Legal Services

FINANCIAL SERVICES

ALEXANDERFORBES
Securing your financial well-being

ON THE SCALES 9 OF 2017 – *NATIONAL BUDGET 2017*

On 22 February 2017, Minister Pravin Gordhan presented his National Budget speech. The focus was on radical transformation based on economic participation, partnership and mobilization of all of our resources.

The environment is one of slow economic growth, high unemployment, increased business and family stress and global uncertainty.

GDP is expected to improve moderately over the medium term, from 0.5% in 2016, to 1.3% in 2017.

The tax proposals contained in the Budget will raise an additional R28 billion going forward. For the 2016/2017 tax year the total expected tax revenue will be R1.144 trillion, up 7% on the prior year.

The Minister noted that low economic growth is a major challenge for government and citizens. We need to radically transform the economy to create diversification and employment. We need to prioritise spending better and implement our plans more effectively. Our financial situation is difficult but the Minister believes National Treasury has produced a credible budget.

Summary

Social grants

War veterans, old age, disability, care dependency, child support and foster care grants will be increased on 1 April 2017.

Social security funds

- The UIF will contribute to job creation as 20% of its investment portfolio will be allocated to socially responsible investments.

- The marked decline in the solvency of the Road Accident Fund poses a risk to RAF's operations and the fiscus.

February 2017

Reform proposals

Health Reform

- A NHI Fund is to be established during 2017/18, with services to be delivered through public and private medical practitioners.

Financial Sector Regulation

- The Financial Sector Regulation Bill will become law in 2017, which will result in the formation of the Financial Sector Conduct Authority and the Ombud Council.
- The draft Conduct of Financial Institutions Bill and a financial literacy policy will be released this year.
- Revised Policyholder Protection Rules under the Long-term Insurance Act have been issued for comment.
- New requirements will be imposed before courts will grant emolument attachment orders.

Retirement Fund Reform

- The final version of the default Regulations to the Pension Funds Act will be published later this year.
- Amendments to the Pension Funds Act will be considered in 2017.
- Discussions on the implementation of annuitisation of retirement benefits in provident funds are ongoing.
- Government is considering automatic enrolment to encourage or require employers to automatically enroll their employees into a retirement fund.

Retirement funds

- Retiring members will be able to preserve their retirement benefits by transferring their retirement interest after reaching normal retirement age to a retirement annuity fund.
- Benefits from public sector funds that accrued before 1 March 1998 will remain tax free every time a member transfers to another approved fund.
- Existing employees will no longer be limited to a 12 month period to join the employer's fund.

Individual tax

The marginal personal income tax rates have been adjusted and a new tax bracket has been introduced for high income earners.

Rebates

The primary rebate will be increased to **R13 635** per year (currently R13 500).

The secondary rebate which applies to individuals aged 65 to 74 will be increased to **R7 479** per year (currently R7 407).

The third rebate which applies to individuals aged 75 and older will be increased to **R2 493** per year (currently R2 466).

Tax thresholds

The thresholds below which individuals are not liable for personal income tax have been increased.

Interest exemption

The interest income tax threshold remains the same, which is **R23 800** for persons under 65 and for persons 65 and over is **R34 500**.

Transfer duty rates

The transfer duty-free threshold on purchases of residential property increases to **R900 000**.

Capital gains tax

There were no changes to the inclusion rate, but the maximum effective rates for taxpayers in different tax brackets will increase due to changes in the maximum marginal rate for taxpayers.

Medical tax credits

Monthly medical tax credits will increase in line with inflation from 1 March 2017.

Tax Free Savings Account

The annual contribution to a tax free savings account is increased to **R33 000.**

Corporate tax proposals

- Dividend withholding tax increased from 15% to 20%.
- New measures to curb anti-avoidance practices of facilitating tax-free transfers to trusts through the use of low or interest free loans.
- Clarifying the rules on taxation of gains on the disposal of shares from employee share schemes.
- Increase in the fringe benefit exemption for employer provided bursaries.
- Dormant group companies and companies under business rescue to be allowed relief in respect of debt cancelled where such debt was used to finance tax deductible expenditure.
- Settlement of a debt other than with cash to be allowed.
- Abuse of disposal of shares disguised as share buybacks to be curbed.
- Removal of the *in duplum* rule from low or interest free loans dealt with under the Income Tax Act.
- Additional rules are to be introduced to enhance anti dividend stripping rules.

Tax Administration

- Interest calculation rules under the Tax Administration Act will be reviewed.
- The Income Tax Act will be amended to confirm the approval process of public benefit organizations receiving tax deductible donations.
- The monthly employees' tax on the overall annual contribution cap of R350 000 should be spread throughout the tax year.
- Interest payable by SARS is deemed to accrue to the recipient on the date of payment by SARS.

Value Added Tax

The VAT rate remains the same at 14%. Government will consult on a proposal to remove the zero-rating on fuel in 2018/19.

Other

Sin taxes - the duties on alcoholic beverages and tobacco products will increase between 6% and 9%.

Fuel levies - with effect from 5 April 2017, the general fuel levy and RAF levy will increase.

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

Sugar taxes - the tax on sugary beverages will be implemented later this year once legislation is passed.

Carbon tax – the proposed carbon tax and date of implementation will be considered further in Parliament this year.

Social Security Framework

Social grants

The following social security grant increases will come into effect on 1 April 2017:

- **War veterans** grants will increase from R1 525 to **R1 620.**
- **Old age, disability and care dependency** grants will increase from R1 505 to **R1 600.**
- **Old age grant for over 75's** will increase from R1 525 to **R1 620.**

- **Child support** grants will increase from R350 to **R380.**
- **Foster care** grants will increase from R890 to **R920.**

Social security funds

Social security funds, public entities and provinces have recorded a combined surplus over the medium term. This surplus partially offsets the main budget deficit.

Unemployment Insurance Fund ("UIF")

The UIF has net assets of R120.1 billion. Over the medium term, UIF expects to receive R59.5 billion in contributions and pay R31.3 billion in benefits. In the next three years the UIF's surplus is expected to reach R160 billion.

The UIF will contribute to job creation as 20% of its investment portfolio will be allocated to socially responsible investments.

Road Accident Fund ("RAF")

The RAF is in a deficit, which poses a risk to RAF's operations and the fiscus. During 2017 legislation on the new Road Accident Benefit Scheme to replace the RAF will be introduced. The new arrangement is designed to provide equitable, affordable and sustainable compensation. It will be based on social security principles, as opposed to the current liability insurance principles.

Reform proposals

Health Reform

As part of the broader social welfare reform initiatives, a NHI Fund is to be established during 2017/18. The NHI Fund aims to give all South Africans access to quality, affordable healthcare.

Its initial focus will be to expand access to maternal health services, making hearing aids and spectacles available through school health programmes, offering improved psychiatric care, and services for people with disabilities and the elderly. The NHI Fund services will be delivered through both public and private medical practitioners.

Financial Sector Regulation

Much has been said over the past few years about transforming the financial sector to broaden access through affordable financial services, improve market conduct and consumer protection, ensure employment equity at top management levels and transform ownership structures. There are a variety of measures being put in place or proposed to meet government's policy of a financial sector that serves all South Africans, including:

- The Financial Sector Regulation Bill will become law in 2017, which will result in the formation of the Financial Sector Conduct Authority (the new market conduct regulator) and the Ombud Council. The Financial Sector Conduct Authority will continue to implement the *Treating Customers Fairly* framework.
- The draft Conduct of Financial Institutions Bill and a financial literacy policy will be released this year.
- Revised Policyholder Protection Rules have been issued for comment and deal with how insurers must manage customer complaints.
- The abuse of emolument attachment orders, which has resulted in many workers being trapped in a debt cycle, will be curtailed by introducing new requirements linked to the issuing, structuring and reporting of emolument attachment orders by the courts.
- The Insurance Bill of 2016 will give effect to government policy on microinsurance to facilitate the provision and distribution of good value, low-cost insurance products to meet the needs of low income consumers.

Retirement Fund Reform

The following issues were mentioned at a high level in Budget 2017. With some of these proposals, we would need to see the exact wording to understand the full impact of the changes.

- The second draft of the default Regulations to the Pension Funds Act, covering an annuity strategy, preservation and investments was released in December 2016. We have submitted comments on that version. Budget 2017 indicates the final version will be published later this year.

- Amendments to the Pension Funds Act will be considered in 2017, to introduce the concept of an umbrella fund and to clarify the Registrar of Pension Funds' powers with regard to funds that do not have properly constituted boards of trustees.
- National Treasury and the Financial Services Board are engaging on how to solve the challenge of unclaimed benefits.
- The implementation of annuitisation of retirement benefits from provident funds has been postponed to 1 March 2018. In the meantime there are ongoing discussions at NEDLAC on this issue. If no agreement is reached on the need to annuitise, government will review the tax deductions for members of funds where no annuitisation takes place.
- National Treasury will be engaging with industry to provide annuity products for low- and middle income members of funds.
- Although we have a well developed pension system, many employees do not belong to a retirement fund. Government is considering automatic enrolment as an important, urgent reform, to ensure more workers save for retirement. This means that employers would be encouraged or required to automatically enroll their employees into a retirement fund.

Retirement Funds

- There have been no changes to the lump sum tax tables for retirement and withdrawal benefits.
- The contribution deduction limits of 27.5% of remuneration or taxable income, capped at R350 000 remains unchanged.
- Currently on reaching normal retirement date in terms of the rules of the fund, members cannot transfer their retirement benefit to another approved fund. In 2014 tax changes allowed members to defer their retirement and leave their benefits in the fund and only claim it when they need to. This happened through the change in the tax accrual principles which confirmed that a retirement benefit only accrues to a member when the member makes an election to receive the benefit from the fund.
- National Treasury has proposed that retirement benefits can be preserved after reaching normal retirement date by either:
  - deferral in the fund by delaying the election which was allowed through the tax changes in 2014; or
  - by electing to transfer the retirement interest to a retirement annuity fund.
- Transfers of benefits accumulated before 1 March 1998 out of public sector funds to private sector funds has always been tax exempt on the first transfer. It is proposed that the tax exempt status of the benefit accumulated before 1 March 1998 in a public sector fund will remain intact, no matter how many times the member transfers this benefit to another approved fund.
- The definition of pension and provident fund in the Income Tax Act currently has a 12 month period within which existing employees must join a new fund in which their employer participates. To encourage employees to contribute toward their retirement, the 12 month limit will be removed. It is unclear whether this will only apply to umbrella funds (as indicated in the Budget) or whether this will be extended to all funds.

Individual Tax

Personal tax tables (natural persons)

Old: 2016/2017 tax year

TAXABLE INCOME (R's)	RATES OF TAX
0 – R188 000	18% of each R1
188 001 – 293 600	R33 840+ 26% of the amount above R188 000
293 601 – 406 400	R61 296 + 31% of the amount above R293 600
406 401 – 550 100	R96 264+ 36% of the amount above R406 400
550 101 – 701 300	R147 996 + 39% of the amount above R550 100
701 301 and above	R206 964 + 41% of the amount above R701 300

TAXABLE INCOME (R's)	RATES OF TAX
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

Rebates

The primary rebate will be increased to **R13 635** per year (currently R13 500).

The secondary rebate which applies to individuals aged 65 to 74 will be increased to **R7 479** per year (currently R7 407).

The third rebate which applies to individuals aged 75 and older will be increased to **R2 493** per year (Currently R2 466).

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 000 to **R75 750.**
- For persons between the ages of 65 and over, it will be increased from R116 150 to **R117 300**.
- For persons 75 years and older, it will be increased from R129 850 to **R131 150**.

Transfer duty

With effect from 1 March 2017, the transfer duty-free threshold on purchases of residential property increases from R750 000 to R900 000.

Capital Gains Tax (CGT)

Although there were no changes to the inclusion rate, the maximum effective rates for the following taxpayers due to the increase in the maximum marginal rate for taxpayers and the tax rate for trusts is the following:-

- Individuals: The maximum effective capital gains tax rate for individuals will increase from 16.4% to 18%.
- Companies: This remains the same at an effective rate of 22.4%.
- Trusts: The effective rate applicable to trusts will increase from 32.8% to 36%.
- Special Trusts: The maximum effective rate applicable to special trusts will be raised from 16.4% to 18%.

We have not yet ascertained how this will apply to life insurers.

Medical Tax Credits

Monthly medical tax credits will increase in line with inflation from 1 March 2017 as follows:

Monthly medical tax credits for all taxpayers		
	2016/2017	**2017/2018**
Member	R286	R303
First beneficiary	R286	R303
Additional beneficiaries	R192	R204

Tax Free Savings Account

The annual contribution to a tax free savings account is increased from R30 000 to **R33 000** in line with inflation. There is no adjustment to the lifetime allowance of R500 000.

Corporate Tax Proposals

National Treasury has proposed new measures to maintain the tax base and to prevent erosion of the corporate tax base through anti-avoidance and non-aligned tax provisions. Some of these measures include:

- Dividend withholding tax will increase from 15% to 20%, which will yield around R6.8 billion for the fiscus.
- Any interest forgone in respect of a low or interest free loan to a trust is deemed to be a donation and subject to donations tax at 20%.
- Clarifying that a gain arising from the disposal by employees of shares allocated via an employee share based scheme will be subject to CGT.
- Exclusion of incomes qualifying for the fringe benefits exemption on employer sponsored bursaries will increase from R400 000 to R600 000 and the rand limit for qualifying bursaries will increase from R15 000 to R20 000.
- The special tax relief for debt that is cancelled for loans between companies in the same group is to be extended to dormant group companies and companies under business rescue where such debt was used to finance tax deductible expenditure.
- Payment of a debt other than with cash, for example by issuing of shares, is to be allowed with the recoupment of capitalized interest on the debt where an interest deduction was previously claimed.
- Avoidance of tax by disguising the disposal of shares as share buybacks and receipt of a dividend is to be stopped through measures curbing share buy backs.
- The ability of taxpayers relying on application of the *in duplum* rule for interest gains on no or low interest loans is to be stopped by excluding the application of the *in duplum* rule on such loans.
- Additional rules are to be introduced to enhance anti-dividend stripping rules.

Tax Administration

- Members may incur tax debts owing to SARS and interest may be applied to that debt. The transitional rules relating to interest calculations on tax debt under the Tax Administration Act will be reviewed to avoid inconsistencies and over and under accruals of interest.
- The Income Tax Act will be amended to confirm the approval process of public benefit organisations receiving tax deductible donations. This will be in addition to the approval of their tax exempt status.
- It is currently not clear 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.
- Interest payable by SARS is sometimes spread over tax years and this may become an administrative burden when it comes to calculating interest on interest and where adjustments have to be made. It is proposed that interest paid by SARS is deemed to accrue to the recipient on the date of payment by SARS.

VAT

There is no change to the VAT rate. It remains the same at 14%. However government will look to expand the VAT base in 2018/19. It is proposed that the zero-rating on fuel be removed. There will be consultation on this leading up to Budget 2018.

Other

Sin taxes

As to be expected, the excise duties on alcoholic and tobacco products have been increased. The duties on alcoholic beverages increase by between 6% and 9%. The duties on tobacco products will increase by between 8% and 9.5%.

Fuel levies

With effect from 5 April 2017, the general fuel levy on petrol, diesel and biodiesel will increase by 30 cents per litre and the RAF levy increases by 9 cents per litre.

Electricity levies

There is no change in the electricity levy.

Sugar taxes

Over the past year, the National Treasury published a draft policy paper and consulted with interested parties on the proposed sugary beverages tax. The tax will be implemented later this year once legislation is finalised.

Carbon tax

A revised Carbon Tax Bill will be published for public consultation and tabled in Parliament by mid-2017.

Conclusion

The Minister said that the economic transformation that we seek in South Africa has brought us to a crossroad and tough choices have to be made. The speech reflected the need to balance spending and debt repayment to ensure sustainable economic recovery. It was said that if households and businesses have to make tough decisions in balancing their income and expenses, the same discipline must be applied by government in deciding how public money is spent.

The Minister said that South Africans demand accountability to ensure public funds are used for their intended purposes and he referred to a quote from Mahatma Gandhi which goes as follows “Democracy is not a state in which people act like sheep”. The Minister did say in his speech that South Africans are not sheep and that while we have obstacles and detractors, we must overcome them and be active agents for change.

If you need more information, please contact your consultant.