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

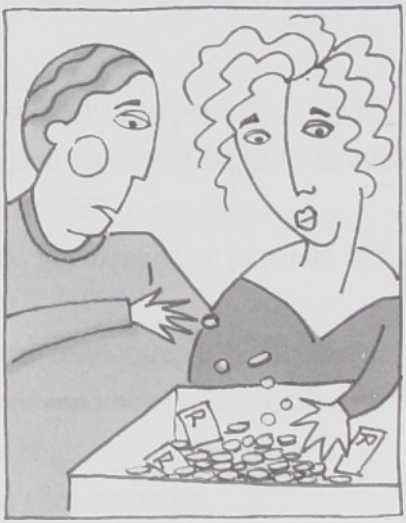
13 YOU AND THE TAX MAN (INCOME TAX)

• 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!

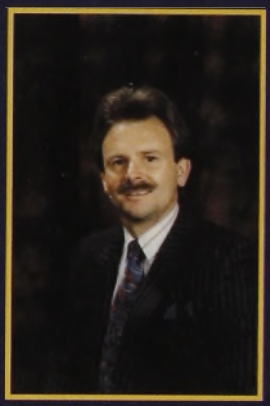
RENDER UNTO CAESAR WHAT IS CAESAR'S, AND NOT A PENNY MORE!

BE A FINANCIAL WINNER

WHAT SCHOLARS, SCHOOL LEAVERS, STUDENTS AND YOUNG PEOPLE SHOULD KNOW ABOUT THEIR PERSONAL MONEY MATTERS.

- THIS BOOK TEACHES YOU HOW TO:

- PLAN FOR AN UNCERTAIN FINANCIAL FUTURE
- APPLY FINANCIAL DISCIPLINE DURING YOUR LIFE CYCLE
- DO PERSONAL FINANCIAL PLANNING
- PLAN YOUR STUDIES AND CAREER AS AN EMPLOYEE OR AN EMPLOYER
- APPLY VITAL PERSONAL FINANCIAL GUIDELINES
- BUY A CAR FOR MAXIMUM PROSPERITY
- VALUE A PROPERTY, DETERMINE ALL THE COST ITEMS, UNDERSTAND THE PURCHASE CONTRACT AND FINANCE THE PURCHASE
- MAKE YOUR OWN WILL
- COMPARE AND CHOOSE INVESTMENTS AND CHOOSE A BROKER
- DRAW UP YOUR ANTENUPTIAL CONTRACT
- PLAN YOUR CHILDREN'S FINANCIAL FUTURE
- PLAN IF YOU ARE LIVING WITH SOMEONE
- CALCULATE YOUR INCOME TAX LIABILITY



NIC OSWART IS AFFILIATED TO THE DEPARTMENT OF BUSINESS MANAGEMENT AT UNISA. HE IS THE AUTHOR OF 'PERSONAL FINANCIAL MANAGEMENT' (THE ONLY SOUTH AFRICAN ACADEMIC BOOK ON THE SUBJECT OF PERSONAL FINANCE), HAS MADE OTHER BOOK CONTRIBUTIONS, PUBLISHED MORE THAN 100 ARTICLES AND IS INVOLVED IN WEEKLY RADIO TALK SHOWS ON PERSONAL FINANCIAL PLANNING. SINCE 1991 HE HAS LECTURED ON PERSONAL FINANCIAL MANAGEMENT AT UNISA. HE HAS A BUSINESS BACKGROUND AND SPECIALISES IN REAL ESTATE AS WELL.

ISBN 1 86888 038 9