuity. The return on these is higher than with other annuities because of the lower risk involved for members. A PPS annuity is only for professional people with a four-year qualification and it is offered/ underwritten only by Sanlam. PPS stands for the Professional Provident Society of South Africa. A PPS annuity functions in much the same way as an ordinary retirement annuity, except that provision is also made for the following:

- the buying of shares
- disability cover
- membership of a medical aid fund

Between the ages of 55 and 70 years, the retirement annuity's option must be exercised, in other words

- the investor must take a third of his or her total investment and reinvest it, and
- the remaining two thirds must be used to buy a compulsory annuity

The compulsory annuity can be either a traditional annuity or a modern living/flexible annuity. A traditional annuity can be on the life of a single individual or on the lives of both spouses (husband and wife, for example). After the death of the single individual all further benefits lapse. In the event of a death with a joint annuity the surviving spouse earns an income until his or her death. Normally this income period does not exceed ten years. Where both persons are still living (after the option has been exercised) they must choose between different income combinations. Older people and people who smoke, for example, receive a higher income for a shorter life expectancy. On the other hand, women receive a lower income than men because of their longer life expectancy.

The two thirds (compulsory annuity) can also be invested in a living/flexible annuity. Under this system the investor can choose his or her own level of income on the basis of current needs, for example between 5% and 20% of the two-thirds capital amount. This choice is far more favourable for heirs because even after the death of the surviving spouse (in the case of two persons) the heirs

- either get the remaining funds over a five-year period, or
- may continue with the annuity in the same way as the original investor

Unit trusts

Unit trusts offer high capital growth (high tax-free returns) and can be encashed quickly because they are very liquid. This kind of investment can be used for a deposit on a home if you do not already have one.

Unit trusts allow the relatively small investor to invest indirectly on the Johannesburg Stock Exchange. Investments are made in the shares of companies – usually in those of about twenty companies at the same time. You can invest in unit trusts on a monthly basis.

There are three broad categories of unit trusts:

- general funds
- specialist funds
- income funds

The first two aim at capital growth while an income fund provides a retired person, for example, with a regular income. Young people should invest in the first two categories and never in income funds. Risk varies considerably from unit trust to unit trust and young people should invest in risky unit trusts with a view to long-term capital growth – for example, the unit trusts of up and coming (new) companies. It is also possible to invest in unit trusts with international interests – an international fund of one kind or another.

One of the newest kinds of unit trust is money market funds which provide investors with income and protect capital. Money market funds currently entail the lowest risk of all unit trusts.

Buying unit trusts involves a small initial deposit, for example R50 for some trusts. After this even smaller monthly amounts can be invested. You can buy unit trusts –

- by completing forms with a broker or organisation
- by completing newspaper and magazine advertisements
- by e-mail
- on the Internet
- by telephoning tollfree numbers and consulting client services
- at Computicket
- before long, at various shops

Unit trusts offer high capital growth – especially when the investment is kept for longer than three years – it should be kept as long as possible for capital growth (up to thirty years). Unit trusts protect the investor against inflation. They are also very liquid; in other words the total investment can be called up within ten days should the investor need the money urgently for some other purpose.

Some sources of information on unit trusts and their returns/results over different periods (1, 3, 5, 10, 15 years) are the following:

- books
- newspapers
- brokers
- banks
- insurance companies
- the Internet

Here are some Internet addresses:

- Bureau for Financial Analysis (UP) – http://www.bfa-net.com

- Brantom – http://www.brantom.co.za
- Stones – http://www.infostones.co.za
- Easyinfo – http://www.investment.co.za
- TMA – http://www.tma.co.za
- Guardbank – http://www.guardbank.com
- Norwich – http://www.norwich.co.za
- Plexus – http://www.plexus.co.za
- Old Mutual – http://www.oldmutual.com
- *Business Day* – http://www.bday.co.za
- *Financial Mail* – http://www.atd.co.za/fm
- *Finance Week* – http://africa.com/mags/finweek
- *Business Times* – http://www.btimes.co.za

You can also link an investment in unit trusts with a life policy, a retirement policy or a retirement annuity. This kind of product or investment is called a unit trust-linked investment.

Everyone's view of risk or his or her risk profile (a risk taker or a risk avoider) will largely determine what kind of unit trusts are invested in. Nonetheless, a younger person should make far more risky investments than, say, a middle-aged person.

WHAT OTHER POSSIBILITIES CAN I CONSIDER?

Money market funds

A money market fund is a unit trust that serves as a short-term investment instrument and functions to provide investors with a current income. South Africa is lagging far behind other countries when it comes to money market funds as investment instruments. The first money market fund was established in 1971 in the USA and ten years later another was established in France. In South Africa the small investor has never been able to invest directly in the money market because of the size of the minimum amount that had to be invested (R100 000). However, money market funds now offer investors the opportunity of applying the 'stokvel' principle and earning a high return on joint investments.

Why do we say 'joint investments'? A money market fund invests the joint investment (funds) of a large number of investors in the money market. The capital is safe (it is a low-risk investment) because the investments are in state and other public securities, treasury bills, debentures, bank deposits and other permissible money market instruments with a running time (investment period) not exceeding 12 months.

Money market funds are particularly suitable

- for individuals with a minimum of R2 000 to invest
- if you want a monthly investment income
- if you are looking for a risk-free investment
- if you want to invest a relatively large amount for a short period
- for those who want to create an emergency fund but want the investment to be available within a day
- where estate money must be invested temporarily
- if the object is complete liquidity (available immediately)

Money market funds versus unit trusts

Although certain unit trusts provide an income (for example income trusts) the primary object with most (other) unit trusts is capital growth. Money market funds are aimed at the protection of capital and at high income. Unit trusts invest in the shares of listed companies but money market funds invest in money market instruments. The risk entailed by money market funds is therefore much lower than that entailed by unit trusts. What is more, with unit trusts the investment term should be longer than three years, but with money market funds it can be as short as a day to 12 months long. The income from both is fully taxable. With unit trusts interest is paid every six months and with money market funds every month. Both are very liquid.

Money market funds versus fixed deposits

With money market funds the rates at which interest is earned fluctuate and with fixed deposits they are static. With money market funds the investment (excluding the minimum balance) can be obtained within a day, but fixed deposits can be obtained only after a fixed term. Money market funds are therefore more liquid. In the case of both the interest/ income is fully taxable. Interest rates are higher with money market funds than with fixed deposits. The risk is lower with money market funds than with fixed deposits.

Pros and cons of money market funds

The benefits of money market funds:

- Small investors can invest in them.
- The investment is very liquid.
- There is a higher return than with other short-term investments (for example fixed deposits) that generate an income.
- The competition they give rise to between financial institutions results in a better service.
- The investor's capital is very safe.

- They are suitable for risk avoiders, that is those who are afraid to take a risk.
- They generate a high income during conditions of inflation.
- No sales commission is payable.

However, they also entail a few disadvantages:

- No fixed return is guaranteed.
- There is no South African history/experience for potential investors in this investment instrument.
- The fund managers are still relatively inexperienced.

SHOULD I INVEST ABROAD?

Up to 1 July 1997 South Africans were able to make offshore investments only on a small scale, and mainly in only one of the following ways:

- a policy (insurance)
- unit trusts (about ten of them)
- shares
- a container (this calls for a larger amount – R25 000 to R150 000, depending on the number of joint investors)

A container is made of stainless steel and is used to transport food, motor cars, motor cycles, liquor, fluids and chemicals from country to country. An individual or a group of people can buy a container and lease it abroad to earn an income. The container is used with many other containers in a business which pays an income to investors. In this way investors earn an income on their investment abroad.

The primary reason that someone would consider investing abroad is to spread the risk entailed by investments between a number of countries. Many South Africans regard South Africa as a very risky place to invest (perhaps one of the most risky) and want to invest some of their money (or all of it) abroad. Unfortunately, the South African Reserve Bank does not permit individuals to take everything they own out of the country. This control over a person's possessions is called exchange control. This means that an individual may take only certain assets and/or amounts of money out of the country, irrespective of the reason for the visit abroad (holiday, research, permanent residence/emigration).

If you are considering an investment or investments abroad, the return on the investment (income such as interest or dividends) would not be the primary consideration. The investor's intention would be to lower the risk of all his or her investments being kept in one country (or the wrong country – a country whose currency is weak or has a low value relative to other countries) by transferring assets/investments to another, 'safer' country (for example one with less crime, a more stable or competent government, higher productivity and a lower population growth rate).

However, since 1 July 1997 it has been possible to invest abroad on a far larger scale. The Reserve Bank has initially (1997) allowed one to invest an amount of up to R200 000 abroad. Income earned on this investment may be left in that country. Income tax is payable on foreign income, though, just as with any other South African income.

Whereas before, South Africans could invest in only about 130 local unit trusts, now they can invest in more than 30 000 different unit trusts all over the world. It is now even possible to invest in property abroad, for example in farms.

In addition, individuals may open an overseas bank account either in that overseas country or in South Africa. One can also appoint a fund manager to make and manage foreign investments. However, it is by no means simple to make such investments or to choose a fund manager because the majority of South Africans are still very green when it comes to these matters. Therefore, anyone wishing to invest funds/assets abroad should use the utmost caution.

A further option would be to place overseas assets or investments in an overseas trust. Remember that your will should make provision for these overseas investments. These assets, investments or trust(s) should therefore be specified by you. We recommend that you make a separate (second) will for overseas investments. This will make it easier to wind up your estate (all your assets and liabilities) after your death (this process is called administration of estates).

The Reserve Bank has, however, imposed a prerequisite for foreign investments. Two forms must be completed by South African investors that stipulate that all income tax has been paid and nothing is outstanding.

Do not give money to just anybody to invest abroad for you. Do the necessary reading (research) yourself first and then talk to expert investors. Only then should you consider making a foreign investment.

OTHER GOOD INVESTMENTS FOR THE BEGINNER

- Buy a home. We have already referred in chapter 7 to the importance of a first home. This home should be bought as soon as possible because it makes far more sense to pay the money you would otherwise pay to a landlord (rental) towards your own home. We have also stressed the choice between a home and a car. It is far better to buy a more expensive home and, in any event, younger people should spend as little money as possible on cars.

A home offers capital growth (growth in value) and is paid off after twenty years. Then a second property can be bought or other needs met with the monthly instalment you no longer have to make. The home can also be used as security for a further mortgage or loan (for example an overdraft facility).

- Invest in your health and in good friends in every way. Remember, your health will always be your greatest asset. It should therefore be safeguarded more than any other asset you have. Your health or lack of it has a tremendous effect on your prosperity or your financial situation after retirement. Therefore look after your health by doing the following, inter alia:

  - eating and drinking right (watch what you eat/drink and how much you eat/drink)
  - exercising regularly
  - reducing your stress (learn how to say no and don't take on too much work)

- Friends and friendships have to be preserved throughout your life. After retirement there will be more time to spend with these special people. Therefore, quality friendships should be cultivated from an early age.

DO I NEED A BROKER?

You can consult various brokers and professional people for advice. Never regard a broker as a status symbol though.

HOW DO I CHOOSE A BROKER?

Choose a broker by looking at the following:

- publications (by or about them)
- their CVs in the field of personal finance
- references from other people
- their studies in the field of personal finance
- training
- professional qualifications
- proven performance in this field
- local and/or international awards

WATCH OUT FOR FLY-BY-NIGHTS –
CHOOSE AN EXPERT!

10 GETTING MARRIED – WHERE MUST I SIGN? (ANTENUPTIAL CONTRACT)

WHAT IS AN ANTENUPTIAL CONTRACT (ANC)?

Your antenuptial contract (ANC) is arguably one of the most important documents you will ever draw up.

The law requires that we marry according to a specific matrimonial property system (which we choose ourselves). This matrimonial property system is registered and set out in an antenuptial contract.

HOW IMPORTANT IS AN ANC ?

Your ANC will affect, in one way or another, every financial decision you make for the rest of your life (buying and/or selling assets, investments). It is the most significant and pivotal foundation of all your financial planning for the rest of your life.

WHO SHOULD DRAW IT UP?

It must be drawn up by an attorney. When a couple wish to marry they usually visit their nearest attorney, who is supposed to inform them in full about the financial implications of the various matrimonial property systems.

Unfortunately, this is seldom done, as is evident from the many court cases involving spouses who want to alter their marriage contracts because, for example, they were unaware that they could exclude the accrual system.

TYPES OF MATRIMONIAL PROPERTY SYSTEM

- People who want to marry can do so in community of property after which they share and own all their assets and liabilities equally (50/50 basis) for the rest of their married lives.
- You can also marry out of community of property excluding the accrual system. Under this system each spouse (husband or wife) always owns only his or her own assets and has his or her own liabilities. This system is recommended in the strongest terms because it rules out the many hidden problems attendant upon the accrual system.
- A third option is to marry out of community of property, with the accrual system.

The accrual system applies to all marriages solemnised after 1 November 1984. People who have yet to marry therefore have a choice. They can marry out of community of property including the accrual system (which happens automatically) or out of community of property excluding the accrual system (which they must stipulate expressly in their ANC). It is important for each marriage partner to list in the ANC the assets and liabilities that belong to him or her (exclusively) and that should be excluded from the accrual system.

Here are some examples of the pitfalls one can encounter:

- Mr A (who has a large estate) and Mrs B (who owns only a car) marry and include the accrual system. A month later Mrs B's lover comes to collect her and three months later the marriage ends in divorce. Mr A acquired a property worth R1 million on their honeymoon. Mrs B is now entitled to half of the accrual of their marriage, namely R500 000, and Mr A is obliged to pay it to her.
- Mr C (many assets) and Mrs D (no assets) marry under the accrual system. He lists his assets in their ANC and gives their value as R500 000. However, he doesn't use a sworn valuer. The actual value of the assets is R1 million. Mrs D is a fortune hunter and six months later they are divorced. The law says that Mrs D is now entitled to the R500 000 by which Mr C undervalued his assets, regardless of whether or not he was/is able to assess their value and of where he is to get the money. Remember that, according to law, ignorance of the law is no excuse.
- Mr E (few assets) and Mrs F (three farms worth about R200 000) marry inclusive of the accrual system. Mrs F dies and the farms are by this time worth R500 000. The law says that there has been a R300 000 (R500 000 less R200 000) growth in Mrs F's estate and that half of that

(R150 000) must be paid to Mr E. Unfortunately, the estate is not liquid enough (it does not have sufficient funds or cash) and all three farms have to be sold in very uncertain times for R150 000. Her legacies are therefore worthless and her two children inherit nothing.

In view of the many practical problems it entails, you are advised to evaluate the accrual system very carefully before you marry under it.

- BE CAREFUL OF CONTRACTING WITH YOUR EMOTIONS

The contents of your ANC have nothing to do with your love for one another (this is an idea that may have held true once but has been dispelled by the laws of the country and the divorce court). You can declare your love for one another in any number of other ways – including in your will(s).

Couples are generally asked to list their assets only if they intend marrying out of community of property (inclusive of the accrual system or otherwise). The legal consequences and financial implications in the event of the couple divorcing (at present one out of every two marriages ends in divorce) are never explained to them. Nor do the loving couple themselves want to think about such an eventuality because they will never get divorced – funny, everyone is certain of that much.

When a marriage does end in divorce, a settlement (as to the division of assets, etc) outside of court is virtually impossible. Love often turns into hate and sometimes one party tries to destroy the other financially. At this point it is too late for reasonableness in the negotiations between the parties (husband and wife).

- YOUR PARENTS COULD LOSE 'EVERYTHING' IN THE EVENT OF YOUR DIVORCE

Parents do not always realise that their assets could be at stake when their children get divorced. For example, a father gives a building complex to his son and daughter-in-law.

The complex consists of a residential unit (for the parents) with an adjoining shop. They agree (verbally) that the father and mother have the residential unit (they may live there until they die) and life rights to usufruct on the shop that is being leased (they may live off the rental income). This is all the pension the parents have.

The son gets divorced five years later. He was married out of community of property inclusive of the accrual system. The former daughter-in-law decides to claim her share – among other things half of those buildings! The father and mother have to move without their pension because the complex has to be sold in order to give the daughter-in-law half of the proceeds.

An ANC can provide for all such cases.

- BEAR THE POSSIBILITY OF DIVORCE IN MIND IN A PURELY FINANCIAL AGREEMENT

What follows are a few examples of matters that should be addressed in such a contract (with a view to subsequent divorce):

- A list should be made of each party's possessions (mainly fixed assets, vehicles and furniture) with an indication of their market value, as determined by a sworn valuer.

- For marriages concluded in community of property, who is to retain what property in the event of a divorce, what is to be sold and how the proceeds are to be divided should be worked out beforehand.
- You are advised to stipulate in your ANC that all future inheritances (be they assets or income earned on assets or investments) should be excluded when it comes to dividing assets. Also stipulate that no income that is inherited in one way or another may be taken into account for determining maintenance.
- Parents should make similar stipulations in their wills regarding inheritances that may come to their children.
- After divorce a woman is no longer a dependant as far as medical aid funds are concerned. Therefore, stipulate in the ANC that in such an event the woman will not be able to remain on the man's medical aid fund. This can expose the man to many unreasonable costs. Children remain members of such a fund automatically. Also stipulate that the man will contribute only to reasonable additional medical expenses if he is able to do so.
- Determine how custody of the children will be arranged. Choose free access during the week (with the necessary arrangements), access every second weekend and alternate short and long holidays. This prevents a situation in which the children are used as emotional footballs after a divorce.
- No party should be entitled to any investment of the other party, even if it is ostensibly to be used for the children's education. The children should also not be entitled to any investment. A clause to this effect should be inserted.
- Possible claims for future maintenance should be dealt with at this early stage. Be careful of the R1 clause (which women's attorneys are inclined to ask for) which can be increased after a divorce to hundreds and even

thousands of rands. Stipulate that a reasonable amount will be paid for the maintenance of the children. This maintenance should be indicated as a percentage of the man's net income. Also indicate how this net income will be calculated and stipulate further that the two parties will share equally the reasonable costs for the maintenance of the children.

- Stipulate that the legal costs will be shared equally if a settlement is reached outside court within thirty days or that the party who institutes divorce proceedings will have to pay all the legal costs. Otherwise one party may refuse to pay any legal costs or push up the costs in an unreasonable manner by making sure there are protracted and costly court cases during the divorce process.
- Often money is borrowed from parents for a specific project. It is important to stipulate how such an amount (for example for a housing bond) will be repaid because if, after a divorce, one party flatly refuses to pay his or her share, this can leave the other party with a substantial financial burden.
- Also stipulate that where fixed property is owned jointly the party who did not help to repay the mortgage bond will be responsible for repaying half of what has already been paid. This would be when that party has not contributed to the household in any other way (financially or otherwise).

11 BABY JEAN'S FUTURE (CHILDREN)

For any parent today his or her children's financial future is sure to be one of the greatest uncertainties in his or her life. This is as true of parents in disadvantaged communities as it is of those who now face affirmative action. Parents' household budgets are being stretched to their limits as they try to invest in their children's education, at school and afterwards.

HOW MANY CHILDREN SHOULD WE HAVE?

Unplanned births or too many births can completely destroy the parents' financial future. With planned babies, parents have usually taken the far-reaching financial implications of such a step into account. When you start planning your family (before the birth and even before conception) you should already be investing in unit trusts. This way, that money can grow until funds are needed, for example after the birth.

OUR BABY HAS ARRIVED

Unit trusts can now be sold to help cover costs. You will be able to get the money within fourteen days. Continue investing in unit trusts, especially with a view to the baby's long-term capital needs, for example studies, a car and/or marriage.

SCHOOLDAYS

The choice of the right school can have positive financial consequences for the parent and the child. Choose a school that promotes and teaches entrepreneurship, personal financial planning or management and other life skills. Lots of millionaires in the making have begun to emerge with this kind of grounding.

EDUCATION AT HOME

Children should be involved as early as possible in the family's financial matters such as planning, budgeting and investments (as soon as they can understand). Parents have a responsibility to inculcate financial discipline in their children. A child can even start to manage his or her own unit trust portfolio (give it the name of a pet). An investment mentality should be cultivated and developed in children. Children can even start to play with shares if they are interested. Of course, the starting point is a junior savings account with a card that can be used at an automatic teller.

Make a point of involving children in the household budget and in budgeting for their own activities. Teach them that expenses cannot simply be incurred without limit because all debt has to be repaid. Teach them the difference between desires and needs and that the world does not owe them a living, that they will not be starting off with every conceivable luxury when they grow up – in fact, they should not even try to do so – and that they should start planning early for their own children's future.

Encourage children to read and study books, magazines and articles about personal money matters.

I HAVE A DISABLED CHILD

Provide in your will for your children's financial needs (remember chapter 8 on wills).

ESTATE PLANNING

Since 1 March 1996 parents with physically and mentally disabled children have been entitled to certain income tax deductions for medical expenses. Except for an annual amount of R500, all medical expenses of households with disabled children are tax deductible. Where a disabled child is on the medical aid of a divorced parent, that parent will be able to claim this medical deduction.

WHAT INVESTMENTS SHOULD I CHOOSE?

In the first place make sure about a medical aid fund, supplemented by a hospital plan (where you do not lose your premiums), disability insurance, a life policy, unit trusts, possibly a study plan from your employer, an Access-type bond, and the different study packages that are offered by financial institutions.

YOUR CHILD'S ANTENUPTIAL CONTRACT (ANC)

See chapter 10.

THE RESPONSIBILITY IS YOURS

Remember, you as a parent are responsible for your child's financial future, at least until the age of 21 years. If you do not adopt the strategies indicated here, your child's financial problems will be your problems for far longer than that. This could mean the failure of your own future and retirement plans.

HELP YOUR CHILD TO BECOME FINANCIALLY INDEPENDENT.

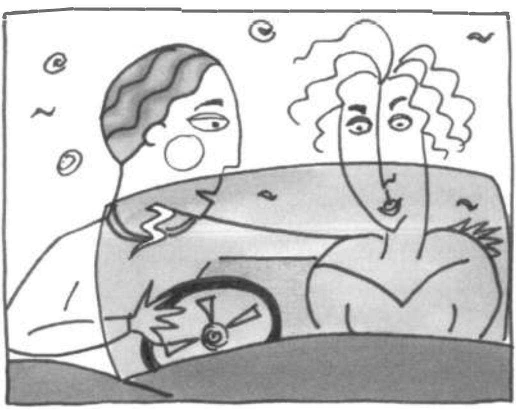
12 MARRIAGE IS NOT FOR US (LIVING TOGETHER)

WHAT DOES LIVING TOGETHER MEAN?

You are cohabiting if you live with someone in the same home without being legally married. Two people who live together can be of the same or the opposite sex.

NO PROTECTION FROM THE LAW

The law offers little if any protection to people who live together, unless children are born of such a relationship. The law regards marriage as the institution that forms the basis of family life and the State. This is why so many legal requirements have been created to prevent confusion when a marriage is dissolved. Very few cohabitation relationships end in marriage and this kind of relationship fails even more frequently than marriage does. Therefore, living together can never



be regarded as a trial marriage primarily because it never involves total commitment.

WATCH OUT FOR FINANCIAL PITFALLS

Many hidden financial problems arise when people who have lived together decide to separate. Here are a few:

- The wealthy partner gives the other party a new car but keeps it registered in his or her name. The other party is so impressed by this that he or she hands over all his or her income to the first partner for investment in a bright future together. The wealthy partner again makes all the investments in his or her own name. When the relationship ends one party has all the assets.
- Two homosexual men decide to share a flat. One pays the rent, water and electricity and buys the food. The other buys furniture and a car in his own name. Were this relationship to end, the party who was virtually supported by the other would, in addition, be entitled to the furniture and the car.
- A man and a woman who live together buy furniture using the man's cheque account, but the woman contributes her share. The man incurs too much debt and is declared insolvent. The furniture that was actually bought jointly is now attached. The woman would be able to retain her share of the furniture only if she could prove that she paid for it, which could be difficult in circumstances such as these.
- After Dave and Linda have lived together for forty years Dave dies of cancer. Over the years he and Linda have bought a lot of expensive furniture, have paid for it together, but everything was bought in Dave's name. Unfortunately, he dies intestate. Linda gets none of their furniture – his estranged brother (the only surviving relative) inherits

all Dave's possessions. However unfair it may seem, the law does not protect Linda at all.

- Danie and Marinda live together and plan to buy a flat together registered in both their names. They apply for a bond to finance their purchase. Building societies and banks do grant loans to people who live together. However, both must have an income and the instalment that is paid monthly may not exceed 30% of their joint income. They decide to end their relationship. Danie suggests they sell the flat but Marinda does not want to.

  Danie tries to sell his share in the flat to Marinda, but she refuses to buy. Danie offers to buy Marinda's share, but again she refuses. Without a cohabitation agreement Danie cannot force Marinda to accept any of his proposals. Both are entitled to live in the flat and the situation becomes unbearable. If Danie had bought the flat in his own name Marinda would have had to leave the property in the absence of a written agreement between the two. She would not have been entitled to even a single month's accommodation.

- Jack and Jenny live together. He works and she does not. He dies in an accident at work and Jenny applies for unemployment insurance benefits (benefits to which certain unemployed persons are entitled). However, Jack is still married to another woman. This woman therefore receives these benefits and not Jenny.

AND BABY MAKES THREE

A serious problem arises when a child is born of a relationship such as this and the relationship is terminated. Roman Dutch law held that a father who did not legitimise his child by marrying the mother should be punished – the man was therefore obliged to pay maintenance but he was not entitled to see his own child. This is his lot, regardless of whether or not it was the woman who did not want to get married.

Where married people divorce, the father is entitled to manage the child's assets and investments and to represent the child in legal proceedings (court cases). A father who lives with the mother is not entitled to these things, although the mother is.

Even if the father acknowledges that the child is his and registers it in his name he still does not acquire a single right. A child born of a cohabitation arrangement gets the mother's surname. Even if the mother and father draw up a cohabitation agreement this situation remains unchanged.

DRAW UP A COHABITATION AGREEMENT

The only practical way of preventing most of the above problems is a cohabitation agreement. This must be a purely financial agreement between the two parties. Particularly important to include in the agreement are the following matters:

- which expenses will be shared and in what proportion
- how this will be paid for (from a joint account or separate accounts)
- the keeping of separate savings accounts
- how investments will be made and in whose name (separate accounts in own names are recommended)
- how the assets will be divided if the relationship is terminated
- how an interest in a joint business (if applicable) will be dealt with (also in the event of the relationship ending)
- whether maintenance will be paid after separation

- what rights and obligations will issue from ownership of a home during and after the relationship
- how a lease contract will be managed during the relationship (for example, will it be done in both names), in the event of death (would one party be able to take over the lease) and after separation
- how property will be bought (jointly, separately)
- how joint assets will be divided if the relationship is terminated

13 YOU AND THE TAX MAN (INCOME TAX)

WHEN AND HOW MUCH DO I HAVE TO PAY?

People with a very low income pay no income tax at all. Everyone with an income above a certain level must pay tax to the State. The art is to pay as little tax as possible and to this end you can employ legal and illegal strategies. If you pay less tax legally this is known as *tax avoidance*. Any illegal method is known as *tax evasion* (which is punishable by law).

Examples of tax avoidance (legal) include the following:

- taking advantage of the tax exemptions permitted by law
- deducting contributions to annuities from tax (up to certain limits)
- deducting legal rebates from your taxable income
- deducting expenses from tax that you incurred while earning an income

Examples of tax evasion (illegal) include: indicating your income as too low; not declaring certain income; and deducting too many expenses or non-existent expenses.

Income tax is payable only if you receive an income (salary, bonus, pension, etc) and not if you make a capital gain. Examples of capital gains are when you make a profit on your car or your property when you sell it. However, if you are a car dealer or sell property for a living you are obliged to pay tax on that profit.

Every individual who is liable to pay tax must complete an income tax form every year and submit it to the tax office. This form must be completed correctly so that you do not pay too much tax. The amount a person has to pay in tax is calculated as follows:

- *Gross income* (all income, bonuses, benefits for the tax year in question):

  Less: Exempted income (capital gain, disability benefits, bursaries, educational awards)

  Less: Permissible deductions (for example, where people work for themselves, rental of building, salaries and employees)

- *Taxable income* is calculated by deducting all exempted income and permissible deductions from the gross income.
- *Tax scales:* Tax is calculated according to tables linking certain amounts with certain percentages of tax.
- *Tax rebates:* Certain further deductions can be made, for example on the basis of whether or not you have dependants, and your age.

- *Tax liability:* Once any rebates have been deducted from the taxable amount according to the taxable income and the tables, you have your liability for tax. This amount must be paid to the Receiver of Revenue – however painful this might be!

RENDER UNTO CAESAR WHAT IS CAESAR'S, AND NOT A PENNY MORE!