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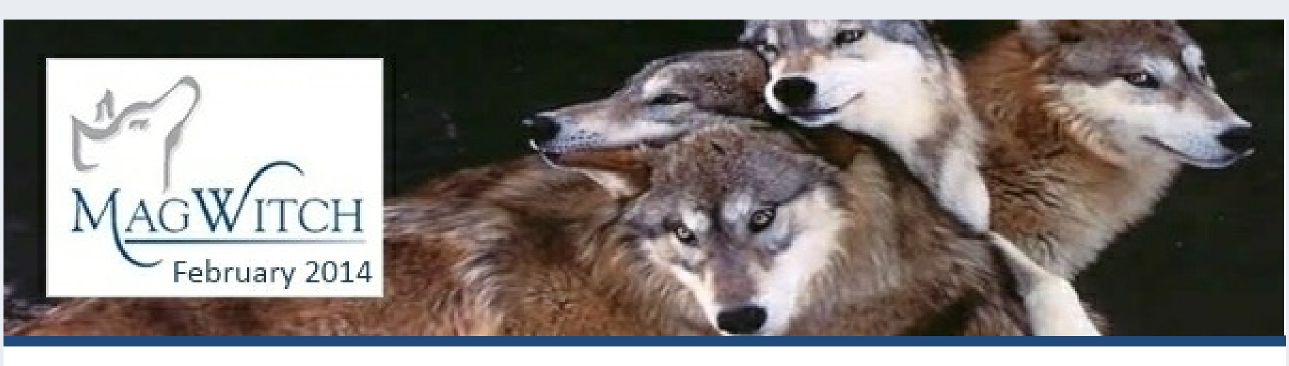


Dear

February 2014 saw renewed confidence for global market participants. After the difficult month of January South African investors and consumers enjoyed upside in both asset prices and exchange rates.

The JSE All Share Index recovered all the losses that were incurred in January and finished the month just off all-time highs. A lot of the larger listings in South Africa have December year ends and reported their annual figures within the month of February. For the most part results met expectations and the companies enjoyed real growth in earnings and dividends. The JSE continues to trade at a weighted Price Earnings ratio that is in excess of its long term average with the large multinational companies contributing significantly to this as they are currently trading at a premium to the rest of the market. Investors continue to invest into the large Rand hedge stocks in order to give protection against Rand weakness.

The Rand strengthened against both the US Dollar and the Euro as sentiment towards emerging markets improved. GDP for the 4th quarter of 2013 beat expectations and this resulted in more interest in South Africa as a growth story. The Minister of Finance, Mr Pravin Gordhan, did however indicate during his National Budget speech that the National Treasury has made a downward revision of its forecast of expansion in gross domestic product in 2014 to 2.7%.

The reported CPI for January increased to 5.8% as Rand weakness feeds through to the price of goods. The fuel price, which was the main contributor to the higher CPI number, increased another 3% during the month bringing the annual inflation in petrol to just under 15%. Food prices also rose dramatically during the month and we saw large increases in the prices of both meat and vegetables. CPI is expected to breach through the upper range of inflation targeting as the Rand weakness starts feeding through to the prices paid by consumers.

Even with the Rand weakness South Africa remains a net importer of goods with exports remaining under pressure. The trade balance deficit widened significantly during the month to R17.06bn as imports exceeded foreign investment into the country. South Africa should be very competitive at current exchange rate levels but external influences, especially in the platinum sector, continue to limit our industrial output.

We continue to caution against downside risks when operating in the current financial market. Valuations still appear to be inflated and certain market participants still expect some form of correction to happen during 2014.

Magwitch Securities

MARKET INFORMATION

FINANCIAL PRODUCT IN FOCUS

AMENDMENTS INCLUDED IN THE BUDGET SPEECH

The Minister of Finance, Mr Pravin Gordhan, announced the new National Budget on 26th February 2014. There had been fears beforehand that taxation may be increased to help fund the budget deficit that South Africa currently operates under. These fears proved to be unfounded as the National Budget did not include major amendments. It does appear that widespread changes were avoided as the politicians have one eye on the upcoming elections in South Africa.

Mr Gordhan indicated that the 2013/2014 budget deficit is projected to be 4 per cent of GDP which is a slight improvement on previous predictions. This lowering of the projected deficit may have allowed National Treasury a bit of room to limit increases in tax rates. If the budget deficit does worsen dramatically then the Government would have no choice but would have to either increase rates (VAT, corporate tax etc) or introduce new taxes (super tax for high income taxpayers).

In our financial product in focus this month we look at how some of the amendments will benefit the individual taxpayer in the next tax year ended February 2015.

Individual Income Tax

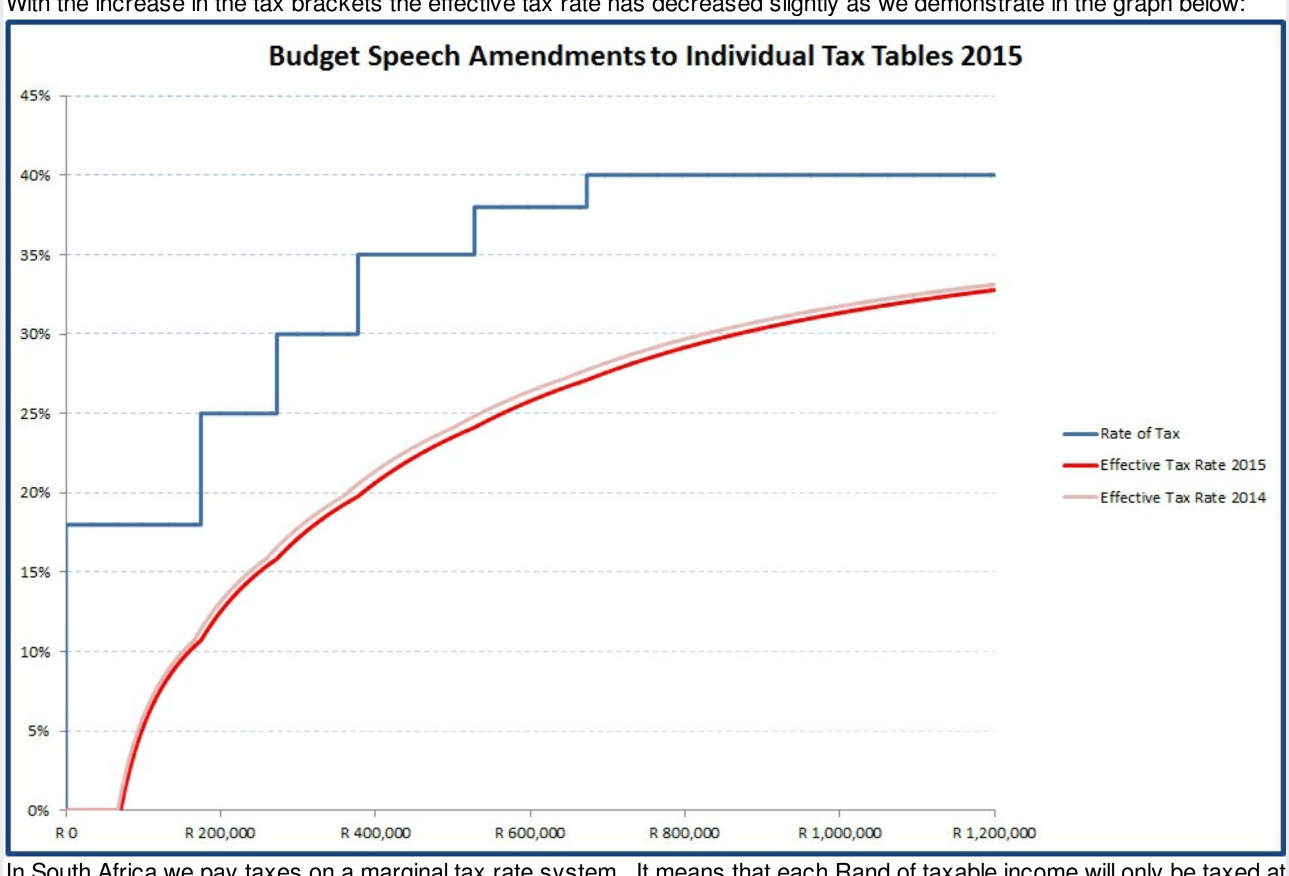
The tax brackets included in the tax tables for individuals have been increased by 5.4%. As National Treasury has sought to maintain the purchasing power of the individual taxpayer this amendment has been calculated using the average inflation rate during the year. If an individual's earnings have only increased by inflation during the year they should be paying roughly the same percentage of income tax as previous years.

The amendments to the tax table are included below with the tax threshold for individuals below the age of 65 moving from R67 111 to R70 700.

Personal income tax rate and bracket adjustments, 2013/2014 – 2014/15

Taxable income (R)	2013/14 Rates of tax	Taxable income (R)	2014/15 Rates of tax
R0 – R165 600	18% of each R1	R0 – R174 550	18% of each R1
R165 601 – R258 750	R29 808 + 25% of the amount above R165 600	R174 551 – R272 700	R31 419 + 25% of the amount above R174 550
R258 751 – R358 110	R53 096 + 30% of the amount above R258 750	R272 701 – R377 450	R55 957 + 30% of the amount above R272 700
R358 111 – R500 940	R82 904 + 35% of the amount above R358 110	R377 451 – R528 000	R87 382 + 35% of the amount above R377 450
R500 941 – R638 600	R132 894 + 38% of the amount above R500 940	R528 001 – R673 100	R140 074 + 38% of the amount above R528 000
R638 601 and above	R185 205 + 40% of the amount above R638 600	R673 101 and above	R195 212 + 40% of the amount above R673 100
Rebates		**Rebates**	
Primary	R12 080	Primary	R12 726
Secondary	R6 750	Secondary	R7 110
Tertiary	R2 250	Tertiary	R2 367
Tax threshold		**Tax threshold**	
Below age 65	R67 111	Below age 65	R70 700
Age 65 and over	R104 611	Age 65 and over	R110 200
Age 75 and over	R117 111	Age 75 and over	R123 350

With the increase in the tax brackets the effective tax rate has decreased slightly as we demonstrate in the graph below:



In South Africa we pay taxes on a marginal tax rate system. It means that each Rand of taxable income will only be taxed at the marginal rate that applies to it. An example of this would be if Mrs T has taxable income of R174 551 during the 2015 financial year. She will pay tax at 18% on first R174 550 (less primary rebate) and will pay tax at 25% on the R1 of her taxable income that falls into the next tax bracket. Because of the marginal tax rate system your overall effective tax rate is below the rates applicable to the bracket where your taxable income would fall. This effective tax rate can be further reduced by contributions to retirement savings.

Retirement Fund Lump-Sum Taxes

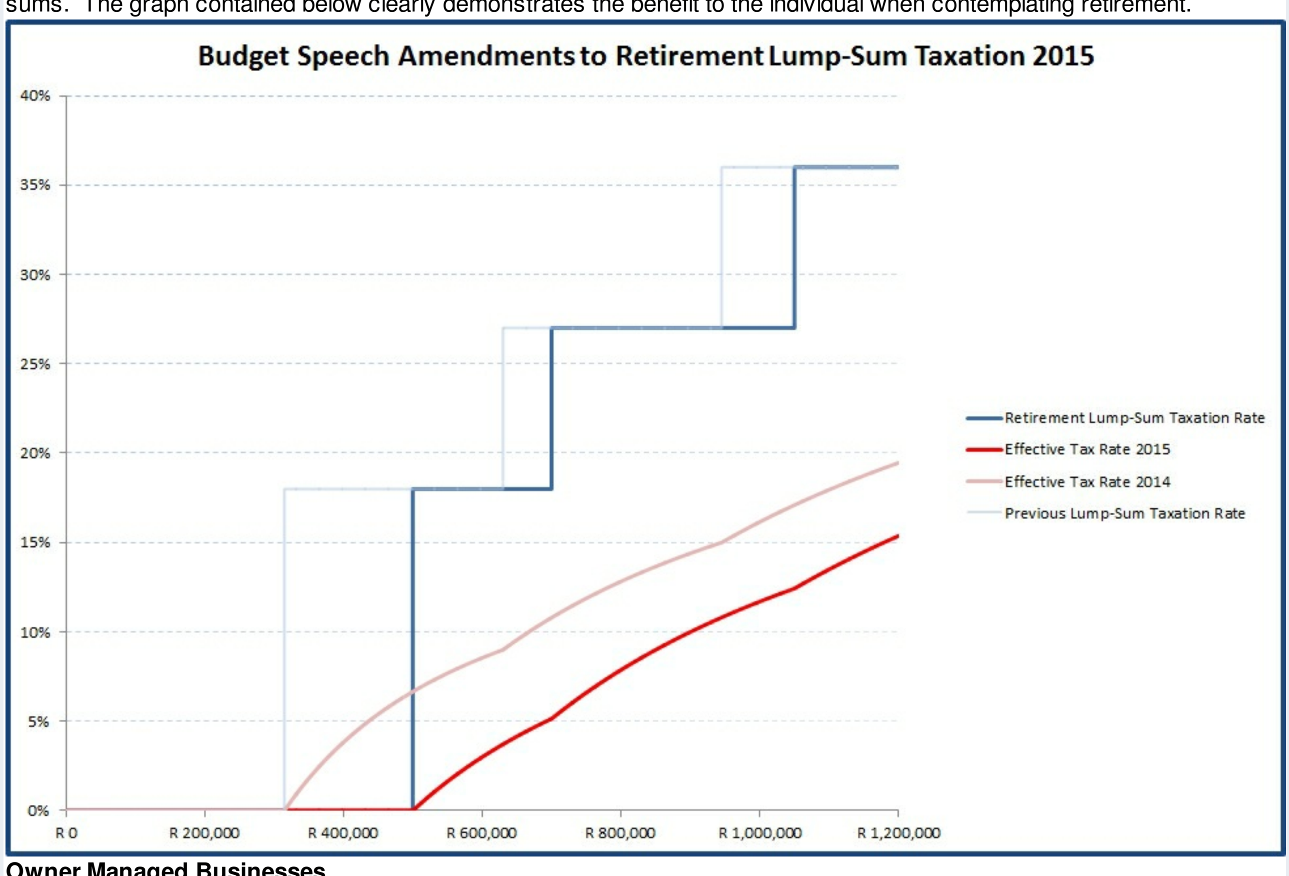
The most beneficial changes introduced in the National Budget relates to the taxation of lump-sums received from retirement funds, whether on retirement or withdrawal. We will only focus on the taxation of the lump-sum on retirement as we believe that withdrawing retirement savings early will always be to the detriment of the individual.

The tax free portion of the lump-sum on retirement was increased by 59% to R500 000. This substantial increase is in line with the current National Treasury policy of retirement savings reform. The increase in the tax free portion should help encourage the preservation of retirement savings. The amendments to the lump-sum taxation rates have been included in the table below:

Retirement lump-sum taxation, 2013/2014 – 2014/15

Taxable income (R)	2013/14 Rates of tax	Taxable income (R)	2014/15 Rates of tax
R0 – R315 000	0% of taxable income	R0 – R500 000	0% of taxable income
R315 001 – R630 000	18% of taxable income above R315 000	R500 001 – R700 000	18% of taxable income above R500 000
R630 001 – R945 000	R56 700 + 27% of taxable income above R630 000	R700 001 – R1 050 000	R36 000 + 27% of taxable income above R700 000
R945 001 and above	R141 750 + 36% of taxable income above R945 000	R1 050 001 and above	R130 500 + 36% of taxable income above R1 050 000

Once again the increase in the tax brackets has had a positive impact on the effective tax rate paid on retirement lump-sums. The graph contained below clearly demonstrates the benefit to the individual when contemplating retirement.



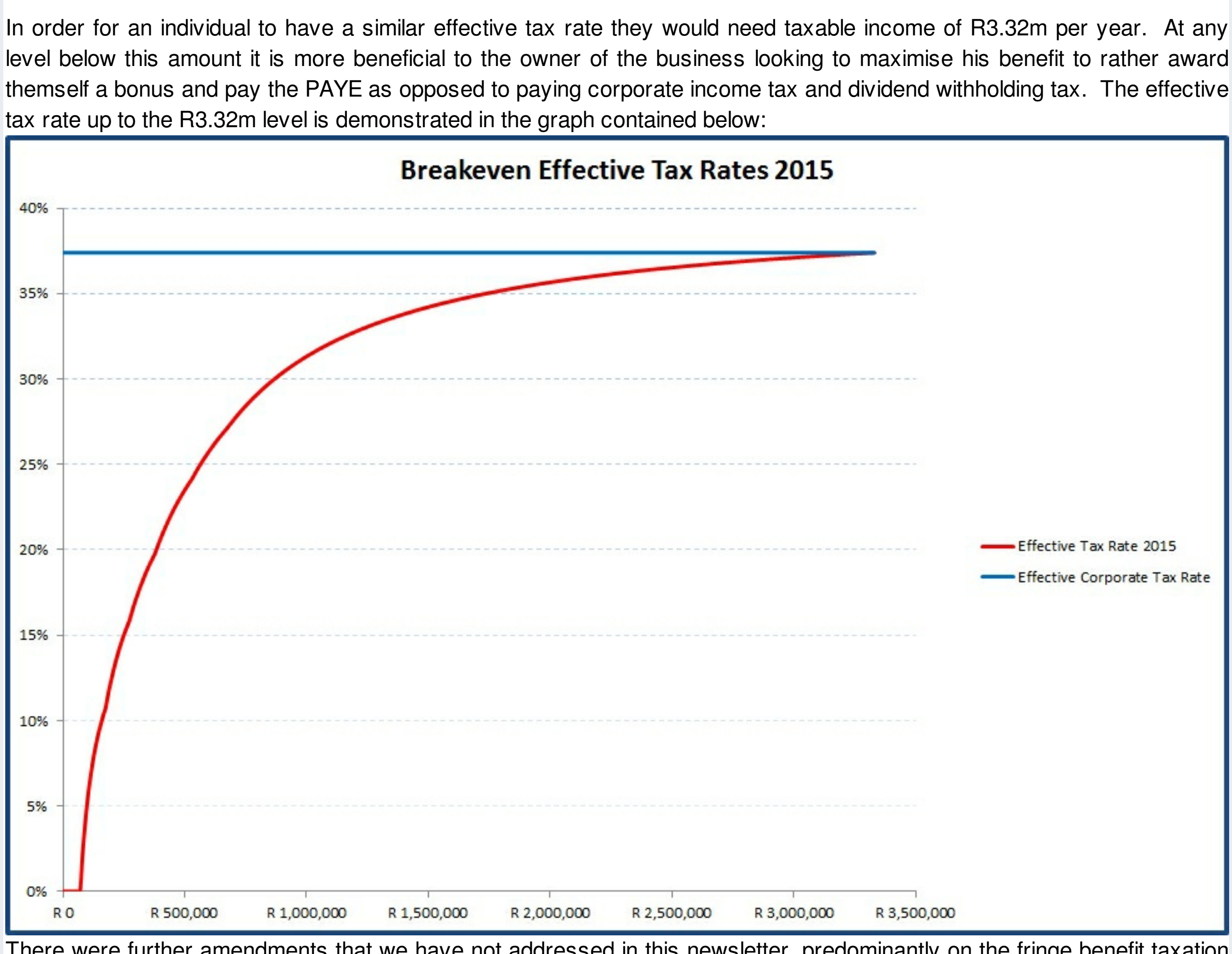
Owner Managed Businesses

The changes in the income tax tables for individuals may affect financial decisions made by those individuals that own the equity in their businesses. Generally there are two methods of accessing funds from the business. The owner will typically either declare a dividend or alternatively award a bonus to themselves. Both methods are effective in moving capital from the entity to the individual.

It is in the owner's interest however to ensure that any decision taken maximises the after tax benefit received by themselves or their entity. We would like to demonstrate why dividends should only be considered on larger amounts.

When an entity declares a dividend they have to withhold dividends withholding tax of 15% of the amount of the dividend declared. Dividends can generally only be distributed from profits which are currently taxed at a corporate tax rate of 28%. These two taxes together mean that the effective tax rate on dividends is 37.39%. {(28 + (100 – 28) * 15/115)}

In order for an individual to have a similar effective tax rate they would need taxable income of R3.32m per year. At any level below this amount it is more beneficial to the owner of the business looking to maximise his benefit to rather award themself a bonus and pay the PAYE as opposed to paying corporate income tax and dividend withholding tax. The effective tax rate up to the R3.32m level is demonstrated in the graph contained below:



There were further amendments that we have not addressed in this newsletter, predominantly on the fringe benefit taxation of company cars and accommodation.

The National Budget for the 2015 tax year did not contain sweeping reforms and we expect to see some new legislation introduced later in the year, specifically more clarity on the retirement savings reform. The Taxation Laws Amendment Act will become effective from 1 March 2015 where the rules for all retirement savings products are standardised which will provide additional relief to most retirement fund members, encourage them to save for retirement and to preserve their benefit when changing jobs.

If you need assistance with the most tax effective structures for your income and assets please do not hesitate to contact us at Magwitch Securities.

ABOUT MAGWITCH

Magwitch Securities is a Financial Services Broker offering the following products as a comprehensive financial solution to both individuals and businesses:

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- Investment Planning
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