

## The impact of the Budget on You

In the current economic, political and financial state of South Africa no one expected a “good” budget for themselves.

We were not disappointed.

Although there are, for most, minimal adjustments in nominal tax paid, after taking into account the impact of inflation, we will be worse off in real terms. This, and the new tax bracket of 45% for those earning more than R1.5 million a year, is the major source of the additional R28 billion in tax.

Indeed, individuals will bear the brunt of other taxes if they drink, drive or smoke.

The increase in the tax abatements is minimal, the primary abatement increases by R135 p.a. and the over 65 abatement by R72 p.a.

The medical abatement increases slightly to R303 pm for the first two dependents and R204 pm for additional dependants.

The abatement on interest remains at R23 800 for those under 65 and at R34 500 for those over 65.

The amount you can invest in a tax free investment is increased to R33 000 p.a.



Investors who receive dividend income will see their after tax return decline. Dividend tax is increased by 33% from 15% to 20%.

I am disappointed by this increase.

If one looks at the following example, you will see why.

If a company earns R100 and it wants to distribute its income to shareholders, the position is as follows:

Income	R100-00
Company Tax	<u>R28-00</u>
	R72-00
Dividend Tax	<u>R14-40</u>
	R57-60

By developing world standards South African company tax is high. In fact it is even high for the developed world.

No wonder South African and overseas companies are reluctant to invest in South Africa.

I was surprised that the inclusion rate for capital gains tax was not increased. I, and many others, expected that it would.

It gives rise to some interesting outcomes.

## Interesting Outcomes

I looked at the situation where one needs an additional R100 000 in the next tax year.

I used the new tax tables for 2017/2018.

I assumed that the capital gain was R100 000 and that the annual abatement of R40 000 had not been used. I then also looked at the position if the abatement had already been used.

Taxable Income	Tax if taken from an annuity R	Tax if taken via Capital Gain (incl R40 000 abatement) R	Tax if no CGT abatement R
R0 to R189 880	18000	4320	7200
R189 881 to R296 540	26000	6240	10 400
R296 541 to R410 460	31 000	7490	12 400
R410 461 to R555 000	36000	8640	14 400
R555 001 to R1 500 000	39 000	9360	15 600
R1 500 001 and upwards	45 000	10 800	18000

The behavioural expert, Richard Thaler, warned us that we must not think of money in terms of compartments, e.g. retirement money and flexible money. This example shows why.

However, it is important to look at each case on an individual basis.

Kind regards  
Brian Goodall