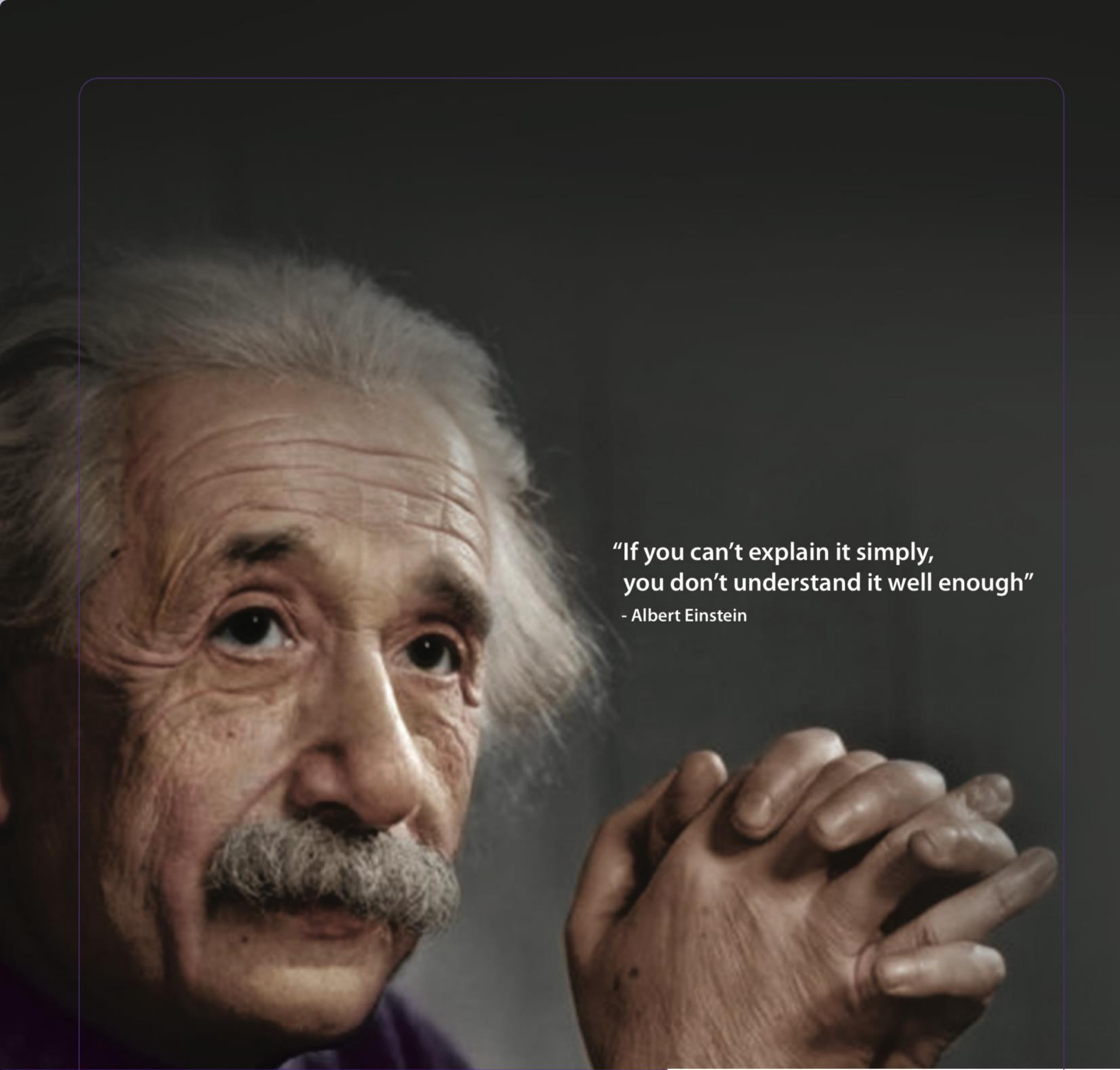

Commentary on 2017 National Budget

1 March 2017

consult • partner • manage

Commentary on 2017 National Budget

1 March 2017

The 2017 Budget speech was generally well received although some well-known economists expressed concern that there was too much focus on additional taxes and not enough focus on curbing state expenditure. It is certainly true that many people are severely frustrated and feel that were it not for corruption and "fruitless & wasteful" government expenditure, we could have avoided further tax hikes. In general, however, SA citizens accept that the Minister was walking a tightrope and had little room to manoeuvre. The result was probably as well as he could do given the current political realities.

Although a lot of negativity prevails, including concern about a cloud of state capture hanging over treasury, there are definitely some positives for the SA economy in the shorter term. These are:

- Nationally the drought is over with the Cape hopefully to follow once their rainy season starts;
- Electricity supply constraints no longer an issue;
- Inflation expected to return to within the band during the course of 2017;
- Interest rates not likely to rise;
- Many businesses still have solid balance sheets;
- Commodity prices have started to recover;
- Rand still cheap providing a good opportunity to increase exports and improve the SA current account.

Although increasing VAT would have eased the burden on personal income tax, it was considered too politically sensitive, so personal income tax had to shoulder the bulk of the burden. The annual contribution from personal income tax is estimated to be R16.5 billion. Of this, R12.1 billion will be from the so-called bracket creep and R4.4 billion from the new top marginal income tax bracket (earning in excess of R1.5 million per annum). It is interesting to note that this latter group is only around 103 000 tax payers.

Additional tax revenues from other sources are estimated to be:

- R6.8 billion from dividend withholding tax (rate increased from 15% to 20%);
- R3.2 billion from the increase in the general fuel levy;
- R1.9 billion from the increase in excise duty of alcohol and tobacco.

The promised sugar tax will be implemented once the necessary legislation is in place.

Contributions to qualifying tax free savings plans have been increased by 10% to R33 000 per annum.

Retirement Funds

Tax deductibility and limits on exit from funds

There was no change to the deductible limits for retirement fund contributions (27.5% of the greater of remuneration or taxable income, capped at R350 000 per annum). There was also no change to the tax-free limits and tax scales that apply on lump sums on retirement or on resignation. This is of course also a form of bracket creep.

Annuitisation for provident funds

The ongoing dispute between National Treasury and certain interest groups such as COSATU with regard to “annuitisation” for provident funds will be watched with interest. Annuitisation had been postponed until 1 March 2018 and the budget made reference to this matter and the fact that there were ongoing discussions in NEDLAC on the matter. National treasury is of the view that in the absence of an agreement on annuitisation then the tax deductibility of contributions to provident funds would need to be reviewed.

Draft default regulations

These draft regulations deal with default strategies for investment, preservation and annuities. It was pleasing to note that National Treasury had taken industry input into account, with the result that the latest draft regulations were more guidance (principles based) compared to the prescriptive nature of the first set. It was noted, however, that this would be subject to review in the final regulations which are to be published later this year. In addition, it was stated that there will be further steps to lower charges and to improve the value for money offering for members.

Removing time limit to join an employer umbrella fund

Existing employees who do not join a newly established employer umbrella fund have twelve 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 and that employees be allowed to join without time restriction, subject to the rules of the fund.

We are uncertain why this new proposed rule will only apply to umbrella funds.

Pension Funds Act

Amendments to the Pension Funds Act are anticipated to cater properly for umbrella funds and to clarify the powers of the Registrar of Retirement Funds with regard to funds that do not have properly constituted boards. National Treasury is also to engage with the Financial Services Board to find a sustainable policy solution to the challenge of unclaimed benefits.

Preservation of benefits after reaching normal retirement dates

Currently, once an 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 in the budget that transfers be allowed from a retirement fund to a retirement annuity fund, subject to the fund rules. Currently retirement savings can only be retained in the employer sponsored retirement fund after reaching the normal retirement date and before utilising the benefit.

Social security reform and automatic enrolment

Although South Africa has a well-developed occupational pension system, there is limited coverage of the working population and the number of funds in operation considered too large. In November 2016, government tabled a discussion paper on social security reform at NEDLAC. This NEDLAC engagement is expected to take some time to conclude so government wishes to pursue a parallel process to consider more urgent retirement reforms that can be implemented in the interim – including for example auto enrolment. 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.

Conclusion

The impact of the increased direct and indirect taxes could be significant for many taxpayers. One way of mitigating this will be to invest in tax deductible and tax free investments. Following last year's tax changes, members of approved funds (pension, provident and retirement annuity funds) can make higher tax deductible contributions - up to 27.5% of the higher of remuneration or taxable income. The growth on savings within the fund is free of all tax including dividends tax and capital gains tax. The higher marginal rate and fiscal drag makes these investments even more attractive and there is a noticeable increase in voluntary additional contributions by members of retirement funds. Although tax-free contributions to retirement funds are capped at R350 000 per year, which will affect high income earners, they can nevertheless roll over un-deducted contributions to future years, including into retirement.

Sources

- National Treasury
- Econometrix
- Media commentary