

Budget Stop Press 2013

"What counts in life is not the mere fact that we have lived. It is what difference we have made to the lives of others that will determine the significance of the life we lead…".

- Former President Nelson Mandela at Walter Sisulu's 80th birthday

This circular only includes budget changes and proposals which are relevant to the financial planning environment.

1. Personal Income Tax

The Minister proposed welcome but restrained personal income tax relief.

The table below illustrates the adjusted tax rates applicable to individual taxpayers and special trusts for the 2013/2014 tax year.

Tax rates for natural persons and special trusts – 2013/2014 tax year

Taxable Income	Rate of tax
R0 - R165 600	18% of taxable income
R165 601 – R258 750	R29 808 + 25% of taxable income above R165 600
R258 751 – R358 110	R53 096 + 30% of taxable income above R258 750
R358 111 – R500 940	R82 904 + 35% of taxable income above R358 110
R500 941 – R638 600	R132 894 + 38% of taxable income above R500 940
R638 601 and above	R185 205 + 40% of taxable income above R638 600

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Tax rebates		
	2012/2013 Tax Year	**2013/2014 Tax Year**
Primary Rebate	R11 440	R12 080
Secondary Rebate (applicable only to taxpayers aged 65 and over)	R6 390	R6 750
Tertiary Rebate (applicable only to taxpayers aged 75 and over)	R2 130	R2 250

Tax thresholds		
	2012/2013 Tax Year	**2013/2014 Tax Year**
Below age 65	R63 556	R67 111
Age 65 and over	R99 056	R104 611
Age 75 and over	R110 889	R117 111

This means that a taxpayer younger than 65 and earning a taxable income of R67 111 or less per annum, or a taxpayer older than 65 but younger than 75 and earning a taxable income of R104 611 or less per annum, or a taxpayer of 75 years and older and earning a taxable income of R117 111 or less per annum, will not pay any income tax in the 2013/2014 tax year.

The examples below demonstrate the tax savings for individuals (younger than 65) in terms of the proposed changes:

Tax Savings for individuals younger than 65				
Taxable Income (R)	**Tax payable 2012/2013 Tax Year (R)**	**Tax payable 2013/2014 Tax Year (R)**	**Tax Reduction (R)**	**Tax Reduction (%)**
150 000	15 560	14 920	640	4.1
200 000	27 360	26 328	1 032	3.8
250 000	39 860	38 828	1 032	2.6
300 000	54 860	53 385	1 475	2.7
400 000	87 560	85 486	2 074	2.4
500 000	123 040	120 485	2 555	2.1
750 000	220 700	217 685	3 015	1.4
1 000 000	320 700	317 685	3 015	0.9

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Individuals with a single source of taxable employment income currently do not have to submit tax returns if their taxable income is below a threshold of R120 000 per year. This threshold is raised to R250 000.

2. Interest Exemption

The interest exemption threshold has been revised and the new exemptions are as follows:

- R23 800 per annum for taxpayers under the age of 65,
- R34 500 per annum for taxpayers aged 65 years and older,

A taxpayer younger than 65 will be able to invest R1 515 183 at 6% per annum without paying tax. Those older than 65 but younger than 75 will be able to invest R2 318 516 at 6% per annum without paying tax. While a taxpayer 75 and older will be able to invest R2 526 850 at 6% per annum without paying tax.

To encourage greater savings, tax-preferred savings and investment accounts are proposed to be introduced by April 2015, as a replacement to the current tax-free interest-income caps as above. This will encourage a new generation of savings products.

All returns accrued within these accounts and any withdrawals would be exempt from tax. The account would have an initial annual contribution limit of R30 000 and a lifetime limit of R500 000, which is to be increased regularly in line with inflation.

3. Foreign Dividend Exemption

Most foreign dividends received by individuals from foreign companies (shareholding of less than 10 per cent in the foreign company) are taxable at a maximum effective rate of 15 per cent. No deductions are allowed for expenditure to produce foreign dividends.

4. Taxation of Small and Micro Businesses

The annual turnover threshold for small business corporations has been increased to R20 million.

This table will be effective for years of assessment ending on or after 1 April 2013 are as follows:

Tax table applicable to Small Business Corporations	
Taxable Income (R)	**Rate of Tax (R)**
R0 – R67 111	0% of taxable income
R67 112 – R365 000	7% of taxable income above R67 111
R365 001 – R550 000	R20 852 + 21% of taxable income above R365 000
R550 001 and above	R59 702 + 28% of the amount above R550 000

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5. Medical Tax Credits

With effect from **1 March 2013**, the tax credit (for contributions to medical schemes) for a taxpayer younger than 65 years is **R242 (per month)** and for a taxpayer and his or her first dependent is **R484 (per month)**. A further **R162 (per month)** credit is afforded to each additional dependent. Until the 1st March 2014, the out of pocket expenses for all taxpayers will be deductible in the same fashion as before.

- Currently **over 65 year olds** are able to claim their full contributions **and** out of pocket expenses as a deduction against their taxable income.

- On the other hand, **under 65 year olds are** entitled to the afore-mentioned monthly tax credit in respect of their medical scheme contributions **and** may deduct their out of pocket expenses against their taxable income.

- The recently enacted Taxation Laws Amendment Act (the Act) provides that, with effect from **1 March 2014**, **over 65 year olds** will fall under the medical tax credit regime and that the medical tax credit regime will be extended to out of pocket expenses. In this regard, over 65 year olds and taxpayers with a disability (or whose spouse or children have disabilities) will be afforded more favourable treatment.

- The Act makes it clear that qualifying out of pocket medical expenses will also include medical expenses incurred by the taxpayer in respect of the taxpayer's spouse, their children, the children of their spouse, **and** members of the taxpayer's family in respect of whom the taxpayer is liable for family care and support.

6. Social Security

In an effort to ensure that poverty reduction continues, social grants have been increased to keep up with inflation. The new grants are as follows:

	2012/2013	**2013/2014**
Disability and Old Age Grants (Below 75)	R1 200	R1 260
Old Age Grants (Over 75)	R1 220	R1 280
Child support Grant	R280	R290

It is proposed that the current "means test" for the old age grant will be phased out by 2016. This will encourage annuitisation for Provident Fund members.

7. "Sin Taxes" and Fuel Levies

The following increases are proposed:

- Tax on a packet of 20 cigarettes increases 60c
- Tax on a 340ml can of beer increases by 7.5c
- Tax on a bottle of wine increases by 19.5c
- Tax on a bottle of spirits increases by R3,60

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Government also proposed the following:

- To increase the general fuel levy and Road Accident Fund levy by 15c/l and 8c/l respectively with effect from 3 April 2013. This results in a total increase of 23c/l.
- The levy on plastic shopping bags will rise from 4c to 6c per bag as from 1 April 2013.
- The levy on incandescent light bulbs will be increased from R3 to R4 per bulb from 1 April 2013.
- The tax on motor vehicle carbon dioxide emissions, which is intended to encourage consumers to buy vehicles with lower carbon emissions, will increase from 1 April 2013. For passenger cars, the tax will rise from R75 to R90 for every gram of emission per km above 120gCO^2/km. In the case double cabs it will increase from R100 to R125 for every gram of emissions per km above 175gCO^2/km.

8. Proposed amendments:

Retirement funds

The following changes have been proposed:

- Employer contributions: Contributions by employers to retirement funds are to be fringe benefit taxed. *[Proposed effective date: 1 March 2014]*

- Deductible contributions: Individual member taxpayer deductions for pension, provident and retirement annuity funds are to be consolidated. The cap of such contribution deductions will be at **27.5%** of the higher of remuneration or taxable income (excluding retirement annuity or lump sum income) and with a maximum rand amount of R350 000. This is a *significant* improvement on the thresholds announced in the 2012 budget. These contribution limits will include the risk benefit and administration cost component of the contributions. Any employer contributions that have been fringe benefit taxed will be included in these caps. Contributions that exceed these caps are carried forward to future tax years. *[Proposed effective date: 1 March 2014]*

- Contributions not deducted at retirement date: Any contributions that remain unapplied as deductions at retirement, may be applied against members' retirement benefits (at retirement, firstly against the lump sum and then against the annuity income). Currently, the concession as phrased, will not apply to compulsory annuities purchased from Provident Funds. *[Proposed effective date: 1 March 2014]*

- Uniform approach to retirement fund withdrawals: Currently lump sum withdrawals upon retirement from Pension and Retirement Annuity Funds are restricted to a maximum of one-third of accumulated savings, whereas this restriction does not apply to Provident Funds. It is proposed that the Pension and Retirement Annuity Fund compulsory annuitisation regime will be extended to Provident Funds. The indications are that vested rights will be protected. These proposed amendments will not apply to Provident Fund members older than 55 years at the date of implementation.

- Compulsory Preservation: In line with National Treasury's Strengthening Retirement Savings proposals, the budget documentation reiterated government's drive to encourage preservation of pension fund monies. It is proposed that all

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pre-retirement exit benefits (including divorce awards) may not be taken in cash and instead must be preserved.

- Taxation of lump sums of residents with offshore service: The main issue is whether the concession applies to lump sums and whether the tax focus should rely solely on the national source of the services provided or the national origin of the pension fund involved. In response to the uncertainty in this area, National Treasury has undertaken to clarify the taxation regime.

Other Proposals

- Taxation of Trusts: National Treasury intends to focus on the use of trusts to avoid estate duty, income tax and capital gains tax. It appears that discretionary trusts will no longer be able to act as flow-through vehicles and that trading trusts will similarly be taxed at the entity level.

- Employee share schemes: a special dispensation is proposed to ensure uniform tax treatment of employee share schemes.

- The "four funds approach" to insurer taxation: Insurers currently have to maintain 3 distinct funds for the assets which underpin the liabilities which they owe to policyholders. All other insurer assets must be housed in a "shareholder" fund, called the corporate fund. It is proposed that the assets which underpin risk policies are to be housed in this corporate fund.

- Unapproved (i.e.: non retirement fund owned) disability or income protection policies: SARS has traditionally allowed deductions for income protection rather than income capacity policies. This has lead to much confusion and debate as regards to whether the deduction was available or not. In response to this, it is proposed that the premiums paid in respect of all unapproved risk policies will be non-deductible, with the proceeds of these policies being tax free.

- Public Benefit Organisation (PBO): Currently donations to PBOs are deductible up to 10% of taxable income in the year the donation is made. In an effort to encourage large donations it is proposed that donations in excess of this amount may be rolled over as allowable deductions in subsequent years.

National Health Insurance (NHI)

- A Green Paper describing the initiatives in broad terms was released in this regard. It is intended that this initiative be phased in over a period of 14 years. No further detail has been given in respect of the financing of NHI but a further discussion paper is to be issued shortly.

9. Conclusion

In his State of the Nation Address, President Jacob Zuma stated:

> *"The National Development Plan contains proposals for tackling the problems of poverty, inequality and unemployment. It is a roadmap to a South Africa where all will have water, electricity, sanitation, jobs, housing, public transport, adequate nutrition, education, social protection, quality healthcare, recreation and a clean environment"*.

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The budget reflected the Minister Pravin Gordhan's endeavours to meet these challenges. It is heartening to note that the Minister did not see it fit to introduce any radical changes to the tax regime. This provides taxpayers with a more certain and secure environment in which to plan his or her financial affairs.

PLEASE NOTE THAT THE INFORMATION PROVIDED IN THIS CIRCULAR IS BASED ON PROPOSALS MADE IN THE NATIONAL BUDGET SPEECH DELIVERED ON THE 27TH OF FEBRUARY 2013 IN PARLIAMENT, UNTIL THE PROPOSALS HAVE FORMALLY BEEN PROMULGATED IN LEGISLATION IT WILL ONLY BE VIEWED AS PROPOSALS.

Compiled by: PFA Legal, PWM Legal and Product Legal
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