Our Weekly Paid Newsletter

Richard Cluver Predicts

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The debate about the need for a wealth tax to be levied upon South Africa's wealthy has preoccupied my thinking all week, particularly because Finance Minister Enoch Godongwana – who on an annual salary of R2 211 937 just escapes the top income bracket – is going to find it almost impossible to balance the conflicting demands of our 30-million unemployed citizens with the country's dwindling tax income.

So who are South Africa's top ten percent and how wealthy are they really? SARS figures suggest they number 3 540 000 out of a total population of 61.26-million…so they are fewer than six out of every hundred. Popular perception is that they are the wealthy who drive fancy cars, live in suburban palaces and send their children to posh private schools but that is about as wrong as any other South African myth!

The following table lists, as far as I have been able to determine, South Africa's broad income brackets:

	Income per year	Total wealth
Top 1%	**R2 584 000**	R16 884 350
Top 10%	R783 750	R2 628 650
Middle 40%	R82 650	R128 250
Bottom 50%	R12 350	– R15 200

Data from BankservAfrica for last October shows that the average monthly take-home pay in South Africa is R15,489….or R185 868 a year. So the implication is that every South African with a half-way decent job slots in just below the top ten percent as does pretty much everyone who owns a home in the suburbs of our leading cities.

So are the top ten percent really so well off? To try and put that income level of R783 750 into proper perspective I went in search of average living costs in South Africa starting with the fact that the average South African family spends R8 796 a month on groceries alone. That's R80 580 a year and it is growing at a frightening 13.6 percent annually.

Then, given that everyone wants to own their own home, there is the ever-increasing burden of municipal charges over which property owners have practically no control. A study by The South African Cities Network provided the table on the right which breaks ratepayers into four income groups to determine that, on average, low-income households (type A) are paying around R1,425 per month for services – while high income households (type D) are paying over four times as much, at R6,119…..and usually a whole lot more in cities like Durban which apparently believes its ratepayers are cash cows who can be milked whenever a new staff bonus is conceived to placate the ANC cadres in its midst!

The authors of the SA Cities study divided household incomes into three main groups: **Income bands 0–4** (households with incomes less than R3,200 per month (in 2011 Rands) account for around 53% of all city households. **Income bands 5–8** (households with incomes of R3,200–R51,200 per month account for 42% of all city households. **Income bands 9–11** (households with incomes of above R51, 201 per month account for just 5% of all city households and pay the bulk of municipal bills.

However, the mean of South African income earners fall into category C and represent 47 percent of all ratepayers. So, to the grocery total of R8 796, let's add R3 259 to take expenditure to R12 055….and now it is easy to understand the rush of householders to install solar panels in order to escape Eskom load-shedding and simultaneously escape the tyranny of municipalities' on average doubling Eskom's bulk charge.

SERVICE CHARGES	AVERAGE COST IN NOMINAL RANDS			
	A	B	C	D
Property rates	84	211	421	843
Electricity charges	643	816	1,486	3,249
Electricity basic levy	33	33	96	96
Water charges	393	516	647	1,016
Water basic levy	9	9	9	9
Sanitation	159	272	440	722
Solid waste	97	137	153	177
Other	7	7	7	7
Total	1,425	2,001	3,259	6,119

Then there is the cost of providing a roof over your head. Ooba notes that the average bonded property in South Africa has climbed to around R1.43 million. With a 10% deposit, that amounts to a monthly repayment of R11,579 at an interest rate of 9%. However, the reality of leafy suburbs like Kloof where I live in KZN is an average house price of R3 435 000. And that is very modest compared with Constantia and Bishopscourt in the Cape where R14-million gets an average home......demonstrably beyond the reach of the top ten percent!

Furthermore the average family cannot manage without at least one car. Vehicle financing company Wesbank recently noted that the average value of new cars financed was R352 208. Without a deposit, the estimated monthly repayment on that amount is R7, 163 over a 72-month repayment term.

For this you can forget vehicles like the bottom end Mercedes C class which starts at R849 000 or the BMW I series which starts at R655 000. Think instead VW Polo at R247 000 to R332 800.

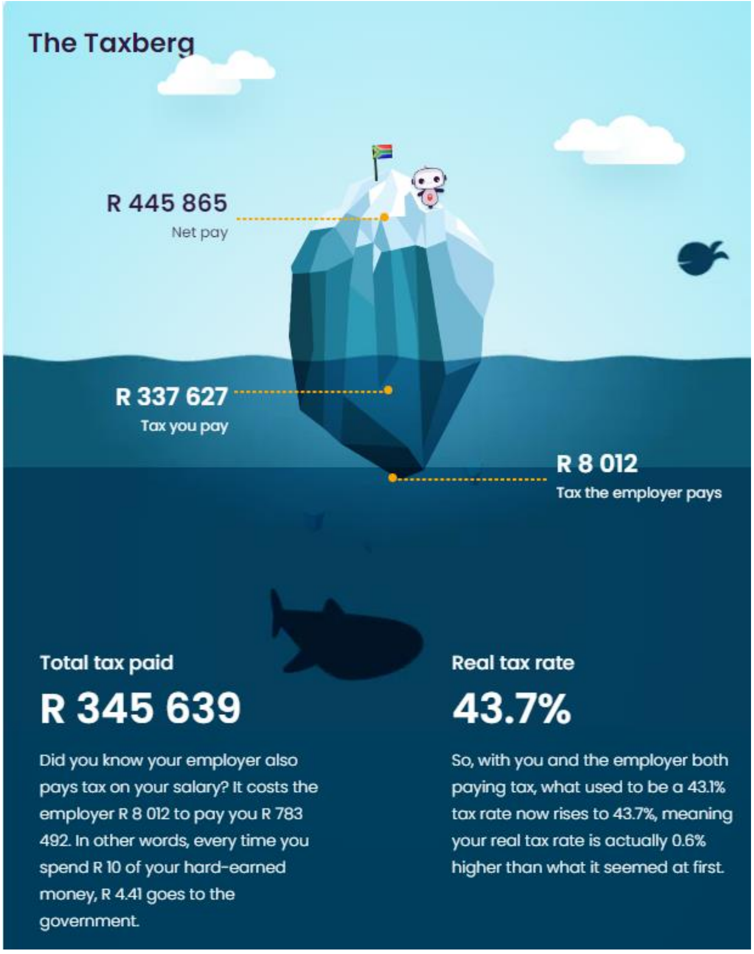
All of this is before one has to fund education costs at anywhere between R30 000 a year for a government school to R200 000 for a private school. So let us choose the middle point of R85 000 or R7 083 a month for one child.

Adding all these things together takes us to an average living cost before 'luxuries' like annual holidays, clothing and entertainment have to be costed.

So one might conclude that the average family needs an income of R37 880 just to meet the basic costs of living. If you relate that to the income table I printed at the top of this column, you will obviously conclude that if you want to enjoy such luxuries as an annual holiday or a slightly better home than average suburbia offers, you need to be at least in the top ten percent.

But look what the tax man grabs from that figure. The following graphic provided by ZA.talent.com gives you the chilling answer. In simple terms, if you are currently a Top Ten Percenter you will have just R37 177 a month after tax to pay for all your family's basic needs, leaving absolutely nothing for luxuries......that's a deficit of R6 786 if you have two children getting a half way decent education.....and I still have not costed in items like a medical aid plan and savings for retirement.

Its small wonder then that SARS supremo Edward Kieswetter told a PSG on-line conference earlier this month that the revenue service was NOT pushing for higher taxes – on the contrary, he said that the tax burden on South African taxpayers should be lighter. “SARS is of the view that the compliance dividend means that there is no need to raise taxes,” he said.



I guess a lot of SA taxpayers who are already half-way packed for Perth will be listening with heightened interest next Wednesday when Enoch Godongwana delivers his annual budget speech. Clearly even the Top 10% have breaking backs.

But don’t think that emigration will necessarily solve your problems. The average salary in Australia is 7 570 Australian dollars per month. That’s approximately R94 000. But then you need to factor in the fact that, according to web site Numbeo, consumer prices including rent in Australia are 147.7% higher than in South Africa, rentals are 207.8% higher than in South Africa, restaurant prices are 126.5% higher and groceries cost 168.1% more than in South Africa

The average income in the US is $5 088 per month which equates to R90 492. But, consumer prices including rent in United States are 144.1% higher than in South Africa. Rentals are 258.4% higher than in South Africa. Restaurant Prices in United States are 120.5% higher than in South Africa and groceries are 152.1% higher.

Both figures however, underscore why so many of our best educated folk are emigrating. Never mind load shedding, crime, failing municipalities and all the other angst of the average South African’s life. The stark reality is they are likely to have far more to live on at the end of the month!

Not surprisingly, the average First World citizen knows his tax burden is unfair. Unlike their parents where mother ceased working after the birth of the first child and grandparents where mother never worked, modern families demonstrably cannot get by without both partners working.

Furthermore, educating the current generation of youth is now beyond the means of most couples and so student loans have become the norm....which explains why young couples cannot afford their first home until they are well into their 30’s and have paid off their student loans.... and why for many children have become an unaffordable luxury....because couples cannot afford to stop working and child care costs are equal to the average wife’s take-home pay...but let me not get onto the subject of bloated governments and excessive taxation!

The month ahead:

New York's SP500: I correctly predicted the market would see a brief retraction until the 23rd before the next month-long upsurge occurs and I continue to see that decline followed by gains until March 24 ahead of the next retraction to April 13.

Nasdaq: Similarly with The S&P500, I correctly predicted a decline which I still expect will last until the 21st followed by a recovery trend until March 21 ahead of weakness until late April.

London's Footsie: I correctly predicted the start of modest gains which I now see lasting until March 22 ahead of a ten-week retraction. Overall, however I see gains until late October.

France's Cac 40: I correctly predicted a decline which I still expect to last until the 17th followed by a long recovery which I continue to expect will last until early July.

Hong Kong's Hangsen: I correctly predicted the beginning of a decline which I still expect to last until early May before the next long recovery begins.

Japan's Nikkei: I correctly predicted an interim market peak within a protracted decline which began last August and is likely to last until late April before the next long but volatile recovery trend begins. Now I see brief gains until from the 20th until the end of March.

Australia's All Ordinaries: I correctly predicted that the start of declines until this week ahead of further gains to March 23 when I expect another brief decline to April 13 followed by fairly steady gains until late August.

JSE Top 40 Index: The decline began a fortnight earlier than I had expected but I expect it to last all the way to mid-October.

ShareFinder JSE Blue Chip Index: I correctly predicted the beginning this week of a long but VERY volatile recovery until mid-October.

Rand/Dollar: I correctly predicted weakness which I expect to last to March 7 followed by a brief recovery until March 22 then weakness until April 6 followed by gains all the way to November.

Rand/Euro: I correctly predicted weakness which I still expect to last until early April followed by a six-week respite to late May and then further weakness until June 20 ahead of a long recovery to next January.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.88 percent. For the past 12 months it has been 94.38 percent.

SOUTHERN AFRICA – TOWARDS INCLUSIVE ECONOMIC DEVELOPMENT (SA-TIED)

by SA-TIED

South Africa is, by most contemporary measures, the most unequal country in the world. Yet, relatively little attention has been given to country's wealth inequality. It is crucial to accurately measure the concentration of wealth inequality over time, identify the root causes of the current persistence of extremely high levels of inequality in South Africa, and eventually understand how to best overcome it.

In South Africa, net household wealth is extremely unequally distributed — the top 0.01% (3,500 individuals) own 15% of aggregate national wealth, more than the bottom 90% of the adult population (32 million individuals)

All forms of assets are unequally distributed — notably 99.8% of bonds and stock, which account for 35% of total wealth, are owned by the richest 10%

There is no sign of decreasing wealth inequality since the end of apartheid, and these levels of concentration greatly exceed wealth inequality estimated in other countries

This brief looks into the evolution of wealth inequality during 1993–2017. The evolution of income inequality is relatively well known from the existing literature, but no previous study has attempted to track wealth inequality over time.

Household wealth is extremely concentrated

In South Africa, net household wealth is extremely concentrated, with the top decile owning 86% of total net wealth.

Net household wealth is also extremely concentrated within the top 10%. The top 1% of the South African adult population (350,000 individuals) own 55% of aggregate personal wealth, and the top 0.1% alone (35,000 individuals) own almost a third of wealth. The top 0.01% of the distribution, amounting to some 3,500 individuals, own about 15% of household wealth, greater than the share of wealth owned by the bottom 90% of the population consisting of 32 million individuals.

The bottom 50% of the South African population have negative net worth: the levels of the debts that they owe exceeds the market value of the assets they own.