DIVIDENDS TAX FORM

SUMMARY

CORONATION

TRUST IS EARNED™

DIVIDENDS TAX (DT)

The fundamental change in the way that dividends are taxed from 1 April 2012 is that DT is levied on the shareholders (or beneficial owners) receiving the dividend; where secondary tax on companies (STC) used to be levied on the company declaring the dividend. To simplify administration, institutions such as Coronation, in its capacity as Regulated Intermediary, has been appointed as withholding agent of the new tax by SARS. The DT rate to be deducted is currently 20%.

WHO WILL DEFINITELY BE TAXED?

Coronation unit trust funds

- Natural persons and trusts (please refer to the section entitled "Are trusts taxable or exempt" below)
- Non-resident natural persons (if residing in countries where the Double Taxation Agreement between South Africa and the non-resident's country does not reduce the DT rate of 20% - countries such as Australia, Canada, Germany, New Zealand, Switzerland and the US – to name but a few). Any dividends from a foreign company listed on the JSE will however not be taxed for non-residents.

Coronation endowments

- Investors in the individual policy holder fund, ie Coronation Endowment Fund – Individuals*

Both sets of investors will however not be affected too much by the switch to DT. Companies declaring dividends are expected to 'gross up' dividends declared with the amount that would previously have been paid as STC, meaning that the value of investors' receipt will not be affected materially by the change from STC to DT.

WHO WILL DEFINITELY BE EXEMPT?

Coronation unit trust funds

Please note that exemptions will only apply if the necessary declarations confirming the exempt status of the beneficial owners are timeously received by Coronation Management Company (RF) (Pty) Ltd ("Coronation").

- Pension fund, pension preservation fund, provident fund, provident preservation fund, retirement annuity or beneficiary fund
- Medical aid funds
- Approved public benefit organizations
- South African resident companies
- The dividends of a foreign company listed on the JSE will be exempt from DT if held by a non-resident

Coronation endowments

- Investors in the corporate policy holder fund, i.e. Coronation Endowment Fund – Companies*
- Investors in the untaxed policy holder fund, i.e. Coronation Endowment Fund – Untaxed

Coronation pre- and post-retirement funds

- Retirement Annuity Fund
- Preservation Funds
- Living Annuity Fund

WHO MAY QUALIFY FOR A REDUCED TAX RATE?

South Africa currently has 70 DTAs in force (as at 21 June 2012) and this DT summary only refers to some of the treaty countries that are dealt with more regularly in practice. This summary should not be used as a comprehensive analysis in respect of all countries with which South Africa has DTAs. It remains advisable for each investor to seek specific advice on their own circumstances. The reduced rate can only be applied to the extent that the necessary declaration forms are received timeously by CMC.

Coronation unit trust funds

- Non-resident natural persons (if residing in countries where the double taxation agreement between South Africa and the non-resident's country states a rate of 0% - countries such as Cyprus, Kuwait and Oman – this results in zero DT being deducted)**
- Non-resident companies (if residing in countries where the double taxation agreement between South Africa and the non-resident's country states a rate of 0% results in zero DT being deducted)
- Non-resident natural persons (if residing in countries where the double taxation agreement between South Africa and the non-resident's country states a rate less than 20% - countries such as China, Croatia, Nigeria, India, Malta, Mexico, Netherlands)
- Non-resident companies (if residing in countries where the double taxation agreement between South Africa and the non-resident's country states a rate less than 20% where the company has a minimum holding, generally 10% and 25%, in the share capital or voting power - countries such as Botswana, Namibia, Canada, China, Germany, Netherlands, New Zealand, Switzerland, and the US – to name but a few)

Coronation endowments

None

ARE TRUSTS TAXABLE OR EXEMPT?

In general, payments of dividends to trusts will be subject to DT and the company paying the dividend (or the regulated intermediary) will withhold the DT from the dividend payable to the trust.
However, it is necessary to ascertain whether the beneficiaries of the trust have vested rights to the dividend income accruing to a vesting or bewind trust, or whether the trustees have exercised their discretion to distribute the dividends of a discretionary trust to the beneficiaries. If the beneficiaries are the beneficial owners of the dividends, then the beneficial owners of the trust income may qualify for the exemptions and/or reductions (as set out in the lists above). If for example the beneficiary has rights to the dividends and is a company, then an exemption could apply, whilst if it is a natural person, the 15% DT could be applicable.

DOCUMENTATION REQUIRED

Exempt investors, or investors who qualify for a reduced rate of tax, need to complete a prescribed declaration form to enable Coronation to pay their full or partial dividend proceeds to them. If the declarations are not completed in time, Coronation will be obliged to deduct DT.

Beneficial owners of dividends who are residents in the UK, Switzerland, Netherlands or Germany also need to submit an additional form (IT24, IT25, IT26 or IT27) to the South African Revenue Service ('SARS'). These forms pose various questions related to the affairs of the taxpayer but most importantly require that the foreign tax authority certify that the taxpayer is a tax resident of that country.

Investors will then have three years to complete their paperwork and claim back the tax.

Note that Coronation only requires exempt or reduced rate declarations for affected unit trust discretionary investors. For clients invested in our pre- and post-retirement funds or endowments, no action is required. Please click here for the DT Exemption or Reduced Rate Declaration Forms. DT will be deducted as part of the process of distributing income to investors. The first relevant point where DT was payable in the case of the Coronation range of products was 2 July 2012 for funds distributing quarterly rather than bi-annually (e.g. Coronation Strategic Income and Coronation Capital Plus).

Should you be unsure of your tax status regarding the new DT, please contact your financial adviser or tax consultant. For any other DT queries, please contact Coronation Client Service on 0800 22 11 77.

*It is very important that trusts are invested in the correct endowment type (determined by the nature of the beneficiaries) in order to ensure they are treated correctly for purposes of DT. Investors in the individual policyholder fund are only entitled to endowment benefits and will thus only be indirectly (i.e. via the insurance company) subject to DT on dividends received by the IPF.

**Please note that the DTAs with Cyprus, Kuwait and Oman are currently in the process of being renegotiated and it is expected that the 0% DT rate may be increased in future.