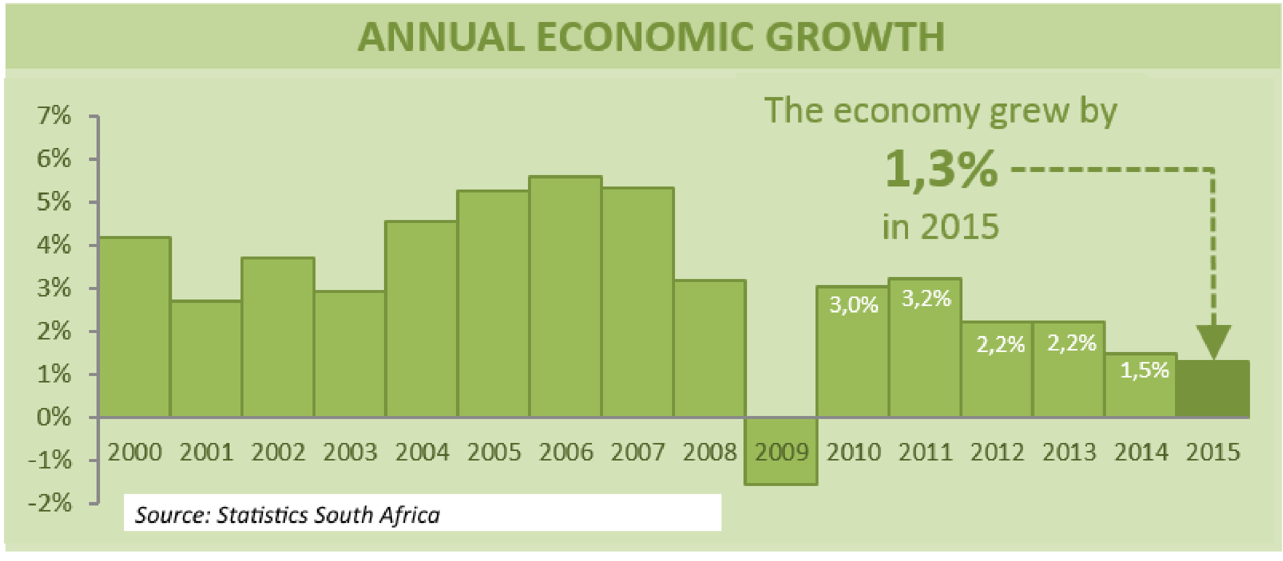
Dear

We generally find that February is a busy month with economic news and February 2016 was no exception. The Budget Speech is delivered each February and with the political manoeuvrings in December this was a speech that was very important. The Finance Minister needed to give an indication on the way forward for the country and our economy. We have highlighted some of the tax amendments in our newsletter this month.

February is also a month where the Gross Domestic Product ("GDP") is reported for the prior year. South Africa's economy grew by 1.3% in 2015 which is lower than in prior years. The Government face a number of challenges to stimulate growth and get the economy back to the pre-global financial crisis levels of around 5%. GDP growth of about 4% is required in order to achieve a meaningful reduction in unemployment.



CPI jumped sharply in the month to 6.2% year on year. The severe drought has impacted many parts of the country has pushed food prices up. The inflationary pressures as a result of the higher food prices are expected to continue in the medium term with current inflation forecasts topping out at 7.8%.

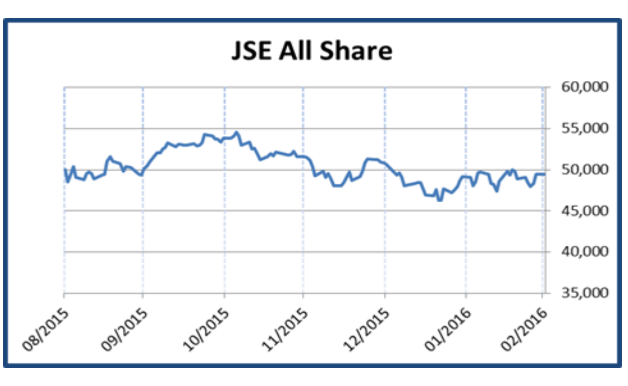
The stock market was very volatile in the month as investor confidence remains low. The JSE All Share index was up 0.6% during the month, largely off the back of a recovery in the Resources Index of 11.6%. The mining shares had been oversold as commodity prices declined. An example of this is Anglo American whose share price had lost 90% of its value from its all-time high. Investors are starting to see some value in the mines at these prices and this led the recovery.

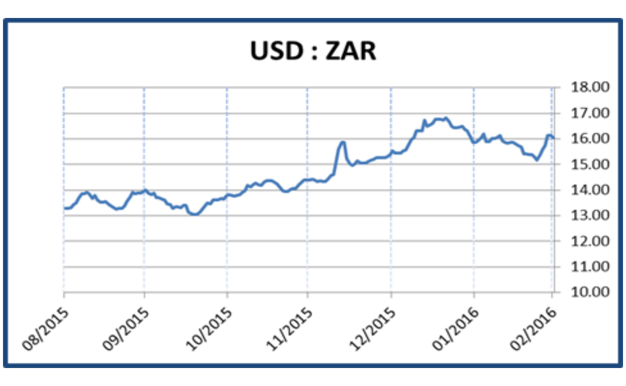
The Rand was also volatile during the month. The Rand strengthened for a good period in the build up to the budget speech. It was widely expected that the budget would be investor friendly with the need to improve the fiscal system. The budget speech did not deviate from this but unfortunately the politicians cannot just get on with running the country to the benefit of its citizens. It was reported shortly after the budget speech that the Finance Minister had been sent a letter by the Hawks asking him to answer to specific queries regarding a "rogue unit" that was operating whilst he was the SARS Commissioner. The timing of this letter appears to be politically motivated with the intention of intimidating Mr Gordhan. This was the last thing that investors needed and, due to the uncertainty, the Rand once again went into freefall.

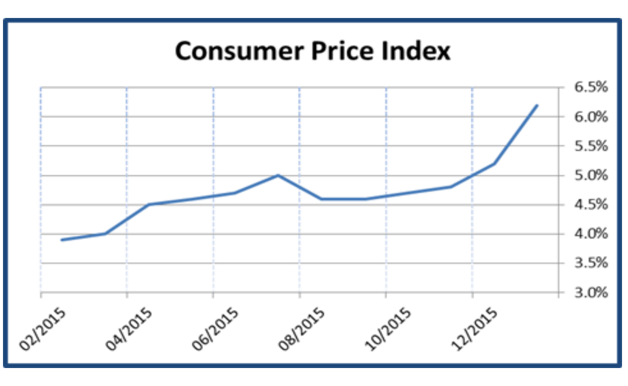
There is a lot of negative news out there and unfortunately most of it is generated by the very people expected to lead. The one advantage that we can see though is that a lot of this negative news is priced in and there are definitely opportunities within the market for investors and exporters.

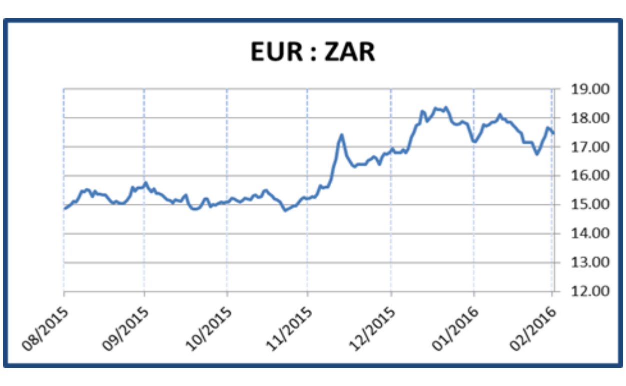
Magwitch Securities

MARKET INFORMATION









FINANCIAL PRODUCT IN FOCUS

AMENDMENTS INCLUDED IN THE BUDGET SPEECH

The Minister of Finance, Mr Pravin Gordhan, announced his National Budget on 24th February 2016. It was widely anticipated that this budget could include dramatic and drastic changes as Mr Gordhan faced the situation where fiscal income had stagnated but costs were constantly rising, specifically public sector salaries due to above-inflation annual increases.

For South Africa to avoid a credit ratings downgrade it is important to demonstrate that the revenue system will raise sufficient income to pay its expenses, including capital and interest repayments.

Leading up to the Budget speech there were a number of suggested tax changes in the media including an increase in VAT and an introduction of a super wealth tax. In the end Mr Gordhan delivered a conservative budget with a moderate increase in budgeted income from tax. It must be noted that we are in an election year and sensitivities around electoral votes could have influenced the decision.

Mr Gordhan mentioned that with the increased revenue collection the budget deficit for the year is forecast to be 3.2% of GDP. This is a marginally better position than in the prior year. The increased taxes are expected to contribute an additional R18.1 billion to the tax revenue in the 2017 tax year

In our financial product in focus this month we look at how some of the amendments will affect the individual taxpayer in the next tax year ended February 2017.

Individual Income Tax

The tax brackets included in the tax tables for individuals have been increased by rates lower than inflation with the upper brackets not moved at all. In the past National Treasury has sought to maintain the purchasing power of the individual taxpayer by moving the tax brackets to compensate for inflation. In theory if an individual's earnings increases by inflation during the year they should be paying roughly the same percentage of income tax as they did in previous years. This has now changed and an inflationary increase will result in the taxpayer having a slightly higher effective tax rate. This deviation from policy is expected to have the biggest single contribution towards the increased tax revenue, bringing in an additional R7.6 billion.

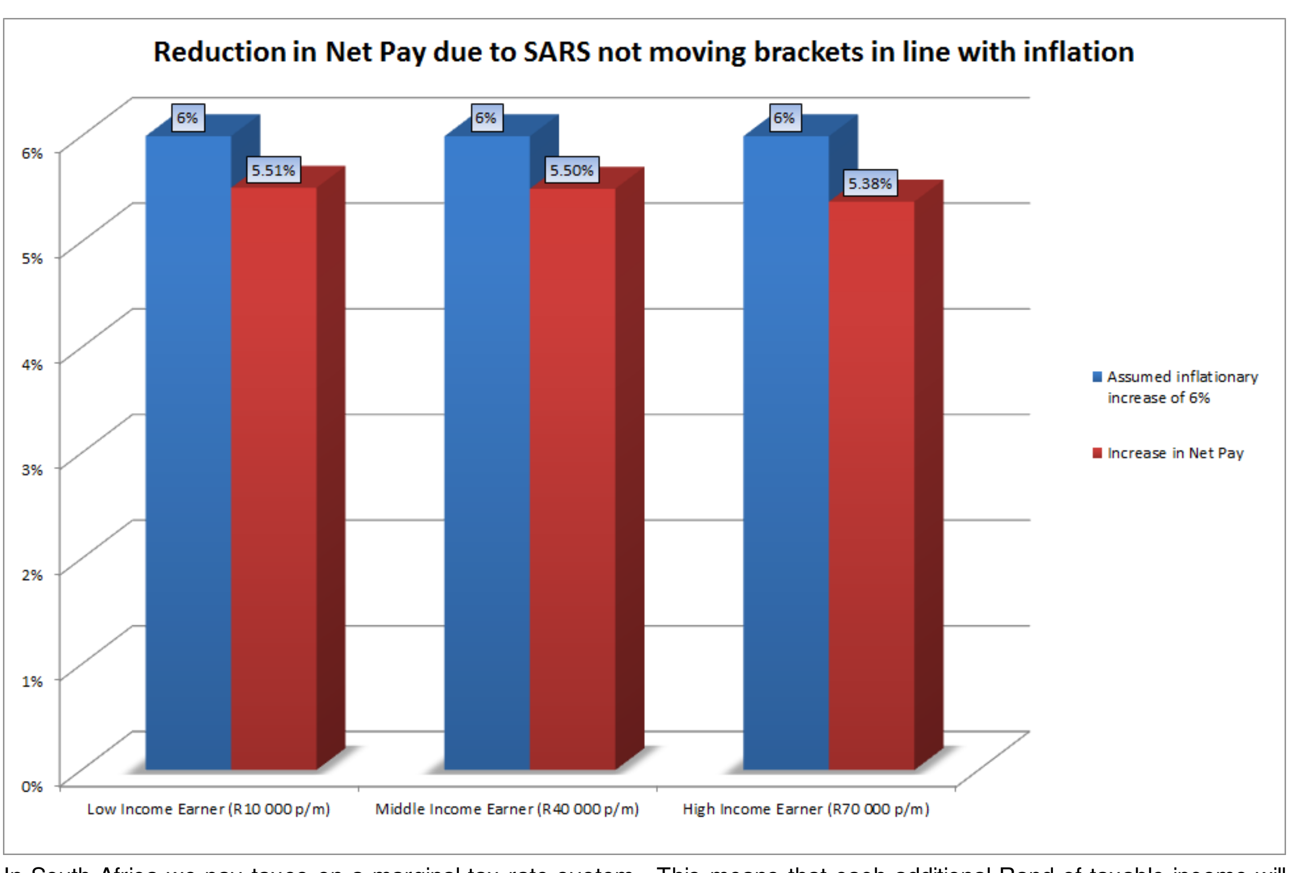
The amendments to the tax table are shown below with the tax threshold for individuals below the age of 65 moving from R73 650 to R75 000.

Personal income tax rate and bracket adjustments, 2015/2016 – 2016/17

Taxable income (R)	2015/16 Rates of tax	Taxable income (R)	2016/17 Rates of tax
R0 – R181 900	18% of each R1	R0 – R188 000	18% of each R1
R181 901 – R284 100	R32 742 + 26% of the amount above R181 900	R188 001 – R293 600	R33 840 + 26% of the amount above R188 000
R284 101 – R393 200	R59 314 + 31% of the amount above R284 100	R293 601 – R406 400	R61 296 + 31% of the amount above R293 600
R393 201 – R550 100	R93 135 + 36% of the amount above R393 200	R406 401 – R550 100	R96 264 + 36% of the amount above R406 400
R550 101 – R701 300	R149 619 + 39% of the amount above R550 100	R550 101 – R701 300	R147 996 + 39% of the amount above R550 100
R701 301 and above	R208 587 + 41% of the amount above R701 300	R701 301 and above	R206 964 + 41% of the amount above R701 300
Rebates		**Rebates**	
Primary	R13 257	Primary	R13 500
Secondary	R7 407	Secondary	R7 407
Tertiary	R2 466	Tertiary	R2 466
Tax threshold		**Tax threshold**	
Below age 65	R73 650	Below age 65	R75 000
Age 65 and over	R114 800	Age 65 and over	R116 150
Age 75 and over	R128 500	Age 75 and over	R129 850

It would appear that at every level on the scale the taxpayer is paying less tax but this doesn't take into account any effects of inflation. As mentioned above SARS had previously moved the tax brackets in line with inflation to protect the purchasing power of the individual, but no so for the next fiscal year.

In order to demonstrate this we have used a basic example. We have calculated the net pay after tax for three different salary levels in 2016. We have then increased each salary by an inflationary increase of 6% in 2017 and plotted the resulting increase in net pay. As is demonstrated in the chart below the increase in net pay doesn't keep up with the inflation increase in the salary.



In South Africa we pay taxes on a marginal tax rate system. This means that each additional Rand of taxable income will only be taxed at the marginal rate that applies to it. An example of this would be if Mrs G has taxable income of R188 001 during the 2017 financial year. She will pay tax at 18% on first R188 000 (less primary rebate) and will pay tax at 26% 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 claiming deductions on contributions to retirement savings.

Increase in Fuel Price Levy

The increase in the fuel levy is the one tax increase that will affect all South Africans, rich and poor. The continued opportunity of the reduced oil price was utilised to once again increase the general fuel levy. The fuel levy will increase by 30c per litre with effect from 6th April 2016. The use of the fuel levy as a means to increase tax revenue is familiar as a similar adjustment was made in the prior year.

The fuel levy will now be R2.85p/l for petrol and R2.70p/l for diesel, in the region of a quarter of the total quoted pump price per litre.

We will remind everyone about this increase in our next newsletter to ensure that motorists fill up their tanks in the days leading up to the price increase.

This increase in levy will have an impact on the majority of prices in South Africa as a lot of our goods are transported by road. It is expected that this will have an impacted on inflation going forward, especially if the oil price starts to rise.

Capital Gains Tax (CGT)

The other area where large adjustments were made was in the inclusion rate of capital gains. Capital gains have historically been taxed at lower rates and this has been achieved through only having to reflect a percentage of the capital gain in your taxable income ("the inclusion rate"). There has been a 20% increase in the inclusion rate for all taxpayers. Individuals previously only had to include 33.3% of any taxable capital gain. This has now been increased to 40% meaning the maximum effective tax rate that could be paid on a capital gain is 16.4% (40% x 41%).

Companies and trusts have also been impacted as their inclusion rate has been increased from 66.6% to 80%. The effective tax rate for capital gains for them is now 22.4% for companies and 32.8% for trusts. It is recommended that you seek financial advice when contemplating a disposal of assets as the reduction of capital through CGT will be higher.

The rest of the amendments announced in the budget speech were in line with expectations and as always the individual tax payer is expected to carry a greater part of the burden. The biggest hurdle for Government is to curb their expenditure. Mr Gordhan indicated that this is a priority. Unfortunately not much detail was provided in the budget speech with regards to this and we can expect that any public sector austerity will only happen after the municipal elections. Unfortunately if the Government don't manage to cut public sector expenses they will be forced to once again burden the taxpayer next year and will result in a rating downgrade.

The increase in tax rates makes it even more important to utilise your investment tax allowances to reduce your own tax burden. Magwitch will happily assist you with this.

ABOUT MAGWITCH

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