

## Food for thought for Golden Geese

My initial reaction echoed the frustration of most market commentators when it was announced that the golden goose was ushered another step closer to the chopping block.

Putting emotions aside, however, provides for some interesting food for thought when considering different perspectives.

There needs to be a clear distinction between the following 2 aspects of our tax system. On the one hand, we need to establish whether the current tax dispensation is indeed flawed, as speculated by many, considering SA's unique circumstances. The other aspect is the callous and blatant mismanagement of taxpayer money.

Don't get me wrong, the corruption, waste and misappropriation of tax funds have reached epidemic proportions and it is the duty of each law-abiding citizen to do everything in his/her power to bring an end to this.

This is however a political and legal process that needs to take its due course, and before going down the road of a tax revolt (as apparently, many people are considering this) one must ask oneself the question whether breaking certain laws are better than breaking others, regardless of your motivation.

If we want to avoid seeing our country go up in flames, then those in the privileged position of earning an income (especially those earning high incomes) must bear this burden. How we call the current government to account for their mismanagement and ensure proper appropriation of tax funds is a separate issue.

If you are part of the defiant 0.2% of the population who have to handover 45% of your income above R1.5m to the tax man, and especially if you oversee your own and employee remuneration, please consider the following:

South Africa has the 2nd largest Gini coefficient (a measure analysing income inequality) in the world. According to an article by the Hay Group, the income gap between top management and the average worker increased by 23.2% from 2008 to 2014.

A study of the top 500 companies in America showed the factor that CEO remuneration exceeded the average worker's in 1950 was 20 times, by 1980 it grew to 42 times, by 2000 it was 120 times and in 2012 it was a staggering 200 times. Similar statistics are not readily available in South Africa, but a quick glance over one of our well-known small business enterprises latest financial statements confirmed my suspicion that this factor is even higher in SA in some cases.

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Examining the effect of the new tax table on a 6% increase in salary, you will notice that an individual earning R360 000 p.a. (typical middle class) before the increase will earn an effective increase of 5.26% after tax considerations, while an individual earning R2 million p.a. effectively earns “only” a 3.6% increase.

Bear in mind that for the middle-class person with a wife and 2 kids on his medical aid, the rise in medical aid premiums will engulf **40%** of his total increase whereas the impact on a golden goose will only be **13%**.

In reality, even though the new tax tables seem unfair, the gap between the 0.2% and the rest is still widening.

Studies in America also showed that the % increases for higher income earners is higher than the % increases for lower income earners. I can't confirm whether this is also the case in SA, although it most probably is.

Thorough contemplation of the above led to a few thoughts:

To my knowledge, SARS has yet to discover an instrument to tax TIME.

If you are a well remunerated individual, but sacrifice your own time (for yourself and/or time with your family, as many individuals do) to maintain this affluence, I urge you to re-evaluate the implications of continuing down this path. It is a proven fact that job satisfaction plays an important role in your overall happiness.

We also know that the marginal worth of an extra R1 starts to decrease over time, i.e. at some point in your life no amount of additional income will make you happier.

Trying to cram the hours of a 40-year career into 30 years does not make sense on several levels. You can, for example, greatly increase your after tax **per-hour income** by working 20% less hours, for a 10% decrease in salary.

If you are in the privileged position of determining your company's remuneration structure, ask yourself whether you can justify the difference in your salary and that of your subordinates.

This will inevitably result in an emotional debate, but I think people sometimes overestimate their own worth. The fact that the nature of your position in a company sometimes enables you to have a significant effect on the “bottom line”, not your superior intellect or strategic prowess, is often overlooked. I have also found this to be more evident in individuals who were appointed rather than founders of a company.

As to any rule, there are certain exceptions, and one of these is the former Executive Director of PPC cement, Mr Ketso Gordhan, who narrowed the remuneration factor between top management and average employees from 120 times to 40 times.

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Experience has proven though that philanthropy is not something you can do on another's (read the rest of top management's) behalf. The implementation of this type of philosophy in major companies therefore proves much easier said than done.

In smaller companies (of which there are thousands in SA) however, this mind-shift is a relatively easy obstacle to clear.

The old adage “with great power comes great responsibility” suddenly comes to mind when processing through this dilemma.

Whether we like it or not, to achieve a healthy functioning society the common principles of humanity and fairness cannot be ignored, and those fortunate enough to be able to rather set a bigger table than to build a higher wall have the opportunity to leave a legacy that consists of more than just accumulated family wealth.

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