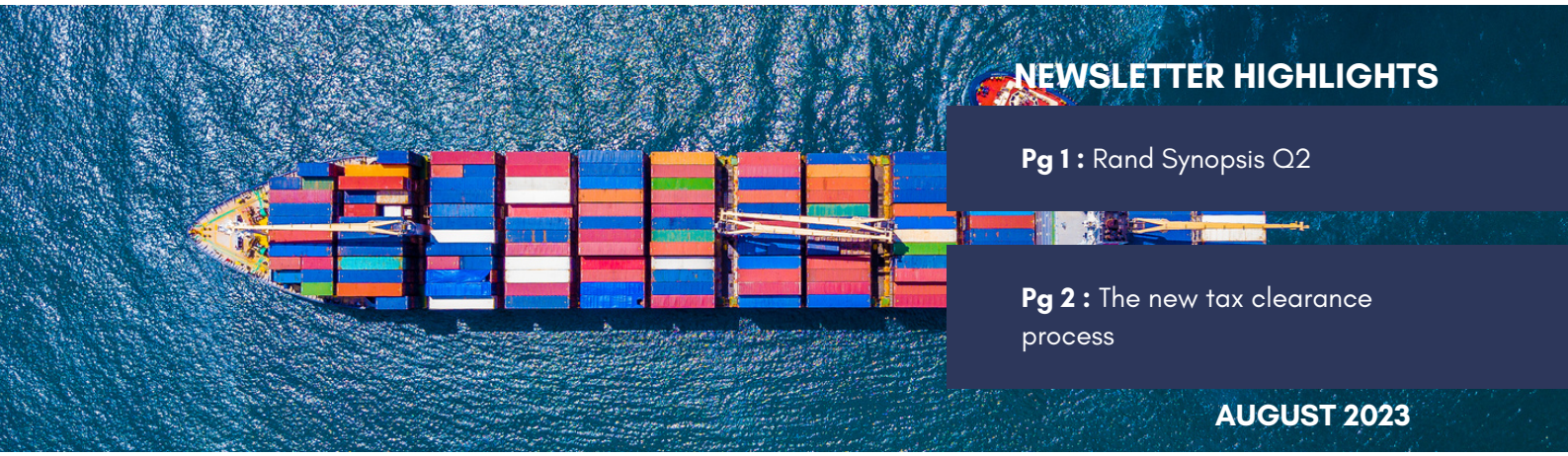
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NEWSLETTER HIGHLIGHTS

Pg 1 : Rand Synopsis Q2

Pg 2 : The new tax clearance process

AUGUST 2023

IFA NEWS

RAND SYNOPSIS Q2

Dear Merchant West client,

We have seen volatility continue during the past three months as we have experienced since the onslaught of the COVID-19 pandemic 3 years ago. That said, we are seeing a light at the end of the tunnel. The global elephant in the room called inflation seems to be on a decline and central banks, although still extremely hawkish, might be calling an end to the current interest rate cycle. This is good news for the global economy and global markets.

During the past week, we have witnessed globally the following fundamental changes that will have an influence on global markets and more importantly, the ZAR exchange rate:

- The US Inflation fell to a rate of 3% on a year-on-year basis in June – lower than expected. This has been the slowest rate since March 2021 and a sign that the interest rate rises that the Federal Reserve has implemented are influencing consumer behaviour and price pressures. This was the 12th consecutive decline, and vastly lower than the inflation rate of June 2022 of 9.1%. This could be an early indication that we are nearing the end of the rising interest rate cycle and could lead to a weakened US Dollar. In South Africa, the inflation rate also cooled to 5.4%, which is within the Reserve Bank's target rate of 3% to 6%.
- We have seen the geo-political tension all over the globe remain, and in some instances increase. It is sometimes difficult to keep up with all the global conflicts, but to summarise just a few:
    - With summer in the northern hemisphere, the Russian invasion of Ukraine is much more active, and it seems that the Ukrainian counteroffensive is at a snail's pace. This conflict also has global geo-political ramifications, as we have witnessed in South Africa with the upcoming BRICS summit being held in South Africa.
    - The political and economical tension between the US and China seems to be at an all-time high, with both countries seeming to have quite a lot of military equipment in the South China Sea. There is also the economic sanctioning of each other's products, especially high-tech semiconductors.
    - North Korea keeps firing missiles into the sea, with some of the missiles falling into the Sea of Japan.
    - Iran seems to be "hijacking" oil tankers and ships in the Persian Gulf.
    - Then there are various regional and internal conflicts all around the World, like the civil war in Sudan, and the march of the Wagner Group on Moscow in Russia.

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As you can see from the above list, it has not been since the Cold War where there has been such a huge amount of global tension. These tensions will have an economic impact on prices and exchange rates. This week, Russia withdrew from the Black Sea grain agreement, which saw the price of wheat rise by 9%. This will have an impact on global food prices.

- The International Monetary Fund has recently upgraded the Global growth forecast to 3%. Even South Africa's growth forecast was increased to a low 0.3%, up from a meagre 0.1%.
- On the Interest rate increases, the Federal Reserve increased the interest rate by 0.25% during their meeting in July. As stated, the expectation is that we have approached the end of the interest hiking cycle. This could bode very well for the global economy. On the South African front, the Reserve Bank has kept interest rates unchanged, which will give the consumer some necessary reprieve.
- The prices of commodities have declined during the past 6 months, driven by declining demand globally, especially from China. The price of coal and platinum especially decreased quite significantly.

When looking at the above, it is very clear that there is a glimmer of light appearing on the horizon for the global economy. There is a significant amount of risk that populates the current environment, and the future outlook can change extremely quickly, but we are seeing some improvement in the future outlook during the past quarter. It seems Central Banks around the world are getting a grip on inflation, and we are seeing interest rates easing into the medium future. This should all bode well for the South African Rand. With the cost of capital in the medium and long term expected to slowly decline, investors will have a more palatable take on higher risk, which should add value to the emerging markets' currencies. And although the local and global political risk is high, we see the ZAR trading between R17,00 and R17.50 against the US$ in the near future. This view has been backed up lately by a report from Goldman Sachs that predicted that the ZAR will trade at R14 to the US$ during 2026.

Irrespective of what the expectation is, the outcome can be very different! It is always extremely difficult to predict the future exchange rate of the currency, which is the reason why it will always be strongly advisable to have a hedging strategy and a long term view. Merchant West Incompass can always help you with advice and strategy in this regard.

Happy investing!



Nico le Roux
Managing Director – Merchant West Incompass

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THE NEW TAX CLEARANCE PROCESS

The April 2023 announcement by SARS certainly caused some reaction in the financial advisory community and the wider press at large. Some factual, some misleading and some scaremongering.

Below we look at the impact of the new process and some of its implications.

What happened?

SARS introduced a new enhanced Tax Compliance Status (TCS) application process to facilitate the consolidation of the Foreign Investment Allowance (FIA) and Emigration TCS applications. Therefore, instead of two processes, they have now been combined into a single application known as "Approval of International Transfer" (AIT).

Background

- The changes come from SARS, and not the South African Reserve bank. We have seen some media commentary from industry players stating that this is "tightening of exchange control regulations" and it is important to stress that these are not changes to exchange control, which is the responsibility of the South African Reserve Bank, but rather stricter oversight from SARS.
- The South African Revenue Service has stated for a long time that it will be tightening the monitoring and oversight of wealthy and high net worth South Africans. SARS has also long stated that it seeks to ensure all who should pay tax do pay tax, and the amount of tax they pay is in line with what they should be paying. The new SARS requirements can be seen as part of this movement with a 'beefed up' process for those sending large sums abroad. We talk about these new requirements below.
- The result of the new process is very clear - it will become more difficult to transact in the future if your tax affairs are not up to date. The transfer of money out of South Africa will, with the new process, not be restricted to the individual's direct holdings but also include the compliance monitoring of the tax affairs of all connected organisations - for example: companies that are fully or part owned, as well as trusts of which the applicant is a beneficiary or trustee.

When did it take effect?

It became effective immediately on the 24 April 2023.

Points to note:

- Residents can still transfer up to ZAR 1,000,000 per year without any form of tax clearance.
- SARS has for a long time been intrinsically involved in transfers over ZAR 1,000,000, nothing has changed in this respect other than a tightening up on the process.
- Applications have now been streamlined into the one process - Approval of International Transfer.
- The first important question to be considered is whether the individual making the transfer abroad is resident or non-resident - the two are treated very differently.
- Some further information is now required, mainly:
- Are you a beneficiary of a trust (local or foreign)?
- Do you have a shareholding directly/indirectly in any legal entity (local or foreign) of 20% or more?
- Do you have any existing loan(s) to a trust (local or foreign)?

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Tax compliance, FICA and Common Reporting Standards - Greylisting

FICA - We are all aware of the need to FICA an entity or individual. Long gone are the days where money could be hidden through invisible entities, false names and numbered accounts - FICA is all about getting to the identity of the ultimate beneficial owner.

CRS - CRS refers to the automatic exchange of information and came into being in 2014. See https://www.sars.gov.za/businesses-and-employers/third-party-data-submission-platform/automatic-exchange-of-information/how-does-crs-reporting-work/ for a refresher if needed. The aim of CRS is designed to prevent offshore tax evasion. It gives participating countries transparency on the financial assets held offshore by their residents. CRS requires financial institutions to identify customer tax residencies and report financial accounts held directly or indirectly by foreign tax residents to local tax authorities. In certain cases, this also extends to so called "controlling persons"- the (deemed) ultimate beneficial owners. CRS also requires tax authorities in participating countries (of which South Africa is one) to exchange this information.

Greylisting - It can also be viewed that in light of South Africa's greylisting, and the need to improve disclosures around the ultimate beneficial owner (UBO's) of structures, there is an increased requirement in terms of disclosures.

Taking all of the above into account, it becomes very obvious that those who do not comply with tax laws are seeing the net tightening around them - both locally and internationally.

Conclusion

The process is now more streamlined and although some delays may be expected whilst it the the new process settles in, one hopes to see improved turnaround times. For taxpayers who comply with the law, there is nothing to fear (albeit slightly more paperwork). As far as a tightening of exchange control regulations, this is simply not true - it's more a case of SARS not letting you transfer funds out of South Africa unless you are a taxpayer of good standing and not hiding assets from authorities.

Guidance

If you need more guidance on the specific process for obtaining the new AIT or have any other queries around transferring funds out of South Africa, please do not hesitate to contact your local consultant.



Christo Rust
Senior Direct Consultant

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