RichardCluverPredicts

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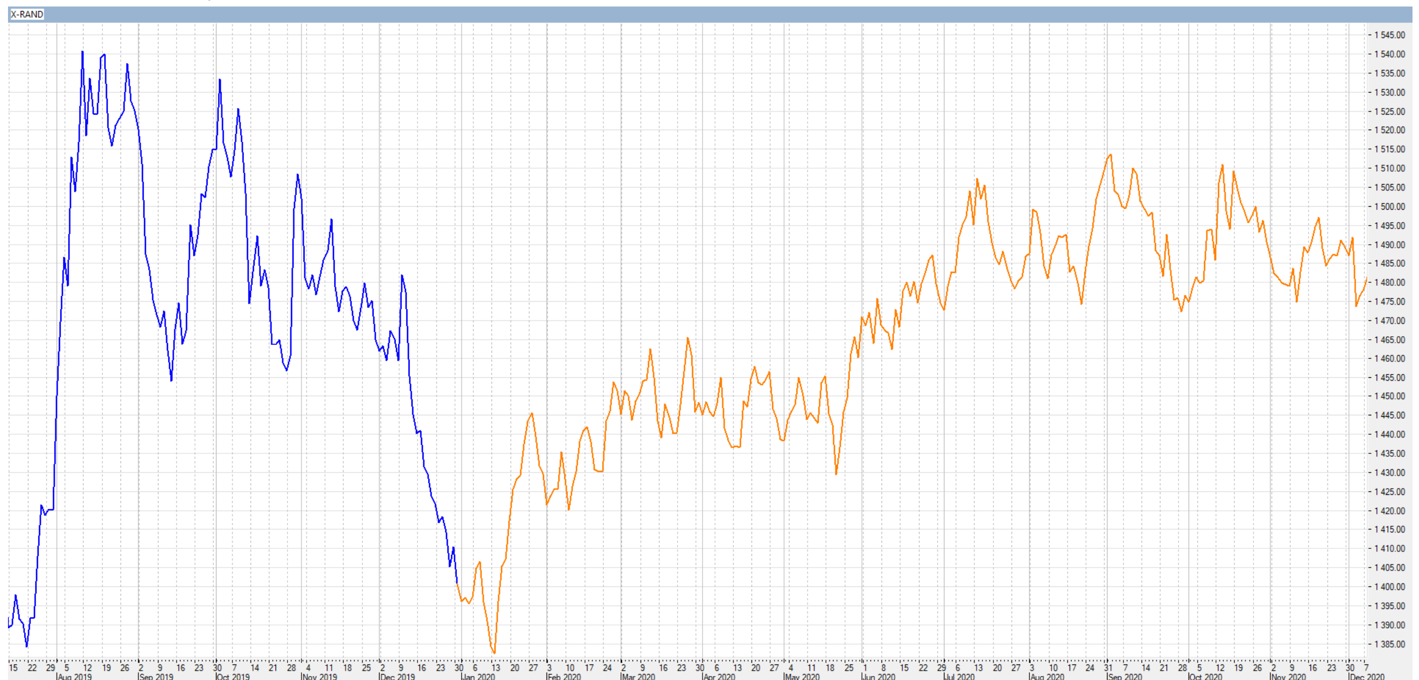
Beginning this New Year on a somber note, the SA Reserve Bank is warning South Africans to brace themselves for increased taxes, lower corporate and household income and investment, and a protracted period of low economic growth.

Given the Government's ballooning deficit and consequent debt, investors need to face up to the growing probability that Treasury will be forced to turn to the International Monetary Fund for help with the chilling consequent implication that our financial system will no longer be our own. In effect we would be under judicial management, the Rand would plunge in value and President Cyril Ramaphosa could in all probability kiss his foreign investment project goodbye.

Furthermore, the bad news is that ShareFinder also projects just such a collapse of the Rand this New Year as the graph below illustrates. If ShareFinder is correct, the Rand reached its strongest point on December 30 at R13.96 to the US Dollar and then weaken steadily until September 2 when it is likely to be worth around R15.24 to the dollar:



Under IMF supervision, which would be a necessary consequence of a bail-out from the world bank, at the very least government employees might expect something akin to a salary freeze, loss-making State Owned Enterprises might be forced to accept privatization and, as the Reserve Bank has warned, tax-payers might expect an increased burden of taxes.

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Increasingly too, the wealthy have been warned to expect that they might have to shoulder a bigger proportion of the tax burden. So, for example, investors in South Africa pay only a 20 percent dividend tax while the European average is 23.5 percent. Socialist countries like Norway go as high as 31.7 percent with France at 34 percent and Britain at 38.1 percent though in return these offer their taxpayers considerable state benefits that South Africans do not enjoy.

US citizens are subject to dividend taxes in line with their income levels. Thus, you need to be in receipt of income greater than $400 000 (R5.6-million) to pay Uncle Sam dividend and capital gains tax of 20 percent whereas people on the bottom rung of the tax ladder in the USA pay nothing at all.

Everywhere, however, both dividend and capital gain taxes are controversial with many tax authorities arguing that they cost more to administer than they bring in for the fiscus while most developed countries are painfully aware that these taxes are a leading cause of high net worth people emigrating to tax havens and low-tax destinations which are many. This is particularly so in South Africa where the high rates of tax applied to wealthy people is recognized as one of the leading reasons for emigration and the so-called “brain drain” of highly-skilled individuals.

For retired South Africans living on their investments, establishing a home on nearby Mauritius, for example means you would no longer have to pay such taxes. Imagine increasing your effective annual income by 20 percent! The table below lists the equivalent rates of 105 countries, the great majority of which levy lower dividend taxes than South Africa:

Country	Withholding Tax
Argentina	7%
Australia	30%
Austria	27.5%
Bahrain	0%
Bangladesh	20%
Belgium	30%
Bosnia	5%
Botswana	7.5%
Brazil	0%
Brazil (Interest on Capital)	15%
Bulgaria	5%
Cambodia	14%
Canada	25%
Chile	35%
China (Mainland Incorporated)[1]	10%
China (Offshore Incorporated)[2]	0%
Colombia	7.5%
Côte d'Ivoire	10%
Croatia	12%
Cyprus	0%
Czech Republic	35%
Denmark	27%
Ecuador	0%
Egypt	10%
Estonia	0%
Finland	30%
France	30%
Georgia	5%
Germany	26.375%
Ghana	8%
Greece	10%
Hong Kong	0%
Hungary	0%
Iceland	20%
India	0%
Indonesia	20%
Ireland	20%
Israel	25%
Italy	26%
Jamaica	33.33%
Japan	20.42%
Jordan	0%
Kazakhstan	15%
Kenya	10%
Kuwait	0%
Latvia	0%
Lebanon	10%
Lithuania	15%
Luxembourg	15%
Macedonia	10%
Malawi	15%
Malaysia	0%
Malaysia REITs	10%

Country	Withholding Tax
Malta	0%
Mauritius	0%
Mexico	10%
Mexico REITs[3]	30%
Montenegro	9%
Morocco	15%
Namibia	20%
Netherlands	15%
New Zealand	30%
Nigeria	10%
Norway	25%
Oman	0%
Pakistan	15%
Palestine	0%
Panama	10%
Peru	5%
Philippines	30%
Poland	19%
Portugal	25%
Qatar	0%
Romania	5%
Russia	15%
Rwanda	15%
Saudi Arabia	5%
Serbia	20%
Singapore	0%
Singapore REITs	10%
Slovakia	35%
Slovenia	15%
South Africa	20%
South Korea	22%
Spain	19%
Sri Lanka	14%
Sweden	30%
Switzerland[4]	35%
Taiwan	21%
Tanzania	10%
Thailand	10%
Trinidad & Tobago	10%
Tunisia	10%
Turkey	15%
Turkey REITs	0%
Uganda	15%
U.K.	0%
U.K. REITs	20%
U.S.	30%
Ukraine	15%
United Arab Emirates	0%
Venezuela	34%
Vietnam	0%
Zambia	15%
Zimbabwe	10%

Turning to income taxes, South Africa is already cursed with the 17th highest rate in the world at 45 percent against an OECD average rate of 41.65 percent. Globally the highest marginal rates of income tax are paid in Denmark, Finland, and Iceland with respectively, 55.89, 53.75 and 46.24 percent. Furthermore, the proportion of high-income South Africans is so small relative to the total number of taxpayers that increasing this number would bring in little extra. Indeed, if the law of diminishing tax returns (that is expressed by the well-known Laffer Curve) is considered, such an increase would probably produce no benefit at all.

Only one tax increase could really make a difference. At 15 percent our VAT rate is lower than most of Africa's rates and just a one percent increase could bring in R25-billion. However, to put that into perspective, the government's wage bill is R518-billion a year. Given that the estimated inflation rate for the coming year is 5.2 percent, Finance Minister Tito Mboweni will need to find an extra R27 billion in the coming year just to ensure that public servants do not suffer a real salary reduction in 2020.

Then there are the 17.6-million recipients of the social wage which cost the state R376-billion a year. To ensure that they do not experience a real income decline in 2020 would cost the government R19.5 billion. Noting the uproar from the trade unions when VAT was increased by just one percent last year and recognizing that at least another two percent increase would now be needed just to service the two above costs, it is clear that a political storm lies ahead. Clearly the Minister of Finance has very little wriggle room left!

Meanwhile, the bad news about our economy extends, furthermore, to JSE shares. The next graph indicates ShareFinder's projection that the collapse of the JSE Industrial index, which is down 12 percent since its May peak, will continue throughout this year:

The outlook is, however, not all bad. For those who follow my Prospects Portfolio which I detail every month in the Prospects newsletter, their capital has been growing strongly at better than four times the inflation rate and 2020 should be no different. ShareFinder projects that it will continue growing at compound 18.5 percent in the coming year as my last graph illustrates:

The month ahead:

New York's SP500: I correctly predicted one more brief up-surge followed by a quite sharp decline until approximately January 9 before a long up-trend sets in. Now I see further weakness until late February before the recovery trend begins.

London's Footsie: I correctly predicted a temporary up-tick followed by declines until the end of January followed by a long very erratic recovery trend… and that view remains.

Hong Kong's Hangsen: I correctly predicted gains amid extreme volatility which should continue until the market peaked today followed by declines until the first week of April ….and I continue to hold that view.

Japan's Nikkei: This is a new addition because it might well be the market that leads the Crash of 2020. Initially I see it falling until the end of February and then rising with great volatility until early September.

JSE Industrial Index: I correctly anticipated a very short recovery which peaked at the end of the year followed by declines until late May.

Top 40 Index: I correctly predicted a short recovery until Christmas followed by declines until the end of March.

ShareFinder Blue Chip Index: I correctly predicted gains would become volatile although the overall upward trend would continue until Christmas followed by declines until the end of March.

Gold shares: I correctly predicted a brief upward surge until year-end followed by declines until the end of July.

Gold Bullion: I wrongly predicted weakness until mid-January ahead of a brief recovery but that has merely been delayed. Now I see a volatile decline until the first week of March.

The Rand/US Dollar: I correctly predicted the recovery trend would continue until the second week of January when a long phase of weakness was likely to commence and I still hold that view.

The Rand/Euro: I correctly predicted gains followed by weakness until July and I still hold that view.

The Predicts accuracy rate on a running average basis over the past 723 weeks has been 85.41%. For the past 12 months it has been 93.48%.

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