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Dear

February 2017 has been a month where two parliamentary addresses defined the current mood within South Africa. The first was President Zuma's State of the Nation address. In what could only have caused laughter in the rest of the world we were treated to the main opposition parties walking out or alternatively being thrown out. The second address was the Finance Minister Mr Gordhan's Budget Speech. The tax amendments in the budget could have long lasting effects for individual taxpayers and does carry the risk of a further flight of capital due to the ever increasing tax burden.

The Rand continued its trajectory as it strengthened against the major trading currencies. This strength has been driven by improved emerging market sentiment together with improved commodity demand and increasing commodity prices. Donald Trump's desired economic policies which include large investments into infrastructure have proven to be a boost for all commodity based economies. During the month the Rand touched 20 month highs against the Dollar.

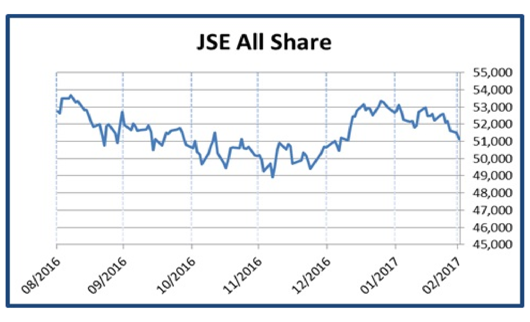
The JSE was negatively impacted by the Rand strength with the JSE All Share Index losing 3.1%. A large proportion of the earnings of the companies listed on the JSE are derived in a currency other than the Rand. Previous estimates were that up to 60% of all turnover earned by companies listed on the JSE was in foreign currencies. This figure would have decreased with the delisting of SAB (where China was their biggest market) but the figure would still be quite sizeable.

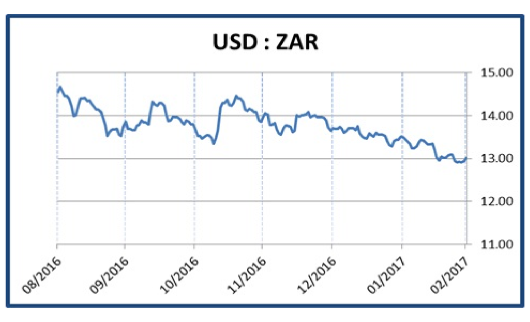
CPI came in line with expectations with a slight decrease to 6.6% year on year. The consensus forecast is that CPI will return to below 6% around the middle of 2017 which could allow Treasury to reduce interest rates. If the interest rates are reduced it would be positive for local GDP growth and this is a number that all parties, including the large international rating agencies, are focusing on.

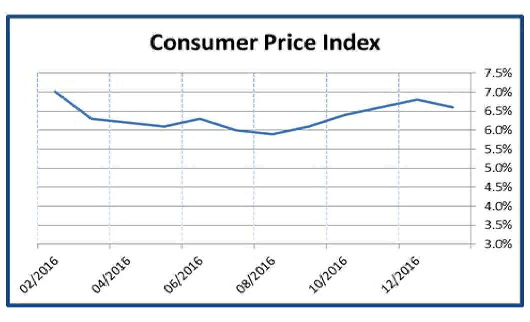
Although we still remain confident that 2017 should be a better year than 2016 we acknowledge that global political risk could have a part to play. Last year we had large black swan events that no-one predicted. The Brexit referendum result and the election of Trump would have caught most economists by surprise. Both are an indication of a growing populist outlook and international political events in 2017 would probably be a continuation of that with possible exits for the Netherlands and France out of the European Union. Locally we have what may be even more interesting to observe and that is the ANC succession battle. At this early stage most of the manoeuvrings have been done behind the scenes but if done in the open could have negative consequences.

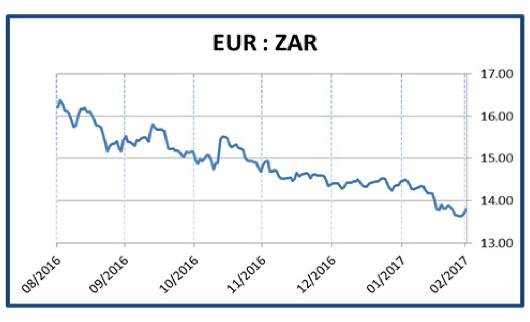
Magwitch Securities

MARKET INFORMATION









FINANCIAL VIEW

AMENDMENTS INCLUDED IN THE BUDGET SPEECH

The Minister of Finance, Mr Pravin Gordhan, announced his National Budget on 22nd February 2017. It was clear leading up to the Budget speech that there would be a number of tax increases as the budget deficit was widening, largely driven by rampant government spending. There was a lot of speculation in the media about what taxes would increase with many journalists once again writing about the possibilities of an increase in VAT and an introduction of a super wealth tax.

In the end Mr Gordhan laid out a budget that increased the tax burden of the higher income earners whilst trying to leave the effect of tax on the poor unchanged. Mr Gordhan mentioned that due to a lower than expected revenue collection the budget deficit for the year is estimated to be 3.4% of GDP. This is a worse position than last year and may highlight that something needs to change at SARS. A once very efficient revenue service now appears to be hamstrung by political manoeuvrings. The collection shortfall is estimated to be around R30 billion which is all to be funded by the taxpayer going forward. The increased taxes are expected to contribute an additional R28.4 billion to the tax revenue in the 2018 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 ending February 2018.

Individual Income Tax

The big move for Income Tax has been the introduction of a 45% tax bracket for those individuals earning over R1.5 million together with an income tax rate adjustment for trusts to the same 45% level. This has dominated the news and the big risk is that many of the high income earners decide to relocate to other countries where they are less burdened with taxes. These individuals are often the creators of jobs which provide employment for a large percentage of the population. Is South Africa in the process of killing the golden goose through higher taxes?

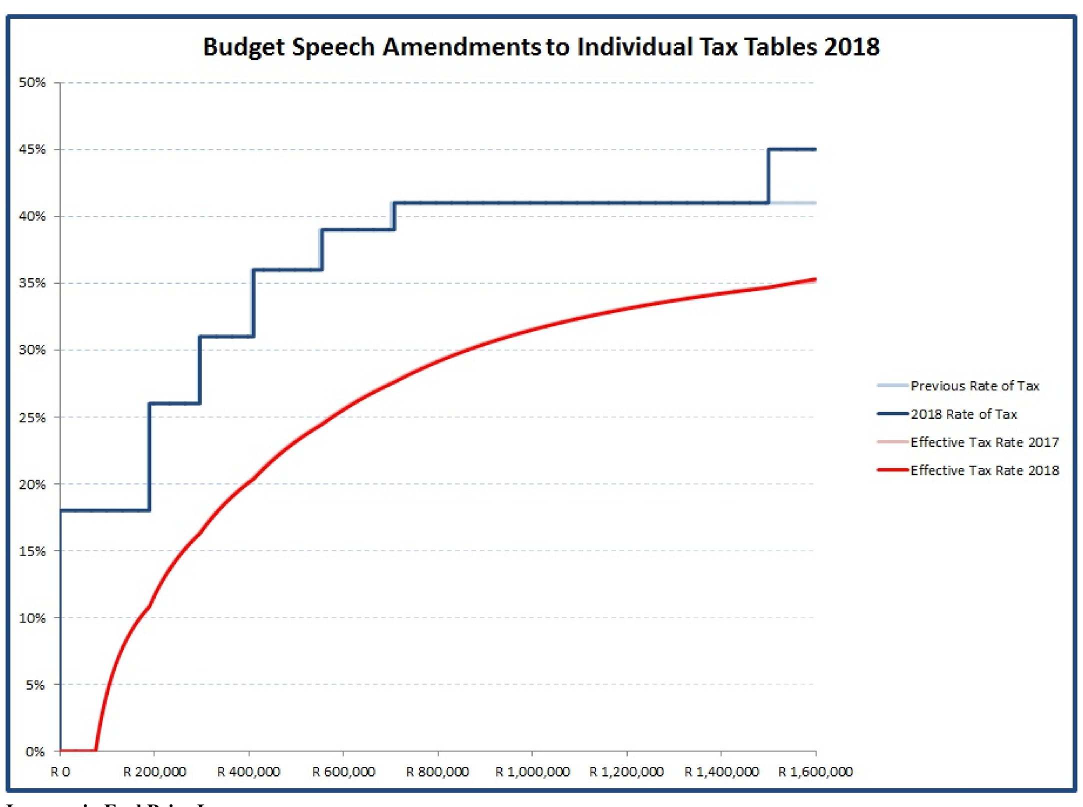
The other move to the tax tables which has gone relatively unnoticed by the press is the fact that the tax brackets have only been increased by a very low rate of 1%. In the past National Treasury has sought to maintain the purchasing power of the individual taxpayer by moving the tax brackets to compensate 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. Now any salary increase above 1% (remember inflation is typically around 6%) would result in the individual having a reduction in real income and in effect becoming poorer, because they are paying more towards the government.

The amendments to the tax table are shown below with the tax threshold for individuals below the age of 65 moving from R75 000 to R75 750.

Personal income tax rate and bracket adjustments, 2016/17 - 2017/18

Taxable Income (R)	2016/17 Rates of Tax	Taxable Income (R)	2017/18 Rates of Tax
R0 - R188 000	18% of each R1	R0 - R189 880	18% of each R1
R188 001 - R293 600	R33 840 + 26% of the amount above R188 000	R189 881 - R296 540	R34 178 + 26% of the amount above R189 880
R293 601 - R406 400	R61 296 + 31% of the amount above R293 600	R296 541 - R410 460	R61 910 + 31% of the amount above R296 540
R406 401 - R550 100	R96 264 + 36% of the amount above R406 400	R410 461 - R555 600	R97 225 + 36% of the amount above R410 460
R550 101 - R701 300	R147 996 + 39% of the amount above R550 100	R555 601 - R708 310	R149 475 + 39% of the amount above R555 600
R701 301 and above	R206 964 + 41% of the amount above R701 300	R708 311 - R1 500 000	R209 032 + 41% of the amount above R708 310
		R1 500 000 and above	R533 625 + 45% of the amount above R1 500 000
Rebates		**Rebates**	
Primary	R13 500	Primary	R13 635
Secondary (Persons 65 and older)	R7 407	Secondary (Persons 65 and older)	R7 479
Tertiary (Persons 75 and older)	R2 466	Tertiary (Persons 75 and older)	R2 493
Tax Threshold			
Below age 65	R75 000	Below age 65	R75 750
Age 65 to below 75	R116 150	Age 65 to below 75	R117 300
Age 75 and over	R129 850	Age 75 and over	R131 150

As the brackets have been increased by only 1% during the year there is very little change in the effective tax that an individual would be paying on their earnings until they earn more than R1.5m.



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 1st April 2017. The use of the fuel levy as a means to increase tax revenue is familiar as the last few budgets have included a similar adjustment.

The fuel levy will now be R3.15p/l for petrol with an additional level of R1.63p/l for petrol for the road accident fund. These levies now constitute in excess of a third of the pump price for petrol.

We urge everyone to be aware of the immediate change in April as it will precede the normal monthly fuel price adjustment.

Dividends Withholding Taxes

The other area where a large adjustment was made was an increase in the dividends withholding tax rate from 15% to 20%. This adjustment is expected to raise an additional R6.8bn, all of it from individual tax payers (dividends received by companies are not subject to dividends withholding tax in order to avoid double taxation).

Conclusion

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. With the increase in dividends withholding tax and the introduction of an additional tax bracket we feel that it is imperative that investors make use of the tax allowances. Your retirement annuities or your employer provided pension and provident schemes remain the most efficient way to save and now because of the increasing erosive power of tax on investments they will provide an increased benefit.

Those individuals that make the best use of their retirement savings and their tax free savings accounts will be the ones that manage to pay lower rates of tax. If you need more advice on trying to utilise some of the tax allowances please give Magwitch a shout.

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t: 011 453 3048 f: 011 453 0715 **www.magwitch.co.za**

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