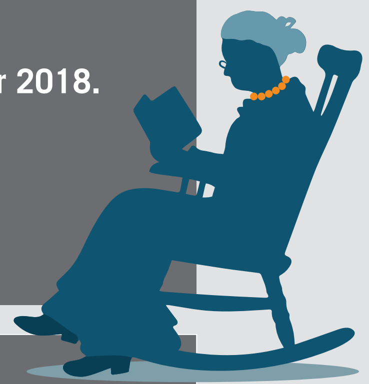
SOCIAL GRANTS

The Old age, disability and care dependency increases from

R1 600 to R1 690 on 1 April 2018 and to **R1 700** on 1 October 2018.

The child support grant increases from R380 to R400 on 1 April and to R410 on 1 October.



EDUCATION

Funding for free higher education and training for poor students increases to

R12.4 billion.

ESTATE DUTY

Increase for estates worth R30 million and more from **20%** to **25%**.

Any donations above R30 million in one tax year be taxed at **25%**.

TAX FREE SAVINGS ACCOUNT

Remains at R33 000 per year and R500 000 over lifetime.

MEDICAL TAX CREDIT REMAINS IN PLACE, BUT...

Increased from R303 to R310 each month for the first two beneficiaries and from R204 to R209 each month for the remaining beneficiaries.

Increases to **15%**

FUEL TAXES

Increased by **22c** a litre.

30c a litre for the Road Accident Fund levy

PERSONAL TAX AND REBATES

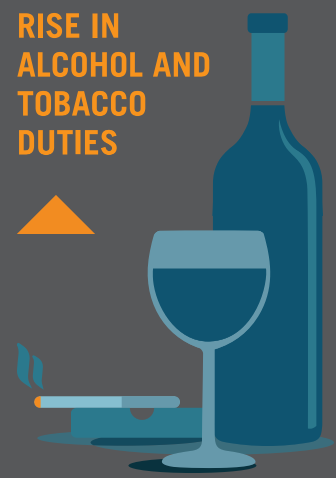
Personal income tax rates and bracket adjustments

Taxable income (R)	2017/18 Rates of tax	Taxable income (R)	2018/19 Rates of tax
R0–R189 880	18% of each R1	R0–R195 850	18% of each R1
R189 881–R296 540	R34 178 + 26% of the amount above R189 880	R195 851–R305 850	R35 253 +26% of the amount above R195 850
R296 541–R410 460	R61 910 + 31% of the amount above R296 540	R305 851–R423 300	R63 853 + 31% of the amount above R305 850
R410 461–R555 600	R97 225 + 36% of the amount above R410 460	R423 301–R555 600	R100 263 + 36% of the amount above R423 300
R555 601–R708 310	R149 475 + 39% of the amount above R555 600	R555 601–R708 310	R147 891 + 39% of the amount above R555 600
R708 311–R1 500 000	R209 032 + 41% of the amount above R708 310	R708 311–R1 500 000	R207 448 + 41% of the amount above R708 310
R1 500 001 and above	R533 625 + 45% of the amount above R1 500 000	R1 500 001 and above	R532 041 + 45% of the amount above R1 500 000

Rebates

Primary	R13 635	Primary	R14 067
Secondary	R7 469	Secondary	R7 713
Tertiary	R2 493	Tertiary	R2 574
Tax threshold		**Tax threshold**	
Below age 65	R75 750	Below age 65	R78 150
Age 65 and over	R117 300	Age 65 and over	R121 000
Age 75 and over	R131 150	Age 75 and over	R135 300

RISE IN ALCOHOL AND TOBACCO DUTIES



Malt beer	15c for each 340ml can
Unfortified wine	23c for each 750ml bottle
Fortified wine	28c for each 750ml bottle
Sparkling wine	73c for each 750ml bottle
Ciders and alcoholic fruit beverages	15c for each 340ml bottle
Spirits	R4.80 for each 750ml bottle
Cigarettes	R1.22 for each packet of 20
Cigarette tobacco	R1.37 for each 50g
Pipe tobacco	39c for each 25g
Cigars	R6.45 for each 23g

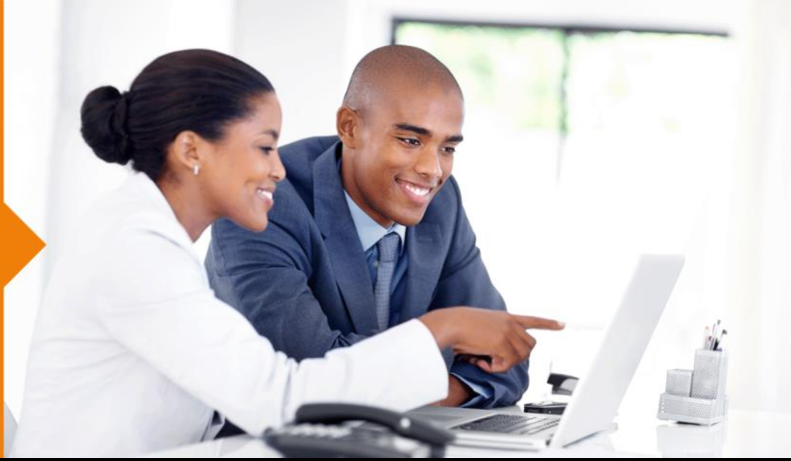
BUDGET SPEECH 2018

What this means for me

ALEXANDERFORBES

Securing your financial well-being

NATIONAL BUDGET 2018/19



Summary

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

A new spirit of hope exists in the country.

This summary concentrates on the tax proposals of interest to financial planning clients. There are many tax proposals which will not be dealt with in this publication because they do not directly affect financial planning advice to clients. In some cases they will receive a mention and a reference to the Budget Review so that readers are directed to the Budget Review in case they want more detail.

The minister noted:

> **"This is a tough, but hopeful budget. It directs spending to the most pressing national priorities; educating our youth; protecting the vulnerable and investing in enablers of inclusive growth. It moderates spending and raises the revenues required to contain the growth in national debt, whilst trying to minimise negative effects on 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 our people and improve our nation's finances over time."**

Against this backdrop the minister noted that:

- Private sector investment and job creation are critical to reducing unemployment, which remains stubbornly high at 26.7%.
- The 2017 GDP growth projection has been revised upward to 1%, which is higher than the 0.7% expected at the time of the Medium-Term Budget Policy Statement (MTBPS) last year. Growth of 1.5% is expected in 2018, rising to 2.1% in 2020.
- Government still faces a revenue gap of R48.2 billion in the current year, which carries through to the outer years of the medium-term expenditure framework.
- New tax measures raise an additional R36 billion in 2018/19, mainly through a higher VAT rate and below-inflation adjustments to personal income tax brackets.
- The consolidated deficit is projected to narrow from 4.3% of GDP in 2017/18 to 3.5% in 2020/21.
- The main budget primary deficit closes over the medium term, helping to stabilise the gross debt-to-GDP ratio at 56.2% of GDP in 2022/23, and declining thereafter.
- However, the small revisions are underpinned by large reductions and reallocations over the next three years. The spending framework includes expenditure reductions approved by Cabinet amounting to R85 billion, an allocation of R57 billion for fee-free higher education and training, and additions to the contingency reserve amounting to R10 billion.
- Taken together, and supported by a strengthened growth outlook, these interventions will stabilise public finances.

Further communications will follow during the year on important aspects affecting our industry when more detail is released.

Budget 2018 will be remembered for the following tax proposals:

- It aims to generate an additional R36 billion in tax revenue for 2018/19.
- An increase in the value-added tax rate from 14% to 15%.
- No adjustments to the top four income tax brackets and a below-inflation adjustment to the bottom three.
- R6.8 billion will be raised from partial relief for bracket creep.
- An increase in the *ad valorem* excise duty rate on luxury goods from 7% to 9%.
- A higher estate duty tax rate of 25% for estates greater than R30 million.
- A higher donations tax rate of 25% for donations greater than R30 million.
- A 52 cents per litre increase in the levies on fuel, made up of a 22 cents per litre for the general fuel levy and a 30 cents per litre increase in the Road Accident Fund levy.
- Increases in the alcohol and tobacco excise duties of between 6 and 10%.
- Personal tax, corporate tax and VAT will raise over 80% of the revenue.
- VAT has not been adjusted since 1993, and it is low compared to some of our peers.
- The current zero-rating of basic food items such as maize meal, brown bread, dried beans and rice will limit the impact on the poorest households.
- *Ad valorem* excise duties for luxury goods, such as motor vehicles, will be increased.
- The plastic bag levy, motor vehicle emissions tax and the levy on incandescent light bulbs will be raised to promote eco-friendly choices.
- A health promotion levy, which taxes sugary beverages, will be implemented from 1 April 2018.
- Parliament is currently considering the draft *Carbon Tax Bill*, which will assist South Africa to meet its climate change commitments to reduce our carbon emissions. The tax will be implemented from 1 January 2019.
- The old age, disability and care dependency grants will increase on 1 April 2018 from the existing R1 600 by R90 to R1 690 and by a further R10 to R1 700 on 1 October 2018.
- The child support grant will increase from the baseline of R380 to R400 on 1 April and to R410 on 1 October. This is a 6.6% annual increase.
- An additional R2.6 billion has been added to social grants since the MTBPS to enable these changes. These adjustments resulted in social protection spending increasing by 7.9% per year, much above inflation.

A. Personal income tax

1. Personal tax tables for individuals and special trusts
Old: 2017/18 tax year

Taxable income (R)	Rates of tax
R0–R189 880	18% of each R1
R189 881–R296 540	R34 178 + 26% of the amount above R189 880
R296 541–R410 460	R61 910 + 31% of the amount above R296 540
R410 461–R555 600	R97 225 + 36% of the amount above R410 460
R555 601–R708 311	R149 475 + 39% of the amount above R555 600
R708 311–R1 500 000	R209 032 + 41% of the amount above R708 310
R1 500 001 and above	R533 625 + 45% of the amount above R1 500 000

New: 2018/19 tax year

Taxable income (R)	Rates of tax
R0–R195 850	18% of each R1
R195 851–R305 850	R35 253 + 26% of the amount above R195 850
R305851–R423 300	R63 853 + 31% of the amount above R305 850
R423 301–R555 600	R100 263 + 36% of the amount above R423 300
R555 601–R708 310	R147 891+ 39% of the amount above R555 310
R708 311–R1 500 000	R207 448 + 41% of the amount above R708 310
R1 500 001 and above	R532 041+ 45% of the amount above R1 500 000

Comment: No adjustments to the top four income tax brackets are proposed and below inflation adjustments were made to the bottom three brackets.

2. Rebates

The table below reflects the proposed tax rebates for individuals.

Tax rebates		
	2017/18 tax year	**2018/19 tax year**
Primary rebate	R13 635	R14 067
Secondary rebate (applicable to taxpayers aged 65 and older)	R7 469	R 7 713
Tertiary rebate (applicable to taxpayers aged 75 and older)	R2 493	R2 574

3. Tax thresholds

The increased threshold below which individuals are not liable for personal income tax is set out in the table below.

Tax thresholds		
	2017/18 tax year	**2018/19 tax year**
Below age 65	R75 750	R78 150
Age 65 - 74	R117 300	R121 000
Age 75 and over	R131 150	R135 300

4. The tables below illustrate the tax savings/increases for individuals (younger than age 65)

Taxable income (R)	**Tax payable 2017/18 Tax year**	**Tax payable 2018/19**	**Tax reduction (R)**	**Tax reduction (%)**
400 000	80 347	78 972	- 1 375	-1.7%
500 000	115 824	113 807	- 2 017	- 1.7%
750 000	212 490	210 473	- 2 017	- 0.9%
1 000 000	314 990	312 973	- 2 017	- 0.6%
1 500 000	519 990	517 973	- 2 017	- 0.4%

(Age 65–74)

Taxable income (R)	Tax payable 2017/18 Tax year	Tax payable 2018/19	Tax reduction (R)	Tax reduction (%)
400 000	72 866	71 259	- 1 607	- 2,2%
500 000	108 343	106 094	- 2 249	- 2.1%
750 000	205 009	202 760	- 2 249	- 1,1%
1 000 000	307 509	305 260	- 2 249	- 0.7%
1 500 000	512 509	510 260	- 2 249	- 0.4%

(Age 75 and older)

Taxable income (R)	Tax payable 2017/18 Tax year	Tax payable 2018/19	Tax reduction (R)	Tax reduction (%)
400 000	70 376	68 685	- 1 690	- 2.4%
500 000	105 853	103520	- 2 332	- 2.2%
750 000	202 518	200 186	- 2 332	- 1.2%
1 000 000	305 018	302 686	- 2 332	- 0.8%
1 500 000	510 018	507 686	- 2 332	- 0.5%

Comment: South Africa's personal income tax burden has increased steadily from 8.3% of GDP in 2010/11 to 9.8% in 2017/18. Last year government added a new top income tax bracket of 45% for those earning above R1.5 million. This followed a one percentage point increase in personal income tax rates that affected all but the lowest-income tax bracket in 2015/16, accompanied by below-inflation adjustments to tax brackets. As a result, the tax burden on individuals has been increasing. National Treasury is of the view that an additional personal income tax rate increase in 2018/19 would have greater negative consequences for growth and investment than a VAT increase.

B. Increasing the VAT rate

This was the most significant announcement in the budget. Government proposes to raise VAT by one percentage point, from 14% to 15%, with effect from 1 April 2018. 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.

On 1 April 2018 the original policy intent that only brown bread and wholewheat brown bread will be zero-rated will be introduced. Products such as rye or low GI bread, which in South Africa are much more expensive and tend to be consumed by richer households, will not be zero-rated.

Comment: The VAT proposal will increase the cost of living for all households. However, the zero-rating of 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 VAT revenue. South Africa's VAT system includes 19 basic food items that are zero-rated. These include dried beans, samp, maize meal and rice. This system remains in place.

While government has explored implementing a more progressive tax, this option is not being proposed and nor has it been recommended by the Davis Commission.

C. Raising luxury *ad valorem* excise duties

With effect from 1 April 2018 the maximum *ad valorem* excise duty for motor vehicles will be increased from 25% to 30%. The classification of cellular telephones will be updated to include smartphones to ensure they attract *ad valorem* excise duties. In addition, the *ad valorem* excise duty rates, now at 5% and 7%, will be increased to 7% and 9%, ensuring that households spending more on luxury goods contribute proportionately more to revenue.

Government will also consult on a proposal to replace the flat rate for cellular phones with a progressive rate structure based on the value of the phone.

Comment: Government proposes to increase these rates, which are already applied to some goods that are consumed mainly by wealthier households (such as cosmetics, electronics and golf balls). The associated revenue-raising potential is not significant, but it is aligned with the progressive structure of the tax system.

D. Increasing the estate duty rate

In line with the Davis Tax Committee recommendations, and in keeping with the progressive structure of the tax system, Budget 2018 proposes to increase estate duty from 20% to 25% for estates worth R30 million and more. 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%. Both measures will take effect on 1 March 2018.

Comment: With the closure of so many estate duty avoidance mechanisms in the past few years, life assurance remains a viable option for many high net worth clients.

E. Capital gains tax (CGT)

There were NO changes announced to the taxation of capital gains. The capital gains tax inclusion rates remain as follows:

- Individuals: The maximum effective capital gains tax rate for individuals remains 18%.
- Companies: This remains the same at an effective rate of 22.4%.
- Trusts: The effective rate applicable to trusts remains at 36%.
- Special trusts: The maximum effective rate applicable to special trusts remains at 18%.

F. Interest exemption

The interest rate exemptions will not be adjusted for inflation. Individuals will be encouraged to invest in the new tax-free savings accounts instead. In the circumstances the threshold at which tax is paid on interest income remains the same.

Interest exemption for individuals 2016/17	
Under age 65	R23 800
Age 65 and over	R34 500

G. Tax-free savings accounts

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.

H. Transfer duty

No changes to transfer duty rates were announced which remain as set out below:

Transfer duty table

Property value (R)	**2018/19** **Rates of tax**
R0–R9000 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% on the property value above R1 250 000
R1 750 001–R2 250 000	R40 500 + 8% on the property value above R1 750 000
R2 250 001–R10 000 000	R80 500 + 11% on the property value above R2 250 000
R10 000 001 and above	R933 000 + 13% on the property value exceeding R10 000 000

I. Medical tax credits

Over the next three years, below-inflation increases in medical tax credits will help government to fund the rollout of national health insurance. The medical tax credit will be reviewed after the Davis Tax Committee presents its recommendations.

The table of monthly medical tax credits will increase marginally and not in line with inflation.

With effect from 1 March 2018:

Monthly medical tax credits for all taxpayers

	2017/18	**2018/19**
Member	R303	R310
First beneficiary	R303	R310
Additional beneficiaries	R204	R209
Family of four	R1 014	R1038
Family of four annual credit	R12 168	R12 456

J. Social security

The social security grants are increased as follows:

	2017/18	2018/19
Disability and old age grants	R1 600	R1 690 on 1 April 2018 and by a further R10 on 1 October 2018
Over 75	R1 620	R1 715
Foster care	R920	R960
Child support grant	R380	R400 on 1 April 2018 and R410 on 1 October 2018

K. Indirect taxes

Fuel levies	Government proposes to increase the general fuel levy by 22c/litre and the Road Accident Fund levy by 30c/litre from 4 April 2018
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
Alcoholic drinks and tobacco products	Increase of between 6% and 10% excise duties
Electricity levies	No change
Sugar taxes	Implemented from 1 April 2018
Plastic bag levy	Plastic bag levy increase of 50% to 12c per bag
Motor vehicle emissions	To increase from 1 April 2018
Levy on incandescent light bulbs	Increase from R6 to R8

L. Dividend withholding tax

No changes to the dividend withholding tax rate were announced, which remains at 20%.

Additional tax amendments to be expected during the 2018/19 year of assessment

M. Individuals (local and international), employment and savings

1. Splitting of medical fees tax credits

The medical tax credit (rebate) consists of two components: medical scheme fees for approved medical scheme contributions and additional medical expenses for out-of-pocket medical payments. Government is concerned that some taxpayers may be claiming this credit more than once (for example, adult children jointly contributing to their elderly mother's medical scheme). Where taxpayers carry a share of the medical scheme, contribution or medical cost, it is proposed that the medical tax credit should also be apportioned between the various contributors.

2. Removing the fringe benefit for preferential interest rates to employees for housing

Certain relief from fringe benefit tax will be provided to loans at preferential interest rates, which are solely for housing use, made to employees who satisfy remuneration criteria for loans with a value of less than R450 000.

3. Overlap in the treatment of a dividend in section 1 and section 31 of the *Income Tax Act*

There is potential overlap between the treatment of a dividend as defined under section 1 and the treatment of a dividend under the transfer pricing provisions of section 31 of the act. To remove this anomaly, it is proposed that an amount should be treated as a dividend *in specie* (an amount distributed to shareholders in a form other than cash) for purposes of applying the transfer pricing provisions of section 31, unless the amount already constitutes a dividend as defined in section 1.

4. Reversing exchange difference for exchange items disposed of at a loss

Currently, the *Income Tax Act* provides for the reversal of foreign currency exchange differences when an exchange item becomes irrecoverable. It does this by reversing any exchange gains and losses relating to the portion of the exchange item that has become irrecoverable. However, the legislation does not provide relief where an exchange item is disposed of at a loss as a result of market forces and not because the debtor is unable to pay. It is proposed that the application of this relief be clarified.

5. Extension of the application of controlled foreign company rules to foreign companies held through foreign trusts and foundations

Controlled foreign company rules were extended to foreign companies held through foreign trusts and foreign foundations. Rules to classify distributions of discretionary foreign trusts or foreign foundations to individuals and trusts as income of the South African resident beneficiaries to discourage the use of trusts to defer tax or re-characterise the nature of income, will be considered in 2018.

6. Interest paid to the non-resident beneficiary of a trust

In the current tax rules regarding interest paid to a non-resident beneficiary from a trust, it is unclear who bears the withholding obligation after vesting. Furthermore, the rules dealing with trust income and beneficiaries do not deem the trust to have paid interest to beneficiaries if they are non-residents. A rule will be considered to address this anomaly.

7. Higher education

Government will phase in fee-free higher education and training to students from poor and working-class families. This means that all new first-year students with a family income below R350 000 per annum at universities and Technical vocational education and training (TVET) colleges in the 2018 academic year will be funded for the full cost of study. This will be rolled out in subsequent years until all years of study are covered. Returning National Student Financial Aid Scheme (NSFAS) students at university will have their loans for 2018 onwards converted to a bursary.

The education infrastructure grant is also allocated R31.7 billion over the medium term to build new schools, upgrade and maintain existing infrastructure and provide school furniture. Meals will be provided at 19 800 schools for about 9 million learners each school day through the national school nutrition programme grant, which is allocated R21.7 billion over the medium term. A total of 39 000 Funza Lushaka bursaries, to be disbursed via the National Student Financial Aid Scheme, at a cost of R3.7 billion.

N. Retirement reform proposals

1. 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 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.

2. 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.

3. Allowing transfers to pension and provident preservation funds after retirement amendments

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 decides 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.

4. 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, owing 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 introduced retrospectively to correct these unintended tax liabilities.

5. Increase of offshore investment limits

The offshore investment limits for retirement funds have increased to 30% (from 25%).

O. Long-term insurers, short-term insurers and collective investment schemes

1. Clarifying tax amendments relating to long-term insurers

The *Income Tax Act* was amended to introduce the risk policy fund for long-term insurers, with effect from 2016. The tax treatment of long-term insurers was also amended as a result of the introduction of the solvency assessment and management framework. Recent amendments affecting the risk policy fund did not take effect when the fund was introduced. It is proposed that the date the relevant amendments take effect be changed accordingly.

2. Clarifying tax treatment of amounts received by portfolios of collective investment schemes

In 2009, the *Income Tax Act* was amended to provide for collective investment schemes operating on behalf of investors with participatory interests. Amounts (other than capital amounts) are taxable in the portfolio of a collective investment scheme unless they are distributed to participatory interest holders within 12 months of accrual. Some collective investment schemes are trading frequently and arguing, contrary to current case law, that the profits are of a capital nature. It is proposed that the current rules be clarified to provide certainty on the treatment of trading profits in this context.

3. Taxation of short-term insurers

The *Income Tax Act* provisions regulating the taxation of short-term insurance apply only to short-term insurers resident in South Africa. However, the *Insurance Act (2017)* permits foreign reinsurers to operate reinsurance businesses in South Africa through branches rather than subsidiaries. In view of this development, the relevant provisions will be extended to apply to non-residents operating short-term insurance business through branches in South Africa.

P. Tax administration

1. Adjusting “official rate of interest” in the *Income Tax Act*

The “official rate of interest” is the current repurchase rate plus 100 basis points (7.75%). This rate is used to quantify the fringe benefit of low-interest rate loans provided by employers and the amount of a donation for low-interest loans to trusts by connected persons. Given that interest rates lower than prime are now uncommon, it is proposed that the official rate be increased to a level closer to the prime rate of interest.

This would allow the benefit of lower rates to be measured with reference to a rate that approximates the rate offered by commercial banks to low-risk clients.

2. Repeal of requirement to submit returns by persons who received exempt dividends

In order to ease the administrative burden, it is proposed that the requirement for a person receiving a tax-exempt dividend to submit a return be repealed.

3. VAT

A number of administrative VAT provisions will be amended. Further details of these can be found on page 136 of Annexure C to the Budget Review.

4. Notification of commencement of an audit

It is proposed that a taxpayer be notified at the start of an audit as part of efforts to keep all parties informed.

5. Deregistration of non-compliant tax practitioners

An amendment is proposed to ensure that non-compliant tax practitioners are deregistered. If a tax practitioner has not complied on a continuous or repetitive basis and does not correct their behaviour after being notified by the SARS Commissioner, they will be deregistered as a tax practitioner.

6. Commission of enquiry

The president will establish a commission of inquiry into the functioning and governance of the South African Revenue Service (SARS). Steps will be taken to improve the governance and accountability of SARS, and to strengthen the operational independence of the Tax Ombud following recommendations made by the Davis Tax Committee.

Q. Business

The tax amendments which apply to business will not be included in this summary because this circular is applicable to personal financial planning of individuals and their advisers.

However, for completeness, we will briefly list the issues which have been earmarked for attention during the following year of assessment. If any readers require more detail, this can be found in Annexure C of the Budget Review from pages 132.

1. Refining anti-avoidance rules dealing with share buybacks and dividend stripping
2. Rules for debt financed acquisitions of controlling interest in operating companies
3. Addressing the abuse of collateral lending arrangement provisions
4. Clarifying the tax treatment of doubtful debts under section 11(j)
5. Review of the provisions of the *Income Tax Act* referring only to the Johannesburg Stock Exchange
6. Review of venture capital company rules
7. Reviewing the write-off period for electronic communication cables
8. Small business funding entities will be allowed to distribute their obligatory 25% within 12 months of the relevant tax year
9. Extending the exemption to international shipping income when a replacement ship is used

Conclusion

The most notable proposal in Budget 2018 was the increase in the VAT rate by 1% to 15%.

This will not be popular to many, as this will be seen as regressive and detrimental to the poorer members of society. For others, it will be seen as the only source of funds remaining and a logical source of revenue.

Individual taxpayers will be paying more tax because of fiscal drag, which has not been taken into account in the tax tables.

Taxpayers have also not received an inflationary increase in the medical tax credit. This was not unexpected because Budget 2017stated that government would be using the medical tax credit to fund the proposed national health insurance.

The increase in estate duty over R30 million to 25% is not surprising. It is unlikely to provide the state with a great deal of revenue in the short term but it makes the necessary statement of a progressive tax system where those who are able to pay must pay more.

All in all, South Africans will have to tighten their belts this year, as we have not been compensated for fiscal drag.

But there is a spirit of hope in the country that the future will be better.