

# Black tax: What to look out for

Wealth creation is elusive when one earner supports many - this is the current dilemma faced by many young black South Africans when it comes to black tax, a term coined by many to define financial support to extended family within black communities.



John Manyike

“Whilst the efforts made through black tax benefit individuals and communities, these very same efforts can also inadvertently create a cycle of financial adversities for families,” says John Manyike, head of financial education at Old Mutual Limited. The conversations around black tax should be centred around shattering the shackles of poverty within previously disadvantaged families. Black tax is often linked to complicated emotions and should be approached delicately.

“The issue of black tax is a complex one characterised by a balancing act between the responsibility felt to immediate and extended families and the desire to attain financial freedom,” says Manyike.

While many people contribute to their families in this way, in some instances, it can cripple the future financial aspirations of an individual, especially in the case of the youth. Young professionals who come from previously disadvantaged backgrounds often remain in the same financial position for an extended period because they need to support their parents, siblings, and extended family on a single salary. This is further compounded by the fact that South Africa’s economy is currently severely strained, with fuel prices on the rise, impacting cost of living for many individuals.

## Shared wealth

Black tax stems from the origins of the African family originally sharing in a common wealth. Families co-existed and their wealth was distributed amongst themselves. This was disrupted by colonisation and apartheid, which separated and pulled families apart. It left families essentially operating in miniature silos. This meant that the large wealth reserves Africans initially had to distribute, were now significantly minimised to individual salaries of working family members. It has made it more expensive to survive, spreading the available wealth considerably thinner.

According to research conducted through the Old Mutual Savings & Investment Monitor (OMSIM), Black tax is one of the biggest causes of financial distress among South Africa's middle-class.

Findings from the 2018 round of OMSIM noted the following:

- 72% of working metro South Africans are currently supporting, or foresee that they will have to support older family members in the future (70% in 2017).
- The equivalent numbers for black respondents was even higher: 83% foresee that they will have to support older family members in the future (79% in 2017).
- For black respondents, support for parents was the most prevalent, followed by siblings. This is apart from respondents supporting their own children.
- Nearly one in five black working metro South Africans regularly support at least one sibling.

Naturally the question that follows such findings is, if indeed black tax presents such financial distress, what can we do to combat it and ease the burden for impacted individuals?

Manyike, provides a simple answer – proper financial planning. “In instances where an individual is regularly contributing towards family needs, it must be factored into the person's financial plan. This is where sound financial planning becomes critical. With a good financial plan, the person would be able to still attain their lifetime financial goals.”

Knowing your limits through proper financial planning and monthly budgeting will help the youth in managing black tax. “Knowing your financial status will help so many youths stifle the frustration of having to pay for things they don't feel responsible for, which often times lead to tensions in families. These are the main issues raised by clients in our research,” he says.

It becomes a burden when individuals don't have the proper financial literacy and acumen to differentiate between what they can and can't afford. “One needs to understand and maintain their own financial health and limits before they can offer up a helping hand,” says Manyike. “Once you know your financial limits, it makes it much easier to establish how much you are able to contribute on a monthly basis when it comes to assisting family members”.

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