VERBATIM

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NATIONAL BUDGET 2019

The Budget speech delivered on 21 February 2019 by Finance Minister, Tito Mboweni focused on education (with R30 billion allocated to building new schools and maintaining schooling infrastructure), improving the living conditions of the poor (social grants have increased) and overall sustainability by achieving a higher economic rate of growth, increasing revenue collection, reducing expenditure, stabilising debt, reconfiguring state owned enterprises and managing the public sector wage bill.

The taxation on lump sum withdrawals, retirement, or severance benefits, as set out below, remains unchanged as do the deductions.

RETIREMENT FUND LUMP SUM WITHDRAWAL BENEFITS AND DEDUCTIONS

The first R25 000 lump sum on withdrawal remain tax free.

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

The first R500 000 lump sum on retirement remains tax free.

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

Pension, Provident and Retirement Annuity Fund deductions for members in respect of contributions remain unchanged.

TAX FREE SAVINGS ACCOUNTS

The annual cap on contributions to tax-free savings accounts remains at R33 000 with a lifetime limit of R500 000.

PROPOSED TAX AMENDMENTS - WHAT TO EXPECT GOING FORWARD

Refining the foreign employment income tax exemption for South African residents

From 1 March 2020, South African residents who spend more than 183 days in employment outside the country will be subject to South African taxation on any foreign employment income that exceeds R1 million.

Reviewing the non-resident employer registration requirement

Every employer who pays remuneration is required to register with the South African Revenue Service (SARS) and submit monthly and bi-annual tax returns for employees' tax to SARS. If the employer is not a resident of South Africa, this requirement applies irrespective of whether the employer is obliged to withhold PAYE. It is proposed that this requirement be reviewed to determine whether an exclusion from registration is warranted for this type of employer.

Updating the Employment Tax Incentive Act to align with National Minimum Wage Act

The wage-regulating measures in the Employment Tax Incentive Act (2013) will be revised in line with the recently promulgated National Minimum Wage Act (2018).

Tax treatment of bulking payments to former members

Certain retirement funds are permitted to make specified extraordinary payments to their former members tax free (namely surplus, bulking and unclaimed benefits). This is a welcome development that some financial services companies have been asking for, for some time.

Exemption relating to annuities

Once a member of a retirement fund retires and receives an annuity as a retirement benefit, any contributions to the retirement fund that did not qualify for a deduction are tax-exempt. This exemption does not apply to annuities received from a provident or provident preservation fund.

To encourage annuitisation (as opposed to the taking of lump sums) it is proposed that this exemption be extended to provident and provident preservation fund members who receive annuities (the exemption will be retroactive in order to include contributions made after 1 March 2016).

Reviewing the tax treatment of surviving spouse pensions

Spousal pension payments are subject to PAYE by the retirement fund. If the surviving spouse also receives a salary or other income, it is added to the spousal pension to determine his or her correct tax liability on assessment. The result of the assessment is often that the surviving spouse has a tax liability that exceeds the employees' tax withheld by the employer and retirement funds during the year of assessment, since the aggregation of income pushes them into a higher tax bracket. In most cases, the surviving spouse does not foresee the additional tax liability and does not save money to settle the liability. This creates a cash flow burden and a tax debt for the surviving spouse.

It is proposed that:

- surviving spouses are provided with effective communication relating to tax and financial issues;
- the monthly spousal pension be subject to PAYE withholding at a specified flat rate; and
- tax rebates should not be taken into account in the calculation of spousal pensions.

Any PAYE excessively withheld as a result of this proposal will be refunded upon assessment.

Study on the tax treatment of amounts received by portfolios of collective investment schemes

In 2018, amendments were proposed in the Taxation Laws Amendment Bill to tax the profits of some collective investment schemes as revenue instead of capital. After reviewing the public comments on this draft, government decided that more time is needed for it to work with industry to find solutions that will not negatively affect the relevant groups. This study will take place in the 2019 legislative cycle.

Financial Sector Regulation Act

Treasury maintains its position that this Act will be submitted to Parliament in 2019.

GENERAL

Tax Rates

Individuals and Special Trusts

There are no surprise or inflationary changes to personal income tax brackets, while the tax free threshold increases slightly.

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%

Trusts, other than special trusts: rate of 45%.

TAX THRESHOLDS

- Below age 65 increases from R78 150 to **R79 000**.
- Age 65 to 74 increases from R 121 00 to **R122 300**.
- Age 75 and over increases from R 135 300 to **R136 750**.

TAX REBATES

The primary, secondary and tertiary rebates (which are deductible from tax payable) have increased:

- Primary (age below 65 i.e. for all individuals) increases from R14 067 to **R14 220.**
- Secondary (age 65 and over) increases from R7 713 to **R7 794.**
- Tertiary (age 75 and over) increases from R2 574 to **R2 601.**

MEDICAL TAX CREDITS

Following the 2018 Budget Review announcement from Treasury, no adjustment to medical tax credits.

- Member and first beneficiary remain at R310.
- Additional beneficiaries remain at R209.

SOCIAL SUPPORT

One in three South Africans is currently the recipient of a welfare grant, which reach 17.6-million people.

- State old age grants increase from R1 695 to **R1 780**;
- State old age grants for over 75's and war veterans increase from R1 715 to **R1,800;**
- Disability grants and care dependency grants increase from R1 695 to **R1 780;**
- Foster care grants increase from R960 to **R1000**;
- Child support grants increase to **R420** in April and **R430** in October.

VALUE ADDED TAX

- VAT remains at 15%.

FUEL LEVY

There are three main taxes that apply to petrol, diesel and biodiesel being the general fuel levy, the customs and excise levy and the RAF levy.

- A carbon tax will be applied from 5 June 2019 of 9c a litre on petrol and 10c a litre on diesel.
- From 3 April 2019 the general fuel levy for petrol and diesel will be increased by 15c a litre.
- From 3 April 2019 the RAF levy will be increased by 5c a litre.

ESTATE DUTY

Estate duty is levied on property of residents and South African property of non-residents less allowable deductions.

- The estate duty on estates less than R30 million is 20%.
- The estate duty on estates which exceed R30 million remains at 25%.
- The first R3,5 million deduction is still applicable.

SIN TAXES

- A can of beer will cost 12 cents more, while a bottle of wine will cost 22c more.
- A pack of 20 cigarettes will cost R1.14 more.