

FUND OF HEDGE FUNDS DIVIDEND WITHHOLDING TAX SUMMARY

Novare CIS (RF) (Pty) Ltd | Registration Number: 2013/191159/07 | SARS Registration Number: 9649/248/16/9

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DIVIDEND WITHHOLDING TAX (DWT)

The fundamental change in the way that dividends will be taxed from 1 April 2012 is that DWT will be 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 Novare CIS (RF) (Pty) Ltd "Novare" in its capacity as Regulated Intermediary has been appointed as withholding agent of the new tax by SARS. The DWT rate to be deducted is currently 15%.

WHO WILL DEFINITELY BE TAXED?

Novare unit trust funds, including retail investor hedge funds and qualified investor hedge funds

- Natural persons
- 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 DWT rate of 15% - countries such as Australia, Canada, Germany, New Zealand, Switzerland, UK, Northern Ireland 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.

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

WHO WILL DEFINITELY BE EXEMPT?

Novare unit trust funds, including retail investor hedge funds and qualified investor hedge funds

- 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 DWT if held by a non-resident

Novare pre- and post-retirement funds

- Preservation Funds

WHO MAY QUALIFY FOR A REDUCED TAX RATE?

Novare unit trust funds, including retail investor hedge funds and qualified investor hedge 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 Malawi, Seychelles, Zambia, Zimbabwe, Cyprus, Ireland – this results in zero DWT 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% - countries such as Australia, UK, Northern Ireland – results in zero DWT 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 15% - 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 15% where the company has a minimum holding, generally 10% or 25%, in the share capital - countries such as Botswana, Namibia, Canada, China, Germany, Netherlands, New Zealand, Switzerland, and the US – to name but a few)

ARE TRUSTS TAXABLE OR EXEMPT?

In general, payments of dividends to trusts will be subject to the DWT and the company paying the dividend (or the regulated intermediary) will withhold the DWT 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 bebind 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% DWT could be applicable.

*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 DWT.

DOCUMENTATION REQUIRED

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

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

Should you be unsure of your tax status regarding the new DWT, please contact your financial advisor or tax consultant. For any other DWT queries, please contact Novare CIS (RF) (Pty) Ltd "Novare" on 0800 668 273 or (0800 novare)

Novare CIS (RF) (Pty) Ltd
3rd Floor, The Cliffs Office Block 1, Niagara Way,
Tyger Falls, Carl Cronje Drive, Bellville, 7530
P O Box 4742, Tygervalley, 7536
Tel: 0800 668 273 (0800 novare) Fax: 087 150 1551
Website: www.novare.com E-mail: clientservice@novare.com

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