



Legal Services

FINANCIAL SERVICES



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## ON THE SCALES 7 OF 2018 – NATIONAL BUDGET 2018

On 21 February 2018, Minister Malusi Gigaba presented his National Budget speech. The speech was presented within a framework of renewal, hope and optimism, but tempered with the understanding that we have some significant challenges ahead of us.

The 2017 GDP growth projection has been revised upwards to 1 per cent, from the expected 0.7 per cent referred to in last year's mid-term budget presentation. The Minister anticipates growth of 1.5 per cent in 2018, rising to 2.1 per cent in 2020.

However, despite this improved growth outlook and cutting back on expenditure by R85 billion, Government still faces a revenue shortfall of R48.2 billion in the current year.

Private sector investment and job creation are critical – as unemployment remains high at 26.7 per cent.

Some key changes from previous budgets include an allocation of R57 billion to fee-free higher education and training, increasing the VAT rate for the first time since 1993 and below inflation adjustments to personal income tax brackets.

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### Summary

#### Social grants

- There will be an increase in war veterans, old age, disability, care dependency, child support and foster care social grants on 1 April 2018.

#### Reform proposals

##### *Health reform*

- There will be an allocation of R4.2 billion to the National Health Insurance Fund over the next three years, funded through adjustments to the medical tax credit.

## *Financial Sector Regulation*

- The twin peaks regulatory reform process will be implemented in 2018, with the Prudential Authority and Financial Sector Conduct Authority established on 1 April 2018, or shortly thereafter.
- A Conduct of Financial Institutions Bill will be tabled in Parliament in 2018. This legislation will set out the market conduct principles applicable to all financial institutions.

## *Retirement Reforms*

- The applicable tax on contributions to retirement funds outside South Africa will be reviewed.
- Government will consider aligning the tax treatment of preservation funds upon emigration, with different types of retirement fund withdrawals.
- Allowing transfers to pension and provident funds after the date of retirement is being considered.
- Legislative amendments are to be retrospectively introduced to rectify tax anomalies on certain retirement fund transfers.

## **Retirement funds**

- It is noted that Government's retirement reform programme will continue in 2018.
- Government has also directed the Financial Services Board to proceed with measures to improve the governance of all retirement funds, starting with implementing submission of audited financial statements annually by all retirement funds.
- As we read it: Institutional investors' offshore investment allowance will be increased to a total of 40 per cent, including an increase from 25 per cent to 30 per cent for foreign investment excluding Africa investments.
- The Africa investment allowance will increase from 5 per cent to 10 per cent.

## **Individual tax**

The marginal personal income tax rates have been adjusted.

### *Rebates*

- The primary rebate will be increased to **R14 067** per year (currently R13 635).
- The secondary rebate which applies to individuals aged 65 to 74 will be increased to **R7 713** per year (currently R7 479).
- The third rebate which applies to individuals aged 75 and older will be increased to **R2 574** per year (currently R2 493).

### *Tax thresholds*

The thresholds below which individuals are not liable for personal income tax will be increased.

### *Interest exemption*

- The interest rate exemptions will remain the same.

## **Transfer duty rates**

- No changes to transfer duty rates were announced.

## **Capital gains tax**

- There were no changes announced to the taxation of capital gains.

## **Medical tax credits**

- From 1 March 2018 the monthly medical tax credits will increase marginally.

## **Tax free savings account**

- There was no adjustment to the annual tax-free contribution to a tax-free savings account and no adjustment to the lifetime allowance.

## Estate duty and donations tax

Effective 1 March 2018:

- Estate duty will increase from 20 per cent to 25 per cent for estates above R30 million.
- Any donations above R30 million in one tax year will also be taxed at 25 per cent.

## Corporate tax proposals

- Dividend withholding tax rate remains unchanged at 20 per cent.
- Separate tax tables for micro enterprises, small business corporations and any corporation which is not a micro enterprise remain in place, with a small increase to the small business tax thresholds.
- Corporate tax rate remains unchanged at 28 per cent.
- The tax rate for micro businesses remains unchanged.

## Tax administration proposals

Many of the proposals were made at a high level in the Budget and we will need to see the exact wording to understand the impact of these proposed changes.

- repurchase rate (repo rate) will be increased to a level closer to the prime rate;
- the requirement that a person receiving a tax-exempt dividend must submit a tax return will be repealed;
- non-compliant tax practitioners to be deregistered where they have not complied.

## Value Added Tax

- The VAT rate shall increase from 14 per cent to 15 per cent, effective 1 April 2018.

## Other

*Sin taxes* - the duties on alcoholic beverages and tobacco products will increase between 6 per cent and 10 per cent.

*Fuel levies* - from 4 April 2018 there will be a 52 per cent increase in the fuel levy.

*Electricity levies* - there is no change in the electricity levy.

*Sugar taxes* - the tax on sugary beverages will be implemented from 1 April 2018.

*Carbon tax* - Government proposes to implement carbon tax from 1 January 2019.

*Environmental taxes* - the plastic bag levy, motor vehicle emissions tax and the levy on incandescent light bulbs will be increased from 1 April 2018.

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## Social security grants

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Social security grant increases will take effect as follows:

**War veterans'** grants will increase from R1 620 to **R1 715** from 1 April 2018.

**State old age grants for person over 75** will increase from R 1 620 to **R1 715** on 1 April 2018.

**Foster care grants** will increase from R920 to **R960** on 1 April 2018.

**Child support grants** will increase from R380 to **R400** on 1 April 2018 and from R400 to **R410** on 1 October 2018.

**State old age, disability and care dependency** grants will increase from R1 600 to R1 690 on 1 April 2018 and from R1 690 to R1 700 on 1 October 2018.

A proposal for a higher child support grant for children who have lost both parents is contained in draft legislation and expected to be tabled in 2018/19.

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## Reform proposals

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### *Health reform*

Implementing national health insurance is a policy priority. There will be an allocation of R4.2 billion to the National Health Insurance Fund over the next three years, funded through adjustments to the medical tax credit.

### *Financial Sector Regulation*

The twin peaks reform process will move closer to implementation this year. The establishment of two new regulators, the Prudential Authority and Financial Sector Conduct Authority are enabled in the Financial Sector Regulation Act (see *On the Scales* 19, 20 and 21 of 2017). These two regulators will be established on 1 April 2018, or shortly thereafter.

The Conduct of Financial Institutions Bill will be tabled in Parliament in 2018. This legislation will set out the market conduct principles that all financial institutions, including funds and administrators, will have to comply with.

The existing Ombud systems will be overhauled and a new Ombud Council will begin work in 2018.

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## Retirement reform

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There were a few proposals contained in the Budget relating to retirement funds, but we will only see the detail of them later in the year when the Taxation Laws Amendment Bill is released for public comment.

On formal emigration an individual can withdraw from an retirement annuity fund. Government will consider extending this principle, to allow an individual to withdraw from a preservation fund after having taken one withdrawal and before they reach retirement when they emigrate.

The Income Tax Act exempts retirement benefits from a foreign source for employment provided outside South Africa. This exemption will be reviewed, taking into account double tax agreements in place and the Income Tax Act. The intention is that they will only allow deductible contributions where the benefits are taxable.

In 2017 tax amendments allowed a transfer of pension or provident fund amounts to a retirement annuity fund after retirement. However, individuals are not allowed to transfer to pension preservation and provident preservation funds after retirement. Government was concerned about individuals accessing one withdrawal from the preservation fund. Industry has been calling for a change and in the Budget it was proposed to amend the tax laws to allow transfers to preservation funds after reaching retirement.

Government has noted that the transfer between or within funds at the same employer has inadvertently led to a tax liability for members. Legislative changes will be retrospectively introduced to correct these unintended tax liabilities, as there should be no additional tax consequence for members. We do not believe this applies to transfers, for example, from a pension to a provident fund. However, we await the detail of this proposal later this year.

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## Retirement funds

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- There have been no changes to the lump sum tax tables for retirement and withdrawal benefits.
- The contribution deduction limits of 27.5 per cent of remuneration or taxable income, capped at R350 000 remain unchanged.
- The Financial Services Board is to proceed with measures to modernize and improve governance of all retirement funds.
- As we understand it, Government intends that the offshore allocation limits for institutional investors (which includes retirement funds) will be increased to a total of 40 per cent, including an increase from 25 per cent to 30 per cent for foreign investment excluding Africa investments. The Africa investment allowance will increase from 5 per cent to 10 per cent. While this is how we currently understand the intention, we will need to see the actual wording to confirm our views.
- We believe these changes will be confirmed in a South African Reserve Bank circular, which should also clarify the effective date.

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**Individual tax**

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**Personal tax tables (natural persons)**

**Old: 2017/2018 tax year**

<b>TAXABLE INCOME (R's)</b>	<b>RATES OF TAX</b>
0 – R189 880	18% of each R1
189 881 – 296 540	R34 178 + 26% of the amount above R189 880
296 541 – 410 460	R61 910 + 31% of the amount above R296 540
410 461 – 555 600	R97 225 + 36% of the amount above R410 460
555 601 – 708 310	R149 475 + 39% of the amount above R555 600
708 311 – 1 500 000	R209 032 + 41% of the amount above R708 310
1 500 001 and above	R533 625 + 45% of the amount above R1 500 000

**New: 2018/2019 tax year**

<b>TAXABLE INCOME (R)</b>	<b>RATES OF TAX (R)</b>
0 – R195 850	18% of taxable income
195 851 – 305 850	R35 253 + 26% of taxable income above R195 850
305 851 – 423 300	R63 853 + 31% of taxable income above R305 850
423 301 – 555 600	R100 263 + 36% of taxable income above R423 300
555 601 – 708 310	R147 891 + 39% of taxable income above R555 600
708 311 – 1 500 000	R207 448 + 41% of taxable income above R708 310
1 500 001 and above	R532 041 + 45% of taxable income above R1 500 000

*Rebates*

The primary rebate will be increased to **R14 067** per year (currently R13 635).

The secondary rebate which applies to individuals aged 65 to 74 will be increased to **R7 713** per year (currently R7 479).

The tertiary/third rebate which applies to individuals aged 75 and older will be increased to **R2 574** per year (currently R2 493).

*Tax thresholds*

The threshold below which individuals are not liable for personal income tax will be increased as follows:

- For persons younger than 65, it will be increased from R75 750 to **R78 150**.
- For persons between the ages of 65 and over, it will be increased from R117 300 to **R121 000**.
- For persons 75 years and older, it will be increased from R131 150 to **R135 300**.

*Interest rate exemptions*

- The interest rate exemptions will not be adjusted for inflation and will therefore remain the same.

<b>Interest exemption for individuals</b>	
Under age 65	R 23 800
Age 65 and over	R 34 500

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### Transfer duty

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No changes to transfer duty rates were announced

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### Capital gains tax (CGT)

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There were no changes announced to CGT. The CGT inclusion rates remain as follows:

- Individuals: 18 per cent maximum.
- Companies: effective rate of 22.4 per cent.
- Trusts: effective rate of 36 per cent.

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### Medical tax credits

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Monthly medical tax credits will increase marginally, and not in line with inflation, with effect from 1 March 2018 as follows:-

Monthly medical tax credits for all taxpayers		
	2017/18	2018/19
Member	R303	R 310
First beneficiary	R303	R 310
Additional beneficiaries	R204	R 209

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### Tax free savings account

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There was no adjustment to the annual tax-free contribution to a tax-free savings account which remains at R33 000 per year. There is also no adjustment to the lifetime allowance of R500 000.

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### Estate duty and donations tax

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The 2018 Budget proposes to increase estate duty from 20 per cent to 25 per cent for estates above R30 million. To limit the staggering of donations to avoid the higher estate duty rate, any donations above R30 million in one tax year will also be taxed at 25 per cent. Both measures will be effective from 1 March 2018.

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### Corporate tax proposals

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Effective 1 April 2018 the tax threshold for small business corporations for financial years ending on any date between 1 April 2018 and 31 March 2019, has been increased from R75 750 to R78 150 with a corresponding tax bracket creep.

#### Small business corporations

Taxable Income (R)	Rate of Tax (R)
0 – 78 150	0% of taxable income
78 151 – 365 000	7% of taxable income above 78 150
365 001 – 550 000	20 080 +21% of taxable income above 365 000
550 001 and above	58 930 + 28% of the amount above 550 000

## Companies

Type	Rate of Tax (R)
Companies	28% of taxable income

## Micro businesses

Taxable turnover (R)	Rate of Tax (R)
0 – 335 000	0% of taxable turnover
335 001 – 500 000	1% of taxable turnover above 335 000
500 001 – 750 000	1 650 + 2% of taxable turnover above 500 000
750 001 and above	6 650 + 3% of taxable turnover above 750 000

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### Tax administration - proposals

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Many of the proposals were made at a high level in Budget 2018 and we will need to see the exact wording to understand the impact of these proposed changes.

National Treasury has proposed that the official rate of interest, being the current repurchase rate plus 100 basis points (which is currently 7.75 per cent) be increased to a level that is closer to the prime rate (which is currently 10.25 per cent) of interest.

It is proposed that the requirement that a person receiving a tax-exempt dividend must submit a return be repealed. This is an attempt to ease the administrative burden associated with making such a return.

It is proposed that the Income Tax Act and the VAT legislation be amended to include the tax treatment of cryptocurrency transactions.

A proposal that non-compliant tax practitioners be deregistered where they have not complied on a continuous or repetitive basis and where they do not correct their behaviour after being notified by SARS.

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### VAT

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It has been proposed that the VAT rate shall increase, from 14 per cent to 15 per cent, effective 1 April 2018.

VAT has not been adjusted since 1993 and the decision was made to increase this rate to “maintain the integrity of our public finances”. The existing zero-rating of basic food items, such as maize meal, brown bread, dried beans and rice, will limit the impact on the poorest households.

This increase is likely to have an impact on fees in the supply of certain financial services such as outsource fees, administration fees, investment management fees, binder fees including reinsurance fees.

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### Other

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#### *Sin taxes*

As to be expected, there is an increase of between 6 per cent and 10 per cent in excise duties on alcoholic beverages and tobacco products.

### *Fuel levies*

With effect from 4 April 2018, the general fuel levy on petrol, diesel and biodiesel will increase by 52 cents per litre. This is made up of 22 cents per litre for the general fuel levy and 30 cents per litre for the RAF levy.

### *Electricity levies*

There is no change in the electricity levy.

### *Sugar taxes*

A health promotion levy, which taxes sugary beverages, will be implemented from 1 April 2018.

### *Carbon tax*

Parliament is currently considering the draft Carbon Tax Bill and government proposes to implement carbon tax from 1 January 2019.

### *Environmental taxes*

From 1 April 2018, environmental taxes will be increased as follows:

- The plastic bag levy will increase by 50% to 12 cents per bag.
- Motor vehicle emissions tax will increase to R110 for every gram above 120 gCO<sub>2</sub>/km for passenger vehicles and R150 for every gram above 175 gCO<sub>2</sub>/km for double cab vehicles.
- The levy on incandescent light bulbs will increase from R6 to R8.

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### **At the end**

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The top tip received by the Minister from the public related to the liabilities of several state owned enterprises.

“It is not fair for taxpayer money to be used for continual bailouts, caused by operational inefficiency and financial mismanagement”.

Government agrees with that sentiment and has proposed various measures to ensure that money is used to address social needs, rather than subsidize inefficiency in state owned enterprises.

Finally, the Minister noted that ‘this is a tough, but hopeful budget’. Government has had to make difficult but necessary trade-offs, to ensure the budget provides a platform for renewal, inclusive growth and job creation.

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***If you need more information, please contact your consultant.***

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