

FOREX TRADING

COST OF BUSINESS



- Forex trading is not new, but the number of retail traders have increased exponentially over the last few years as technology has made it easier for people to get access to brokers.
- So what is the cost of doing business when you are a trader????
- Is there tax associated with forex trading and what type of tax does one have to pay???
- Just like crypto assets there are two sets of classifications and they each carry a different set of tax consequences and benefits.



FACTORS TO CONSIDER

- 1) Are you trading with the intention to make a profit???
- 2) Are you holding the currency over a long period and are planning on using it to hedge against any fluctuation of exchange rates???



TAX IMPLICATIONS

- 1) The first point is seen as trading or the fruit (from the Crypto Asset video) and therefore you will be taxed on the profit one generates from trading
- 2) The second point will be seen as a capital gains and the capital gains rules will need to be looked at in line with the forex rules in the Tax Administration Act.



TAX IMPLICATION FOR TRADING WITH THE INTENTION TO MAKE A PROFIT

The profit you make from each trade will be added towards your taxable income and depending on your entity structure there are different tax rates:

1. Individual (18% up to 45%)
2. Company (28%) – one should make sure that you are compliant with FAIS and the relevant act if you are running a business that is trading with the intention to make profit.

Just as profit are included in your taxable income so are expenses or losses that are incurred from trading.

You will be able to deduct the expenses, but the expenses or losses need to be directly linked to the trade.



EXAMPLES

Let's go through some examples:

Income:

Trade 1: R3,000.00 profit

Trade 2: R1,000.00 loss

Trade 3: R3,500.00 Profit

Total - R5,500.00

Expenses:

Internet costs: R250.00 (use strictly for trading

Brokerage fees: R350.00

Laptop: R5,000.00 (Purchased during the current year)

Electricity: R500.00

Rates & Taxes: R650.00

Levies: R500.00



EXAMPLES (CONTINUED)

Let's say you have a dedicated office space that is about 15% of the whole property then you will include 15% of your property related costs:

$$R250 + R500.00 + R650.00 + R500.00 = R1,900.00 \times 15\% = R285.00$$

Let's say trading is your only source of income then this is what your taxable income will look like:

$$R5,500.00 - R350.00 - R5,000 - R285.00 = -R135.00$$

This would be the amount you would be allowed to carry forward as assessed loss that can be applied to profit you make in the future.



CONCLUSION

Trading as an individual carries less admin in terms of complying with the applicable FAIS requirements but the tax associated with this option is much higher.



THANK YOU

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