

BUDGET STOP PRESS

BUDGET SPEECH 2018

"We are at a moment in the history of our nation when the people, through their determination, have started to turn the country around... Now is the time for all of us to work together, in honour of Nelson Mandela, to build a new, better South Africa for all."

- President Ramaphosa at State of the Nation Address (2018)

"We therefore decided that increasing VAT was unavoidable if we are to maintain the integrity of our public finances."

- Minister Gigaba

1. Personal Income Tax

In acknowledgment of the financially constrained taxpayer, the 2018 Budget brings about no adjustments to the top four income tax brackets and below inflation adjustments to the bottom three brackets. The table below illustrates the adjusted tax rates applicable to individual taxpayers and special trusts for the 2018/2019 tax year:

Tax rates for natural persons and special trusts 2018/2019 tax year	
Taxable Income	Rate of tax
R0 - R195 850	18% of taxable income
R195 851 - R305 850	R35 253 + 26% of taxable income above R195 850
R305 851 - R423 300	R63 853 + 31% of taxable income above R305 850
R423 301 - R555 600	R100 263 + 36% of taxable income above R423 300
R555 601 - R708 310	R147 891 + 39% of taxable income above R555 600
R708 311 - R1 500 000	R207 448 + 41% of taxable income above R708 310
R1 500 001 and above	R532 041 + 45% of taxable income above R1 500 000

With effect from 1 March 2018, all trusts excluding special trusts are taxed at a flat rate of 45%.

Tax rebates		
	2017/2018 Tax Year	2018/2019 Tax Year
Primary rebate	R13 635	R14 067
Secondary rebate (Age 65 to below 75)	R7 479	R7 713
Tertiary rebate (Age 75 and older)	R2 493	R2 574

Tax thresholds		
	2017/2018 Tax Year	2018/2019 Tax Year
Below age 65	R75 750	R78 150
Age 65 to below 75	R117 300	R121 000
Age 75 and older	R131 150	R135 300

This means that a taxpayer earning less than these thresholds will pay no income tax in the 2018/2019 tax year.

The examples below demonstrate the impact of the proposed changes on individuals younger than 65:

Tax impact for individuals younger than 65				
Taxable income (R)	2017/18 rates (R)	Proposed 2018/19 rates (R)	Tax change (R)	% change
150 000	13 365	12 933	-432	-3.2%
300 000	49 348	48 265	-1 083	-2.2%
500 000	115 824	113 808	-2 016	-1.7%
750 000	212 490	210 474	-2 016	-0.9%
1 000 000	314 990	312 974	-2 016	-0.6%
1 500 000	519 990	517 974	-2 016	-0.4%
2 000 000	744 990	742 974	-2 016	-0.3%

2. VAT

Fiscal debt + increased social security + education commitments = 1% VAT increase.

It is proposed that as from 1 April 2018 VAT will be increased from 14% to 15%.

The increase is necessary to meet new spending commitments and prevent further erosion of the public finances. VAT was last adjusted in 1993, and is lower than the global and African averages.

The VAT proposal will increase the cost of living of all households. However, the zero-rating on basic food items and paraffin will reduce the impact on the poor, who will receive further assistance through an above-inflation increase in social grants. The wealthiest 30% of households contribute 85% of the VAT revenue.

As from 1 April 2018, government proposes to amend the VAT Act to reflect the original policy intent, that only brown bread and whole wheat brown bread will be zero-rated. Products such as rye and low GI bread, which tend to be consumed by richer households, will not be zero-rated.

3. Estate Duty and Donations Tax

In line with the Davis Tax Committee recommendations, and in keeping with the progressive structure of the tax system, the 2018 Budget proposes to increase estate duty as follows (with effect from 1 March 2018):

- 20% on the first R30 million dutiable estate; and
- 25% on the dutiable estate above R30 million.

A basic deduction of R3.5 million is still allowed as an abatement in determining the dutiable estate after the deduction of liabilities, bequests to public benefit organisations and bequests to spouses.

The table below illustrates the taxation of the dutiable estate after allowance for the deductions and abatement:

Estate duty rates for persons dying on or after 1 March 2018	
Dutiable Estate	Rate of Estate Duty
R0 - R30 000 000	20% of each R1
R30 000 001 and above	R6 000 000 + 25% of dutiable estate above R30 000 000

Any donations above R30 million per tax year will also be taxed at 25% as from 1 March 2018. The first R100 000 donation made by a natural person and the first R10 000 donation made by a donor other than a natural person per tax year remains exempt from donations tax.

The table below illustrates the taxation of donations after the abovementioned exemptions:

Donations Tax Rates for donations on or after 1 March 2018	
Taxable Donation	Rate of Donations Tax
R0 - R30 000 000	20% of each R1
R30 000 001 and above	R6 000 000 + 25% of taxable donation above R30 000 000

4. Capital Gains Tax (CGT)

Inclusion rates remain the same and are as follows:

- Individuals and Special Trusts: 40%
- Companies: 80%
- Trusts (other than Special Trusts): 80%

The effective capital gains tax rates are as follows:

- Individuals and Special Trusts: 18%
- Trusts: 36%
- Companies: 22.4%

The annual exclusion for individuals remains at R40 000 and R300 000 in the year of death.

5. Interest Exemption

The interest exemption thresholds remain as follows:

- R23 800 per annum for taxpayers under the age of 65,
- R34 500 per annum for taxpayers aged 65 years and older.

It is expected that these amounts will remain unchanged in future.

6. Dividend withholding tax

The local dividend withholding tax rate remains unchanged at 20%.

7. Taxation of Small Businesses

The tax rates for **small** business corporations (gross income not exceeding R20 million) for financial years ending on any date between 1 April 2018 and 31 March 2019 are:

Tax table applicable to small business corporations ¹	
Taxable Income (R)	Rate of Tax (R)
R0 – R 78 150	0% of taxable income
R78 151 – R 365 000	7% of taxable income above R78 150
R365 001 - R550 000	R20 080 + 21% of taxable income above R365 000
R550 001 and above	R58 930 + 28% of taxable income above R550 000

The tax rates for **micro** businesses (turnover not exceeding R1 million per year) for financial years ending on any date between 1 March 2018 and 28 February 2019 are:

Tax table applicable to turnover for micro businesses	
Taxable Turnover (R)	Rate of Tax (R)
R0 - R335 000	0% of taxable turnover
R335 001 - R500 000	1% of taxable turnover above R335 000
R500 001 - R750 000	R1 650 + 2% of taxable turnover above R500 000
R750 001 and above	R6 650 + 3% of taxable turnover above R750 000

8. Transfer duty

The rates of transfer duty remains unchanged at:

Rate of transfer duty	
Property Value (R)	Rate of Tax (R)
R0 – R900 000	0% of property value
R900 001 - R1 250 000	3% of property value above R900 000
R1 250 001 - R1 750 000	R10 500 + 6% of property value above R1 250 000
R1 750 001 - R2 250 000	R40 500 + 8% of property value above R1 750 000
R2 250 001 - R10 000 000	R80 500 + 11% of property value above R2 250 000
R10 000 001 and above	R933 000 + 13% of property value above R10 000 000

¹ There appears to be a discrepancy between the table provided on the SARS website and the 2018 SARS Budget Tax Guide. The information in this table represents the table in the 2018 SARS Budget Tax Guide.

9. Medical Tax Credits

With effect from 1 March 2018, the initial monthly tax credit (for contributions to medical schemes) for all tax payers is R310 and for a taxpayer and his or her first dependent is R620, and an additional monthly credit of R209 is afforded to each additional dependent. These are below inflation increases to the medical tax credits.

For taxpayers younger than the age of 65 an additional tax credit will be given of an amount equal to 25% of the aggregate of:

- the amount by which their contribution exceeds four times their tax credit (for contributions), plus
- their out of pocket expenses

that exceeds 7.5% of their taxable income (excluding any retirement fund lump sum benefit, retirement fund lump sum withdrawal benefit and severance benefit).

For taxpayers 65 years of age or older, or taxpayers who are disabled or who have disabled dependents, an additional tax credit will be given of an amount equal to the aggregate of:

- 33.3% of the amount by which their contribution exceeds three times their tax credit (for contributions), plus
- 33.3% of their out of pocket expenses.

The additional tax credit afforded to employees who are 65 years and older with respect to their contributions to medical schemes may also be accounted for in the monthly PAYE calculations. This facility is also afforded to provisional tax payers who are 65 years of age and older.

Where multiple taxpayers contribute towards the medical scheme or medical expenses of a third party (for example, adult children jointly contributing to a parent's medical scheme), they may excessively be benefiting from this rebate. It is thus proposed that the medical tax credit should be apportioned between the contributing taxpayers where they carry a share of the medical scheme contribution or medical expenses.

The medical tax credit regime will be reviewed once the Davis Tax Committee presents its recommendations.

10. Tax-Free Savings Accounts

TFSA remains unchanged:

- Contributions are currently subject to an annual limit of R33 000 and a lifetime limit of R500 000.
- Investment returns, growth and payouts in respect thereof are tax free.

Any amount contributed in excess of the above limits will attract a levy of 40%. Cognisance should be given to these limits with the imminent transferability between accounts.

11. Retirement Reform

Taxation of contributions

Since 1 March 2016 as per the "T Day" tax reforms:

- Contributions by employers to all retirement funds became taxed as a fringe benefit in the hands of the employee member.
- The full employer contribution is deductible by the employer.
- The tax deductions for member contributions were simplified and improved with a uniform deduction of 27.5% of the higher of remuneration or taxable income (inclusive of taxable capital gains), with a yearly deduction cap of R350 000.

The 2017 Taxation Laws Amendment Act clarified that the deduction may only be applied against the amount of taxable income before the addition of taxable capital gains, and also reiterated that non-trade income (like compulsory annuity income) is included as taxable income for purposes of the deduction.

Contributions that exceed the allowable deduction are deemed to have been made in the following year and will be deductible subject to the limits applicable in that year.

This rollover will also apply to excess contributions made to retirement annuity funds and pension funds prior to 1 March 2016, but not to contributions made to provident funds prior to 1 March 2016. Only contributions made to provident funds from 1 March 2016 that exceed the limit will enjoy the roll-over relief.

Any contributions that remain unapplied as deductions upon the member's exit from the fund, may be applied against that member's retirement benefits at retirement, firstly against the lump sum and then against the annuity income.

Provident funds' annuitisation

The T Day reforms and especially the improved tax deduction was premised on compelling certain provident fund and provident preservation fund members to purchase an annuity at retirement. The 2017 Taxation Laws Amendment Act has again postponed this requirement – this time to March 2019. However, there may be a further delay and

this matter is presently being deliberated within NEDLAC. A further paper on comprehensive social security is soon to be released and this should assist in bringing finality to this debate.

Preservation of benefits after reaching normal retirement age

In 2014, changes to the Income Tax Act allowed individuals to elect when to retire. This meant that the lump sum benefit accrued to the individual on the date on which the member elected to retire and not at normal retirement age. Therefore a member can elect to retire after reaching normal retirement age if the rules of the fund provides for this.

The 2017 Taxation Laws Amendment Act introduced further flexibility to retiring members of pension and provident funds by providing that, with effect from 1 March 2018, transfers of retirement benefits be allowed from these funds to a retirement annuity fund, provided that the fund rules make provision for this. In this regard it is proposed to also allow transfers to preservation funds, provided that in these cases, the member's once off withdrawal will not be allowed.

Aligning the access provisions upon emigration between RA and Preservation Funds

Currently RA Fund members may be paid out their full RA fund benefits upon emigration. It is proposed that this concession is to be afforded to preservation fund members.

12. "Sin Taxes" and Levies

The following increases are proposed:

- Tax on a packet of 20 cigarettes increases by R1.22
- Tax on a 340ml can of beer increases by 14.66c
- Tax on 750ml of wine increases by 27.75c
- Tax on a 750ml bottle of spirits increases by R4.80

Government proposes to increase the general fuel levy by 22c p/l with effect from 4 April 2018. It is proposed that the RAF Levy will be increased by 30c/l. This will push up the general fuel levy to R5.34 p/l of petrol and R5.19 p/l of diesel.

The health promotion levy, which taxes sugary beverages, will be implemented from 1 April 2018. The tax rate will be 2.1c/gram for sugar content in excess of 4g/100ml.

13. Trusts and Loan Accounts

Where a trust incurs no interest or interest at a rate lower than the official rate of interest, an amount equal to the difference between the interest incurred by the trust (if any) and the interest that would have been incurred at the official rate of interest, would be treated as a donation made to the trust thus potentially triggering donations tax. This section is applicable to loans, credit or advances made to trusts before, on and after 1 March 2017. The official rate of interest was decreased from 8% to 7.75% in July 2017. The official rate of interest is currently calculated as the repo rate plus 1%.

It is proposed that the official rate of interest be increased to a level closer to the prime rate of interest.

14. Other Proposals

Social Security Reform

In 2016 government released a paper for comment setting out their plans for a comprehensive social security reform programme and a further paper is set to be released soon. Government's further utterances have indicated that this initiative is still firmly on the agenda.

National Health Insurance (NHI)

A follow-up to the 2011 paper was released in 2016. Government has undertaken to release a paper setting out further detail. Various funding options are being considered by the Davis Tax Committee-the proposed end game is to eventually withdraw the medical tax credit regime. Until such time, below inflation increases to the medical tax credits will be effected.

Financial Sector Reforms

The Twin Peaks reforms for prudential and market conduct regulations are on track with the recent enactment of the Financial Sector Regulations and Insurance Bill. In the short term the FSB is focusing on certain specific market conduct concerns such as mitigating illicit financial flows, financial soundness of insurers, increasing competition, financial inclusion, addressing over indebtedness and financial illiteracy, transformation and dealing with consumer credit insurance abuses.

Other Retirement Sector Reforms

Some further reforms in the pipeline are:

- Broadening coverage to low income workers, possibly via requiring auto enrolment of employees into retirement funds;

- Bringing all public retirement funds within the same regulatory framework as private funds (i.e. having to register with the registrar of pension funds and being subject to the Pension Funds Act);
- Further rationalising the number of funds so that only the cost effective funds remain (the regulator appears to be targeting an end-game of less than 200 funds remaining out of the current 1651);
- Simplifying and reducing the costs of retirement fund products;
- Ensuring effective intermediation;
- Modernising and improving governance to King IV standards (The King IV corporate governance standard was issued recently – it contains specific practice standards for Boards of retirement funds);
- The introduction of specific enforcement measures to deal with criminal and unethical practices
- Introducing the concept of an umbrella fund into the Pension Funds Act so that these funds may be regulated more appropriately; and
- National Treasury and the FSB to develop more efficient measures to find the beneficiaries of unclaimed benefits.

Environmental taxes

In addition to raising revenue, tax policy support to protect the natural environment and promote sustainable use of limited resources with the following:

- The Carbon Tax Bill was adopted in August 2017 and is expected to be enacted by the end of December 2018. Government proposes to implement the tax from 1 January 2019 to meet its nationally determined contributions under the 2015 Paris Agreement of the United Nations Framework Convention on Climate Change.
- To reduce the litter and dissuade consumers from buying plastic bags, the plastic bag levy is to be increased by 50% to 12c per bag with effect from 1 April 2018.
- The environmental levy on incandescent light bulbs will be increased from R6 to R8 to incentivise more energy-efficient behaviour. This measure will take effect on 1 April 2018.
- The vehicle emission tax will increase by R110 for every gram above 120 g CO₂/km for passenger vehicles, and R150 for every gram above 175 g CO₂/km for double cab vehicles, effective 1 April 2018.

Cryptocurrency

- Cryptocurrency is a digital asset that is used as a medium of exchange. It poses a risk to the income tax system as cryptocurrency is extremely volatile and its

sustainability is uncertain. At the same time, the supply of cryptocurrency can cause administrative difficulties in the VAT system. To address these issues, it is proposed that the income tax and VAT legislation be amended.

- In 2018, the South African Reserve Bank, together with other domestic financial sector regulators, will publish a position paper on the evolving of the private cryptocurrencies.

Conclusion

As was the case with the last two budgets, this budget again attempts to address various divergent agendas and economic realities. Faced with a flat lining tax take, dismal growth and even more financial commitments (viz; worsening budget deficit, SOE bail-outs, NHI and higher education), Minister Gigaba decided to take the plunge and increase the VAT rate. In arriving at this decision it was assessed that our current company tax rate is comparable to peer nations, and that individual taxpayers can bear no further tax hikes.

The transformation of the South African economic landscape – both the nature of the economy and who own and control it – remains an important focus. However education and job creation remains the key focus and this has been emphasised in both President Ramaphosa's SONA and Minister Gigaba's Budget address.

It is self-evident that individual taxpayers need to invest their hard-earned money in a tax-efficient way. In this regard, the tax-efficient benefits of retirement funds and TFSAs appear ever sweeter. It would be foolhardy to attempt to navigate the complex regulatory and investment environment without financial advice.

Government has undertaken to facilitate a more investor friendly environment while pursuing a radical transformation of the South African economic landscape. The Minister called on all South Africans to "*find in ourselves the ethical leadership of Madiba, the selflessness of Albertina Sisulu and the humanity of Hugh Masekela*" and that this should be the year of "*renewal, revitalisation and a step change in progress in fostering inclusive economic growth which rolls back unemployment, poverty and inequality.*"

He also welcomed the return of Old Mutual stating that this is a major vote of confidence in South Africa.

PLEASE NOTE THAT THE INFORMATION PROVIDED IN THIS CIRCULAR IS BASED ON PROPOSALS MADE IN THE NATIONAL BUDGET SPEECH DELIVERED ON THE 21ST OF FEBRUARY 2018 IN PARLIAMENT. UNTIL THE PROPOSALS HAVE FORMALLY BEEN PROMULGATED IN LEGISLATION IT WILL ONLY BE VIEWED AS PROPOSALS.

Income Tax Calculator

If you want to calculate your monthly income tax and compare it to that of last year, you can make use of Old Mutual's Income Tax Calculator, which has been updated to also include the tax changes applicable to retirement funds. You will therefore be able to see the benefits of retirement reform where your income tax is concerned.

This calculator takes your monthly income, retirement contributions, medical expense amounts and your employer's contribution to risk benefits and retirement funds into account and can be found via the following link:

<https://www.oldmutual.co.za/markets/south-african-budget/income-tax-calculator>

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