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NATIONAL BUDGET 2017/2018

In his opening speech, the Minister of Finance, Pravin Gordhan identified some of the factors which support the case for a radical transformation of economic models and inclusive growth.

Minister Gordhan placed emphasis on the fact that the middle class have been left behind, 95% of the wealth in South Africa is in the hands of 10% of the population, 35% of the labour force is unemployed or has given up on finding work and poverty is concentrated in townships and rural areas.

Added to this, Minister Gordhan pointed out that South Africa's growth has been too slow. At 1% a year in real per capita terms over the past 25 years it is well below that of countries such as Brazil, Turkey, Indonesia, India or China.

In spite of this, the taxation on lump sum withdrawals, retirement benefits and severance benefits remains unchanged. Similarly, deductions remain the same while the annual limit on tax free savings may be increased. What is promising are the proposed reforms set out below, as they will clarify a number of issues for the industry and employers.

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 R25 000
R660 001 - R990 000	R114 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).

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- Furthermore, the deduction is limited to a maximum of R350 000. Any contributions exceeding the limitations are carried forward to the immediately 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.

TAX FREE SAVING ACCOUNTS

- It is proposed that the annual allowance be increased from R30 000 to R33 000.

RETIREMENT REFORMS - WHAT TO EXPECT GOING FORWARD

DEFAULT REGULATIONS TO IMPROVE MARKET CONDUCT

- The second revised draft of the default regulations were released for public comment in December 2016. The default annuity strategy section has been considerably simplified, given the difficulty of automatically defaulting members into annuity products that could be irreversible. The blanket ban on performance fees and guaranteed products has been addressed and may be reviewed in the final regulations published later this year.

PRESERVATION OF BENEFITS AFTER REACHING NORMAL RETIREMENT DATES

- In 2014, amendments were made to the Income Tax Act that allow individuals to choose when to retire and the date on which the lump sum benefit accrued to the individual depended on the date on which the individual elected to retire (not on the normal retirement age). Currently, once the individual elects to retire, the Income Tax Act does not cater for the transfer of lump sum benefits from one retirement fund to another. It is proposed that transfers of lump sum benefits be allowed from a retirement fund to a retirement annuity fund, subject to fund rules.

TAX-EXEMPT STATUS OF PRE-MARCH 1998 BUILD-UP IN PUBLIC-SECTOR FUNDS

- Currently, the Income Tax Act makes provision for the tax-free transfer of pre-March 1998 lump sum benefits from a public-sector fund to a pension fund. It is proposed that subsequent transfers of these lump sum benefits to another pension fund also be tax free.

REMOVING THE TIME LIMIT TO JOIN AN EMPLOYER UMBRELLA FUND

- Existing employees who do not join a newly established employer umbrella fund have 12 months within which to join the fund, after which they are unable to join. To encourage employees to contribute towards their retirement and remove practical difficulties, it is proposed that the 12 month limit be removed, thereby allowing employees to join without time restriction, subject to the rules of the fund.

PENSION FUNDS ACT AMENDMENT

- In 2017, amendments to the Pension Funds Act (1956) will be considered to introduce the concept of an umbrella fund, and to clarify the extent, purpose and interpretation of the powers of the Registrar of Pension Funds to deal with funds that do not have properly constituted boards.
- The National Treasury will also engage with the Financial Services Board to find a sustainable policy solution to the challenge of unclaimed benefits.

ANNUITISATION FOR PROVIDENT FUND MEMBERS

- The Revenue Laws Amendment Act (2016) postponed the annuitisation of retirement benefits for provident funds to 1 March 2018 to allow for further consultation with the National Economic Development and Labour Council (NEDLAC) and others on retirement reforms.
- Should no agreement on annuitisation be reached, government will review the continuation of the tax deduction for funds that do not annuitise part of their retirement savings, to ensure the tax system is equitable across all retirement funds.
- The National Treasury will also engage with the industry to provide appropriate annuity products that take better account of the needs of low and middle income members of retirement funds.

AUTOMATIC ENROLMENT IN RETIREMENT FUNDS

- South Africa has a well-developed occupational pension system, but there is limited coverage and a large number of funds. In November 2016, government tabled a discussion paper on social security reform at NEDLAC. While NEDLAC engagement is expected to take some time to conclude, a parallel process is expected to consider more urgent retirement reforms that can be implemented e.g. government is considering automatic enrolment to ensure more workers save for their retirement. This initiative would encourage or require employers to automatically enrol their workers into a retirement fund, which could be sponsored by the employer or sourced from a third party.

APPLICATION OF THE CAP ON DEDUCTIBLE RETIREMENT FUND CONTRIBUTIONS

- There is uncertainty about how the overall annual cap of R350 000 on contributions to pension, provident and retirement annuity funds should be applied when determining monthly employees' tax. It is proposed that the amount of R350 000 be spread over the tax year.

NATIONAL BUDGET 2017/2018

GENERAL

Tax Rates

Individuals and Trusts

R0 to R189 880	18% of taxable income
R189 881 to R296 540	R34 178 + 26% of taxable income above 189 880
R296 541 to R410 460	R61 910 + 31% of taxable income above 296 540
R410 461 to R555 600	R97 225 + 36% of taxable income above 410 460
R555 601 to R708 310	R149 475 + 39% of taxable income above 555 600
R708 311 to R1 500 000	R209 032 + 41% of taxable income above 708 310
R1 500 001 and above	R533 625 + 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 increase from R75 000 to R75 750
- Age 65 to 74 increase from R116 150 to R117 300
- Age 75 and over increase from R129 850 to R131 150

TAX REBATES

- Primary (age below 65) increase from R13 500 to R13 635
- Secondary (age 65 and over) increase from R7 407 to R7 479
- Tertiary (age 75 and over) increase from R2 466 to R2 493