VERBATIM
March 2018
ISSUE 24

NATIONAL BUDGET 2018

The first Budget speech under President Cyril Ramaphosa was delivered on 21 February 2018 by Finance Minister Malusi Gigaba. The 2018 National Budget is intended to direct spending to the most pressing national priorities namely educating the youth, protecting the vulnerable and investing in enablers of inclusive growth. The intention of Budget 2018 is to chart a course out of economic stagnation, whilst anticipating a steady increase in economic growth and, thus, creating a path to prosperity for South Africans.

RETIREMENT FUNDS

Unchanged

- The taxation of lump sum withdrawals and retirement severance benefits remains unchanged.
- Also remaining unchanged are the deduction limits for contributions of 27,5 per cent of remuneration or taxable income, capped at R350 000.

Reform proposals - what to expect going forward

Twin Peaks is moving forward as expected and the two new regulators will be established on 1 April 2018 or shortly thereafter. These new regulators are (i) the Financial Sector Conduct Authority and (ii) the Prudential Authority.

Market conduct principles, applying to all financial institutions including retirement funds, will be set out in the Conduct of Financial Institutions Bill in 2018.

The proposals below can be seen in the Budget documentation. However, how these proposals will actually be rolled out and the details of the proposals will only be ascertained as we see the draft legislation.

Progress on the annuitisation of provident funds and preservation is reported to have 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. The Minister reports that 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.

ANNUAL FINANCIAL STATEMENTS

The Financial Services Board is to proceed with measures to ensure that *all* retirement funds submit audited financial statements annually.

In addition to the Budget proposals, on 8 February 2018, the Financial Services Board issued Information Circular 2 of 2018 which provides that the Registrar is considering withdrawing the exemption that certain funds (mostly smaller funds) enjoyed from having their financial statements audited annually, for financial years commencing after 1 January 2019. It is proposed that all funds may be required to have their annual financial statements audited for financial years commencing after 1 January 2019.

Feeding into other proposals, the Registrar adds that small retirement funds should, thus, consider the viability of continuing on a self-standing basis or transferring to a suitable umbrella fund, where appropriate.

In addition, in order to ensure effective supervision, the Registrar intends applying to Treasury to amend the Pension Funds Act to require retirement funds to submit annual financial statements within three months of their financial year end, instead of the six months that this Act currently stipulates.

Finally, this Circular also includes the intention by the Registrar to insist on an accrual accounting basis for funds as of 1 January 2019.

OFFSHORE ALLOCATION LIMITS FOR INSTITUTIONAL INVESTORS (INCLUDING RETIREMENT FUNDS)

Government intends that the offshore investment allocation limits for institutional investors (which includes retirement funds) will be increased from 25 per cent to 30 per cent. In addition, the allowance for investments into the rest of Africa would increase by 5 per cent to 10 per cent.

The South African Reserve Bank has since confirmed these changes in an exchange control circular. This allows retirement funds to take a greater percentage of their assets offshore.

The Financial Services Board has confirmed in Information Circular 3 of 2018 (dated 23 February 2018) that retirement funds may now acquire foreign exposure up to the revised limit of 30 per cent in respect of foreign portfolio investment and an additional 10 per cent in respect of foreign portfolio investments in the rest of Africa.

TAX TREATMENT OF CONTRIBUTIONS TO RETIREMENT FUNDS SITUATED OUTSIDE SOUTH AFRICA

The Income Tax Act currently exempts from taxation all retirement benefits from a foreign source for employment rendered outside of South Africa. 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.

ALIGN TAX TREATMENT OF PRESERVATION FUNDS UPON EMIGRATION

Upon formal emigration an individual is able to withdraw the full value of their retirement annuity fund, after paying the applicable taxes. Government will consider extending this similarly to preservation funds by allowing an individual to withdraw from a preservation fund after having taken one withdrawal and before they reach retirement, when they emigrate.

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 funds 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 funds and provident preservation funds after reaching retirement be catered for in the legislation.

TAX ANOMALIES ON THE TRANSFER BETWEEN OR WITHIN RETIREMENT FUNDS AT THE SAME EMPLOYER

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 and, thus, legislative amendments will be retrospectively introduced to correct these unintended tax liabilities.

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). It is intended that the Financial Services Board will oversee a significant reduction in funds (preferably to less than 200).

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 the 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. On 10 January 2018, the Financial Services Board issued an Information Circular dealing with the submission of disclosures to the Regulator under the Pension Funds Act.

National Health Insurance and medical tax credits

We know that implementing National Health Insurance is a policy priority for Government. This can be seen in the R4,2 billion allocation to the National Health Insurance Fund over the next three years. This is to be funded through medical tax credits. Monthly medical tax credits will increase only marginally, and below inflation, from 1 March 2018, as follows:

- Member and first beneficiary increase from R303 to **R310**;
- Additional beneficiaries increase from R204 to **R209**.

Social support

- State old age grants increase from R1 600 to **R1 690** on 1 April 2018 and by a further R10 to **R1 700** on 1 October 2018;
- State old age grants for over 75's increase from R1 620 to **R1 715**;
- War veterans grants increase from R1 620 to **R1 715** on 1 April 2018;
- Disability grants increase from R1 600 to **R1 690** on 1 April and by a further R10 to **R1 700** on 1 October 2018;

- Foster care grants increase from R920 to **R960** on 1 April 2018;
- Care dependency grants increase from R1 600 to **R1 690** on 1 April 2018 and by a further R10 to **R1 700** on 1 October 2018;
- Child support grants increase from R380 to **R400** on 1 April 2018 and by a further R10 to **R410** on 1 October 2018.

New personal tax table for the 2018/2019 tax year

R0 to R195 850	18% of taxable income
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

Tax Threshold increases

The following thresholds have increased and are applicable to the level below which individuals are not liable for personal income tax.

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

Tax Rebate increases

- Primary (age below 65) increases from R13 635 to **R14 067**.
- Secondary (age 65 and older) increases from R7 479 to **R7 713**.
- Tertiary (age 75 and over) increases from R2 493 to **R2 574**.

ESTATE DUTY

The estate duty on estates which exceed R30 million will increase from 20 per cent to 25 per cent.

VALUE ADDED TAX

For the first time since 1993, VAT is increased from 14 per cent to 15 per cent effective 1 April 2018.

OTHER TAXES

Fuel Levy: with effect from 4 April 2018, the fuel levy has increased by 52 cents per litre (22 cents per litre will go towards the general fuel levy and the remaining 30 cents per litre will go to the Road Accident Fund).

Sin taxes: alcoholic beverages and tobacco products will increase by between 6 per cent and 10 per cent.

Sugar tax: This will be implemented from 1 April 2018.

Plastic bag levy: this levy will increase by 50 per cent to 12 cents a bag.

Levy on incandescent light bulbs: to increase from R6 to R8.

Carbon tax: Cabinet adopted the *Carbon Tax Bill* in August 2017. Parliament has convened hearings following the release of the draft Bill in December 2017. The Bill is expected to be enacted before the end of 2018. Government proposes to implement the tax from 1 January 2019.