



## CMEFS WEEKLY INVESTMENT NEWS

23-10-2020

Hello and welcome to this week's edition of Investment News.

Before we go into this week's discussion, let's see how the CMEFS Flexible fund has done for the year thus far as compared to the All Share Index (ALSI)

Fund	Last week Thursday	This week Thursday
ALSI	-4.35%	-3.93%
CMEFS Flexible Fund	+0.60%	+0.97%

Before getting into this week's news, just a quick update to say that we are making great progress in so far as re-engineering just how we are going to manage your individual portfolios going forward given the new uncertainties and opportunities that present themselves as a result of the Covid-19 pandemic. There is still a way to go, but as always, we like to be thorough. In the meantime, we are happy to remain invested "as is" for the time being as we believe this to be the best strategy for now.

Now onto the subject of this week's newsletter, this being the fragility of the South African tax base, from which ALL government's funding is derived from which ALL debts incurred or secured by the government need to be repaid.

In this regard, I reproduce in full below a brilliant article written on the subject by one Neil De Beer, who is the president of the IFA and advises numerous African states on economic development [www.ifa.africa](http://www.ifa.africa).

IFA is an acronym for Investment Funds Africa. Investment Funds Africa is **putting money back into Africa**. Their mission is to advance and enhance 55 countries on the continent of Africa. IFA focuses on four main cornerstones: housing, communication, education, and infrastructure.

Outside of the article being a brilliantly written article, I think the work done by IFA is nothing short of amazing given the prevailing negativity that surrounds anything to do with Africa, including South Africa.

I never cease to be amazed at just how much good is being done by so many in the background, in most cases quite unbeknown to us, for little or no reward other than knowing they are making a real contribution to the welfare of others when and where most needed, so well done to Neil and his team.

As always, **all emphasis is my own** and *my own comments in italics*.

IF YOU GOOGLE today in your search engine “South Africa’s population today” it will show 59.53 million.

And if you search for “annual tax” report published by National Treasury and the South African Revenue Service (SARS) payers 2019” the first paragraph gives you the core reasons **why public infrastructure is worsening and living standards are falling**.

Debt levels continue to rise, as does the unemployment rate and all are related to the 56 million people that do not pay tax as only **3 million carries the burden of a nation**.

*Yet another reason for real new real jobs to be created to broaden the taxpayer base for the benefit of all.*

*When I say new **real jobs**, they would exclude, for example, the very necessary continuation of the expanded public works program recently announced by President Cyril Ramaphosa, as these are entirely government-funded jobs and do not add to the creation of new wealth but simply redistribute existing wealth.*

*New wealth is created when people apply themselves in such a manner that their outputs exceed the inputs of that endeavor, whatever that endeavor might be.*

South Africa’s economic growth in the last few years has simply underperformed and lagged behind the global as well as emerging markets even to the point that Nigeria is the best economy on the African continent.

*However, if you extracted their oil revenue from the equation, this would no longer hold true. In fact, right now they are struggling because of the depressed oil price.*

Our current gross domestic product performance on a per capita basis is the weakest since the 1960s according to the Tax Statistics of 2019.

*What this means in plain English is that we are producing less and less per South African head, with the decline starting in 1960 with no turning point in sight just yet.*

*The employment situation at Eskom vividly illustrates this very point.*

*Going back several years, a staff complement of only around 1/3 of the present staff complement of Eskom produced **exactly the same amount of electricity** that is being produced today.*

*So whatever it took 1 person to do back then, now takes three people to do.*

*And this situation is not unique to Eskom.*

*I might get into trouble for this, but for this, I lay the (initial) blame squarely at the door of the unions.*

*The ultimate blame, however, as I see it anyway, lies with the government, in that being reliant on union votes to return to office, makes it unable to enact any legislation that might upset the unions in any way whatsoever.*

*I have often said that our country is not being run by the government elected to office, but by the unions, by way of their undue influence on government policy.*

*Note that this is not an anti-union or anti-government stance.*

*It is merely commenting on the fact that any such governmental/organizational alliance is not in the best interests of any country as it becomes impossible for any governing party to act impartially when it comes to enacting policy or legislation that is in the best interests of the entire population, rather than a self-interested segment of it.*

So it is vehemently obvious that this hand full of taxpayers, (3 million carrying the needs of 60 million) cannot fund schools, roads, water networks, and hospitals, and the various social grant for a country that is continually growing.

As I am writing this 10 more people were added to the population numbers.

To make matters worse tax estimates for 2020 are speculated to vary from somewhere between R150 billion and R250bn in under-collections due to our global Zoonotic (*a disease transmitted from animal to man*) friend Covid-19.

The question remains how many billions will be collected at the end of the year from personal income tax, as more than 30 000 companies were battered by the Covid-19, which is still in "lockdown".

SARS and the Treasury have exhausted their option in raising more tax from individuals' salaries as revenues from the tax are simply constrained due to low business and investor and consumer confidence for the last couple of years.

The year 2018 was a prime example, where low economic growth reduced tax revenues while government spending continued to increase on state-owned enterprises, particularly Eskom and the 10 years of state capture.

So how can we solve the problem?

Well as a nation we can (*have to – whether the unions like it or not*) downsize the bloated government sector and its wage bills (*even in the midst of this Covid-19 generated unemployment crises the unions are "demanding" that government sticks to its agreement to increase (already significantly overpaid compared to the private sector) government salaries by around 6%pa for the next three years. This is utter madness.*)

Last year the World Economic Freedom Index designed by top scholars from many specialties **including three Nobel Laureates** was **perplexed by our large government** for a nation still in its developing stage. (*Go figure...*)

Another possible regime could be to implement a “friendly” tax regime as a direct stimulus to the economy, Develop local business, and small enterprises Medium and micro-enterprises and reduced tax will be a direct incentive for growth.

*I long ago wrote to the treasury and suggested that any and all start-up small businesses be exempted from any form of tax in the first 5 years of their existence as 90% of them will fail anyway.*

*They should also be exempt from anything but the most basic tenets of labour and similar regulation, being able to hire and fire at will.*

*In this way, people will be encouraged to “have a go” knowing that they are not going to be tied up in onerous tax administration issues.*

*They will also not be “marrying” any person they might want to employ. If things don’t go well, they can simply just let that person go rather than having to enter into (very) onerous and costly “divorce” proceedings via the CCMA.*

*We have a pool of 60 million people. If just 2 000 000 of them were encouraged to “have a go” at opening a small business and each of them employs on average 3 people, that will create employment opportunities for 6 000 000 other people.*

*I have no idea why the idea of “make it easy and it will happen” is a fundamental idea that seems to never get any traction with the lawmakers.*

*It will also instill a really great work ethic in the labour force in general, as their first experience of work will be “shape up or ship out” rather than the “married for life” ethic that seems to be the prevailing ethic at this time, the end result of which is the falling gross domestic product performance on a per capita basis referred to above.*

When you look at the research of the World Economic Freedom Index it found that South Africa’s high top marginal tax rate prevents the country from building wealth and increasing wealth.

South Africa’s top marginal income tax rate is at 45 percent compared to the low percentages found for its sub-Saharan competitors and even the world average, which is at 28 percent.

*However, the smaller the tax base the higher the tax rate needs to be, as more and more money needs to be collected from fewer and fewer taxpayers.*

*At its present rate of 45%, it cannot be increased further as then the law of diminishing returns will kick in, in that there is a point beyond which taxpayers feel morally justified in not only avoiding tax but also evading it, resulting in a lesser tax collection despite an increased rate.*

Reduce company tax as US President Donald Trump and the UK did even before Covid-19.

I think company tax should be reduced to 15 to 17 percent because it is simple, the higher tax will generate less income. *Agreed.*

Reducing it can allow more companies to be established as **from 2015 the number of companies registered at SARS declined from 3.2 million to the present 2 million** and we need more companies because we need food on the table, our people need work.

*People, **this was before Covid-19.***

*In 5 years we lost 1, 200, 000 companies that were not only busy employing people but were also contributing to the tax base.*

*This is 240 000 companies a year lost or otherwise put, **657 companies a day!***

Most important of all is we need structural reforms such as stabilising state-owned enterprises particularly Eskom, the political will to implement the National Treasury's growth plan, and palpable action to recover all our "bad decisions in the past 20 odd years" to push forward a solidified plan for the future of our country.

And as I finish this article with you, 300 more people were born, and I have not read online opportunities created to fix an economy that has failed to generate the growth necessary to produce a better life for all South Africans.

We look forward to this game-changer plan for South Africa, but I must conclude by saying it is only by way of exercising our independent vote in 2024 that we can truly change things and the changes happening now in the voting process can and will change South Africa for the better to create a better life for all South Africans.

*But in the meantime, we must not "wait" for change to happen, or adopt a "defeatist" attitude.*

*There is **always** something we can do in the **now** to improve the life of **someone**, even if it is only **one** person, and if a few million of us do just this, it will bring improvement to the lives of **millions** of people.*



*Let's do this!*

I hope you enjoyed the read. Until next time then, do take good care of yourselves. Kind regards, Nine, Charles, and the rest of the team at CMEFS.