Glassock Guidelines

EDITION 10, FEBRUARY 2018

Proudly Bidvest

National Budget Speech 2018

The first Budget speech under the Presidency of Cyril Ramaphosa was delivered on 21 February 2018 by Finance Minister Malusi Gigaba.

The 2018 National Budget directs spending to the most pressing national priorities namely educating the youth; protecting the vulnerable and investing in enablers of inclusive growth. Budget 2018 charts a path out of economic stagnation, anticipating a steady increase in economic growth which will create a path to prosperity for South Africans and improve our nation's finances over time.

The taxation on lump sum withdrawals, retirement, or severance benefits, as set out below, remains unchanged as do the deductions.

Retirement fund lump sum withdrawal benefits

Taxable Income	Rate of Tax
R0 – R25 000	0% of taxable income
R25 001 - R660 000	18% of taxable income above
R660 001 - R990 000	R25 000R114 300 + 27% of taxable income above R660 000
R990 001 and above	R203 400 + 36% of taxable income above R990 000

Retirement fund lump sum benefits or severance benefits

Taxable Income	Rate of Tax
R0 – R500 000	0% of taxable income
R500 001 - R700 000	18% of taxable income above R500 000
R700 001 – R1 050 000	R36 000 + 27% of taxable income above R700 000
R1 050 001 and above	R130 500 + 36% of taxable income above R1 050 000

Deductions

- Retirement fund contributions during a year of assessment are deductible by members of those funds. Amounts contributed by employers are taxed as fringe benefits and treated as contributions by the individual employee.
- The deduction is limited to 27.5% of the greater of remuneration for PAYE purposes or taxable income (both excluding retirement fund lump sums and severance benefits).
- Furthermore, the deduction is limited to the lower of R350 000 or 27.5% of taxable income before the inclusion of a taxable capital gain. Any contributions exceeding the limitations are carried forward immediately to the following year of assessment and are deemed to be contributed in that following year. The amounts carried forward are reduced by contributions set off against retirement fund lump sums and against retirement annuities.

Retirement reforms - what to expect going forward

Tax treatment of contributions to retirement funds situated outside South Africa

The Income Tax Act currently exempts all retirement benefits from a foreign source for employment rendered outside of South Africa from taxation. The interaction of this exemption with double taxation agreements and other provisions of the Income Tax Act will be reviewed to ensure that the principle of allowing deductible contributions only in cases where benefits are taxable is upheld.

This publication does not provide advice. If you have any questions/comments on the above, please contact your consultant.

Head Office | 20 Kent Road | Dunkeld West | Johannesburg | South Africa | 2196
Telephone: +27 (0)11 771 2322 | +27 (0)87 245 0512 | Fax: +27 (0)11 325 24344319
Durban Office | First Floor Lincoln on the Lake | 2 High Street | Lincoln | Umhlanga
Telephone: +27 (0)31 514 8050

Align tax treatment of preservation funds upon emigration

Upon formal emigration an individual is able to withdraw the full value of their retirement annuity, after paying the applicable taxes. Government will consider aligning the tax treatment of different types of retirement fund withdrawals in such circumstances.

Allowing transfers to pension and provident preservation funds after retirement

In 2017, amendments were made to allow the transfer of pension or provident fund amounts to a retirement annuity fund after the retirement date of an employee. These amendments expanded the choice of available retirement funds if an individual decided to postpone retirement. Pension preservation and provident preservation funds were excluded as the administration required to disallow once-off withdrawals from these funds was considered too onerous. Industry consultations indicate that the system changes will not be burdensome, thus it is proposed that transfers to pension preservation and provident preservation funds be catered for in the legislation.

Rectifying tax anomalies on the transfer of retirement funds

The transfer of fund amounts between, or within, retirement funds at the same employer has inadvertently led to a tax liability for members, due to the current wording of the legislation. In principle, there should be no additional tax consequence for members if the transfers refer to amounts that have already been contributed to the retirement fund. Legislative amendments will be retrospectively introduced to correct these unintended tax liabilities.

Improving the treatment of retirement fund members

Government's retirement reform programme will continue in 2018. Progress on the annuitisation of provident funds and preservation has been slower than anticipated because of a delay in the release of the discussion paper on comprehensive social security reform. As a result, consultations in the National Economic Development and Labour Council are still in progress and expected to be completed by the end of the year. As soon as an initial agreement is concluded, a set of recommendations can be finalised.

Other issues to be referred to the National Economic Development and Labour Council include broadening coverage to low-income earners who fall outside the collective bargaining system or work for small employers, and bringing all public retirement funds within the same regulatory framework as private funds.

Government has also directed the Financial Services Board to proceed with the following reforms:

Lowering costs and consolidating funds

- A key driver of costs is the large number of very small and uneconomical retirement funds (there are currently 5 144 funds, of which 1 651 are active). The Financial Services Board will oversee a significant reduction in funds (preferably to less than 200).

Modernising and improving the governance of all retirement funds to King IV standards

- All retirement funds must now submit audited financial statements annually and include a minimum number of independent trustees.

Ensuring benefits are claimed

- The Financial Services Board estimates that, in 2016, over R40 billion in pension and provident funds were not claimed. Working with government, the Financial Services Board will consult with the National Economic Development and Labour Council on more efficient measures to find beneficiaries, including by centralising data and funds.

Strengthening enforcement measures to deal with criminal and unethical practices

- The Financial Services Board will publish directives in 2018 to improve disclosures by both retirement funds and administrators, and to outlaw unethical practices.

General

Tax Rates
Individuals and Trusts

R0 to R195 850	18% of each R1
R195 851 to R305,850	R35 253 + 26% of taxable income above R195 850
R305 851 to R423,300	R63 853 + 31% of taxable income above R305 850
R423 301 to R555 600	R100 263 + 36% of taxable income above R423 300
R555 601 to R708 310	R147 891 + 39% of taxable income above 555 600
R708 311 to R1 500 000	R207 448 + 41% of taxable income above 708 310
R1 500 001 and above	R532 041 + 45% of taxable income above 1 500 000
Trusts (other than special trusts)	Rate of 45%

Social support

- State old age grants increase from R1,505 to R1,600;
- State old age grants for over 75's increase from R1,525 to R1,620;
- War veterans grant increases from R1,525 to R1,620;
- Disability grants increase from R1,505 to R1,600;
- Foster care grants increase from R890 to R920;
- Care dependency grants increase from R1,505 to R1,600
- Child support grants increase from R355 to R380.

Tax Thresholds

- Below age 65 increases from R75 750 to R78 150
- Age 65 to 74 increases from R117 300 to R121 000
- Age 75 and over increases from R131 150 to 135 300

Tax Rebates

- Primary (age below 65) increases from R13 635 to R14 067
- Secondary (age 65 and over) increases from R7 479 to R7 713
- Tertiary (age 75 and over) increases from R2 493 to R2 574
- Value Added Tax
- For the first time since 1993, VAT has been increased from 14% to 15%.

Fuel Levy

- The fuel levy has increase by 52c (22c will go towards the general fuel levy and the remaining 30c will go to the Road Accident Fund).

Estate duty

- The estate duty on estates which exceed R30 million will increase from 20% to 25%. The first R3,5 million deduction will still be applicable (effective 1 March 2018).
- Ad valorem excise duties
- The ad valorem tax on motor vehicles will increase from 25% to 30%. Existing ad valorem rates of 5% and 7% will now increase to 7% and 9% respectively.

Sin taxes

- Alcohol will increase by between 6% and 10%.
- Tobacco will increase by 8.5%.