Budget 2020 Summary

This year's Budget was anticipated with a fair amount of trepidation – would this Budget bring a sigh of relief or be the last nail in the downgrade coffin. Well after the fact it is definitely a sigh of relief as it is sensible and reasonable towards the taxpayers of South Africa. It sets realistic, be it very ambitious goals for the future.

Reform and restructuring are words used to set the table for future economic growth. The current growth rate for 2020 is estimated to be 0.9%, with 1.3% in 2021 and 1.6% in 2022 being the anticipated growth rates. Unemployment is at an all-time high of 29.1%, which is mostly due to the limited growth being experienced. Therefore restructuring and reform will be necessary.

SARS will be reformed to enhance tax collection. There is an aim to strengthen the tax system, broadening the tax base, thereby enhancing income over the short to medium term.

Tax changes were expected to fund the shortfalls – most taxpayers believed that they would be expected to fit the bill – again – however, it was a big surprise that the tax amendments were very mild. As stated in the Budget, the last five years has seen an increase in income tax, dividends tax, capital gains tax and VAT, whilst continuously increasing the fuel levy, excise duties and sin taxes. and it is believed that additional tax increases could obstruct short term recovery.

The following is a summary of the current and future proposed tax changes that will impact our clients and the financial planning landscape:

Individual tax proposals

1. Personal income tax

There is above inflation tax relief provided by the annual inflationary adjustment to the tax tables. The maximum tax rate remains at 45%.

2. Medical tax credits

There is a below inflation increase to the tax credits (below inflation to assist with the funding of the eventual roll-out of the NHI). The annual credits are increased from R310 to R319 for the first two beneficiaries on the fund and from R209 to R215 for the remaining beneficiaries.

3. Tax-free savings

The annual contribution limit will be increased from R33 000 per annum to R36 000 per annum. The lifetime limit of R500 000 remains unchanged.

4. Transfer duties

The transfer duty table has been adjusted to provide for inflation. The maximum tax band is still 13%.

5. Sin taxes

Cigarettes and alcohol will once again see an increase in taxes, with electronic cigarettes being on the radar. Policymakers plan to tax and regulate electronic cigarettes due to the health risks attached to the use thereof.

6. Fuel levy

The cost of fuel will increase by 25 cents of which 16 cents is the fuel levy and 9 cents is for the RAF. This will take effect on 1 April 2020.

7. Foreign employment income exemption

The amendment to the exemption introduced last year is effective on 1 March 2020. The initially proposed cap to the exemption of R1 000 000 will be increased to R1 250 000.

Treasury is aware of clients being advised to emigrate with the sole purpose of circumventing this tax consequence (financial emigration). Government wants to encourage South Africans working abroad to retain their connection with the country.

In an aim to achieve this, the concept of emigration will be phased out by 1 March 2021. It will be replaced by a verification process.

For residents working abroad, the intention is to remove exchange control treatment for individuals. The plan is to allow these individuals more flexibility provided their funds are legitimately sourced and that they are in good standing with SARS. Individuals transferring more than R10m offshore will be subjected to a more stringent verification processes. These transfers will also trigger a risk management assessment.

The phasing out of the concept of emigration will also impact the ability to access retirement funds due to emigration. It is proposed that the rules surrounding this exception to access retirement funds due to emigration be revised and amended to be in line with the overall amendments proposed here.

No further details are available at the moment and will be communicated as soon as it becomes available.

8. Business travel reimbursement

Where an employee travels and incurs costs for meals, etc, the employer can reimburse the employee for those expenses incurred provided it does not exceed the limitation published by the Commissioner.

9. PAYE and personal income tax administration reform

The PAYE system will be reviewed and reformed to make it more efficient and automated – making it easier to understand, access and maintain. It will provide for more accurate and timely withholding of income tax. The ultimate goal is to arrive at a stage where most employed individuals do not have to submit personal income tax returns.

10. Preventing the circumvention of anti-avoidance rules for trusts

In 2016 anti-avoidance measures were introduced to prevent the transfer of growth assets to trusts by using low or no interest loans – section 7C. In 2017 it was strengthened to prevent the transfer growth assets to companies owned by the trust by using low or no interest loans.

Taxpayers are undermining the current limitations by subscribing to preference shares in companies owned by trusts that are connected to the individual. New rules will be introduced to prevent this abuse from taking place.

Corporate tax proposals

1. Downward adjustment of corporate tax rate

To make our landscape more attractive for business – local and international – government intends to restructure the corporate income tax system to broaden the tax base and reduce the tax rate. The current rate of 28% is higher than that of our trading and investment partners, resulting in SA losing our appeal as a destination for investments.

2. Limiting excessive interest deductions

A proposal is made to restrict net interest deductions to 30% of earnings from the tax years commencing after 1 January 2021.

3. Limiting the use of assessed losses to reduce taxable income

Over the last few years there has been a trend internationally to restrict the use of assessed losses when determining the taxable income. It is proposed to limit the offsetting of assessed losses to 80% of taxable income. It is proposed to be implemented from the tax years commencing after 1 January 2021.

Retirement fund proposals

1. Unclaimed benefits

Retirement funds and the Guardian's fund do not always find the beneficiaries of a deceased fund member. This result is the money being unclaimed. Legislation will be introduced to centralise such funds and establish a registry of the funds and the members of the fund. These investments are being considered in the mobilisation of funding for infrastructure. Legislation will be drafted for this purpose.

2. Retirement fund reform

Government and NEDLAC have agreed to continue with the reform, including the annuitisation of provident funds. The effective date is still anticipated to be 1 March 2021. Government will ensure that annuity products are developed that are more suited for the low income market.

3. Clarifying deductions to retirement funds

Par 5 and 6 of the Second Schedule allows for a member of a fund to enjoy deductions for contributions that did not qualify as a deduction under section 11F. The relevant paragraphs in the Act refer to own contributions and not to the employer contributions, resulting in the employer contributions not being deductible. This will be corrected to include both contributions made by the member of the fund and the employer.

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