



Dear Client

Please find enclosed our BVSA for May 2017.

The content of this newsletter has been compiled especially for you and we hope you will enjoy this publication and find it informative.

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If you have any queries or would you like more information, please contact us by sending an email to info@bvsa.ltd.

Kind regards,

Pieter Wessels



What are the consequences of the increase in the dividends tax rate for shareholders of private companies?

In Pravin Gordhan's 2017 budget speech he announced that the rate for dividends tax will increase from 15% to 20%, effective from 22 February 2017. This is a 33% increase in the dividends tax rate. What are the consequences of this rate increase for shareholders of private companies that live out of their companies' profits?

Dividends Tax is a tax raised on shareholders of companies (beneficial owners) when a dividend is paid to them. The tax is withheld by the company paying the dividend and then paid over to SARS on behalf of the shareholder. For example, if a company pays a dividend of R100 to an individual or a trust, the shareholder will only receive R80 (before 22 February 2017: R15) and the company will pay R20 (before 22 February 2017: R15) directly to SARS on behalf of the shareholder.

The Budget Review states that the increase in the dividend tax rate is a direct consequence of the increase in the top marginal tax rate for individuals from 41% to 45%. The effective tax rate, taking into account companies tax of 28% and dividends tax of 15% was 38.8%. This is much lower than the top marginal tax rate of 45% for individuals. Therefore, if the dividends tax rate was not increased, it would increase the opportunity for people, particularly the self-employed, to engage in tax arbitrage by paying themselves dividends instead of a salary.

The question thus arises if remuneration, in the form of dividends, is still a sensible option after the increase in the dividends tax rate. The situation before 22 February 2017 was as follows:

If a company made R100 profit, it will be liable for normal tax of R28 (28%). Profit after taxation will therefore be R72. The company then declares and pays a dividend of R72 to its shareholder and pays R10.80 (15% on R72) over to SARS, which leaves the shareholder with R61.20. The total tax paid in the group is R38.80 (R28 plus R10.80). If the company pays out all profits in the form of a salary to its

shareholder, there will be no taxable income in the company and therefore no tax. The shareholder will pay tax in his own capacity as per the SARS tax tables below:

2018 tax year (1 March 2017 - 28 February 2018)

Taxable income (R)	Rates of tax (R)
0 – 189 880	18% of taxable income
189 881 – 296 540	34 178 + 26% of taxable income above 189 880
296 541 – 410 460	61 910 + 31% of taxable income above 296 540
410 461 – 555 600	97 225 + 36% of taxable income above 410 460
555 601 – 708 310	149 475 + 39% of taxable income above 555 600
708 311 – 1 500 000	209 032 + 41% of taxable income above 708 310
1 500 001 and above	
533 625 + 45% of taxable income above 1 500 000	



The shareholder can therefore receive a salary of up to R555 600 before he will be taxed at a higher tax rate than the effective rate of 38.8%.

Based on the above it would make sense to pay a salary of R555 600 to the shareholder and to pay any further remuneration in the form of a dividend.

After the increase in the dividends tax, the situation changes materially, as follows:

If the new dividends tax rate was applied in the above example, dividends tax on the R72 after tax profit would be R14.40 and the total tax payable would be R42.40 (the new effective tax rate is 42.4%). It would therefore result in less tax payable if a salary of up to R1 500 000 was paid to the shareholder before any dividends were declared.

There are many factors that can influence the above. A Small business corporation for example, has a lower effective tax rate than 42.2%, as normal tax rates are raised at a lower rate up until a profit of R550 000.

A Small business corporation with a February 2017 year end and profit before tax of R550 000 will have an effective tax rate of 28.6%, which should encourage remuneration in the form of dividends.

It is important to note that the above explanations are purely from a tax point of view. There are many other factors which would influence an entity's decision to declare or not to declare a dividend.

Article by Helena Nel



Q1Y17 Feedback:

The biggest event for every investor in South Africa this quarter was surely the downgrading of South Africa's credit to "Junk Status". This is the result of unwelcome cabinet changes, political uncertainty and uncertainty with regards to economic policy in South Africa.

Globally investors are allergic to any kind of uncertainty. When your newly appointed minister of finance promises that economic policy will not change, BUT that "Radical Economic Transformation" will be implemented, it makes you wonder what is going to stay the same?

The question that comes up in discussions constantly is: "What influence does junk status have on me and my investments?" Below a short and simple explanation:

1. South Africa already has a budget deficit. The deficit is financed through state-borne loans. This results in more interest payable and therefor an enlarged deficit towards the end of the financial year and for the subsequent years of debt.
2. The Government needs to be able to pay the bigger (and higher) interest thus something must be sacrificed. Neither the number of Government employees, nor their salaries will be cut and the same holds true for SASSA. Therefor there will be less investment in the economy in order to be able to pay the increased interests.
3. More tax can be charged to citizens to help carry the bigger interest burden. This can happen in a number of ways, of which we are not going to speculate about in this piece. The tax burden will fall on the middle and high-income citizens.
4. The effect on the economy is in other words, less government investment, less support for businesses and fewer government contracts available to businesses. Interest rates will stay higher for longer and cost of capital can increase. As a result profit margins and profit growth will come under pressure, which should cause a lower growth in the stock market.



My appeal to every person reading this is to not become emotional about your investments. It is very risky to make short term decisions in a market like the current one. History has taught us that investors who make short term decisions in times like these cause great damage to the value of their investments. Sometimes the side-effects of this type of behaviour are other short term emotional decisions.

Take note that for 1 January to 31 March the stock exchange performed 3,78% positive. The Rand is already back to the level where it started in January against the Dollar, Pound and Euro. All of this after the political antics and the downgrading. We are all in agreement that there are things in South Africa that need to change, but stay positive and be part of the change. Do not merely stand on the side-line pointing a finger.

Speak to your financial advisor and make sure that your long term goals are still in place. A diversified portfolio can limit risk and volatility. The world is in an environment of political and economic uncertainty and volatility might stay with us for quite some time. Remember, quality passes most tests.



Q2Y17 What awaits us...

The French election is in the forefront and the result has never before been this uncertain. How will the election result influence the Euro and European Union?

Will America and North-Korea's threats escalate? The Reserve Bank of America (FED) is already discussing the end of the stimulus program... How will this affect interest rates on securities and liquidity in America? Global stimulus amounts to \$13 Trillion (America, Japan, Europe).

Yet, man always finds a way to survive and maintain his standard of living.

Article by Financial Services

Why your website matters

A website is not only a requirement, it is a necessity. In the race to master new tools and techniques for social media, companies tend to forget about the central and most important online presence; the website. The Information Age, also referred to as the Digital Age, is characterised by the shift from traditional industry to an economy based on information computerisation. This shift caused an internet revolution and as a result also shifted industry trends and customer expectations, amongst other things.

Consumers expect companies to not only have an online presence, but to adapt and change their presence to suit their needs. Why have online networks and social media profiles if it bears no value to the company or its stakeholders? All communication efforts need to be re-evaluated, adjusted and aligned to uniform both the business' objectives and the customers' needs in real-time.

When it comes to online media; a company's website is its primary source of information; first form of contact with countless customers and its most prominent online brand ambassador. As per an Infographic compiled by MineWhat.com, 81% of shoppers conduct online research before making a purchase. Based on this and countless other recent statistics released, it is evident that the digital era is affecting consumers' decision making processes.

Consider the following scenario:



You see an impressive deal on Groupon offering 75% discount on flights and accommodation at a five-star luxury game ranch in Botswana.

Would you buy the coupon before conducting online research about the lodge and airline offering the deal? Would you read online recommendations of people who have been to the lodge?

No matter the products or services; if you have customers, then you probably have people searching for and talking about your brand online. The question is; are you going to be part of the conversation?

Here are a few points to remember:

- Social media efforts end up driving traffic somewhere. You cannot have a beautiful and savvy Facebook presence that funnels customers to a boring, inaccurate website.
- A well-crafted website is essential to every business. It can accomplish many goals, from informing a customer to making a sale.
- With significant website traffic coming from mobile devices, companies can't afford to ignore mobile technology.
- Customers expect simple websites that are easy to navigate around.
- Establishing a good first impression and brand recognition can go a long way in customer loyalty.
- A website should always grow in importance and relevance.
- A lot of online and offline activities lead to one source – your website.
- You are the image you portray.

A website can be the most important investment you make. To thrive in business, you should set yourself apart from your competitors to stand out. You wouldn't have your teeth fixed by a mechanic; so don't leave your most valuable asset in the hands of anyone less than an expert.

If you are unclear if your website is performing optimally, contact BVSA Communication today for a free website audit.

Article by BVSA Communication



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