



Legal Services

FINANCIAL SERVICES



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## ON THE SCALES 5 OF 2019 – NATIONAL BUDGET 2019

On 20 February 2019, Finance Minister Tito Mboweni delivered his maiden budget speech to the nation.

We are all aware of the need to stimulate economic growth, create jobs and stabilise South Africa's finances, and all of this needs to happen in the context of Eskom and SAA woes, various commissions of inquiry and national elections on 8 May 2019.

Despite the forecast of GDP growth of 1.5 per cent referred to in the 2018 budget speech, the actual GDP growth has been nearer to 0.7 per cent. In the coming year, it is anticipated we will spend R243 billion more than we earn.

The Minister spoke of the series of interventions needed, including fixing SARS, reducing expenditure, not taking on Eskom's debt and the unsustainability of the public wage bill.

There were no significant changes proposed in the budget in respect of individuals and retirement funds.

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### Summary

#### Social grants

- There will be an increase in war veterans, old age, disability, care dependency, child support and foster care social grants on 1 April 2019.

## **Reform proposals**

### ***Financial Sector***

- The Conduct of Financial Institutions Bill (see *On the Scales* 3 of 2019) has been released for public comment.
- Additional legislation will be put in place in 2019 to protect customers in the event of a bank failing.
- A financial inclusion policy paper will be published to create meaningful financial inclusion.
- The consultation process at NEDLAC on the first draft of the comprehensive social security paper should conclude at the end of 2019 and then the paper will be revised and issued for broader public consultation.

### ***Retirement reform***

- Extend the roll-over exemption to provident and provident preservation fund members who receive annuities. This exemption applies to contributions made after 1 March 2016.
- Extend the tax-free status of extra ordinary payments where the payments are made by a fund administrator directly to a former member, subject to meeting relevant criteria.
- Review the PAYE impact for surviving spouses receiving income from employment and a surviving spouse's pension.
- Annuitisation of provident funds has been postponed until 2021. This issue is currently being debated at NEDLAC.

### **Individual tax**

The marginal personal income tax rates remain unchanged.

#### *Rebates*

- The primary rebate will be increased to R14 220 per year (currently R14 067).
- The secondary rebate which applies to individuals aged 65 to 74 will be increased to R7 794 per year (currently R7 713).
- The third rebate which applies to individuals aged 75 and older will be increased to R2 601 per year (currently R2 574).

#### *Tax thresholds*

- The thresholds below which individuals are not liable for personal income tax will be increased.

#### *Interest exemption*

- The interest rate exemptions will remain the same.

### **Retirement funds**

- No changes to the lump sum tax tables for retirement and withdrawal benefits.
- No changes to the contribution deduction limits of 27.5 per cent of remuneration or taxable income, capped at R350 000.

### **Transfer duty rates**

- No changes to transfer duty rates were announced.

### **Capital gains tax**

- There were no changes announced to the taxation of capital gains.

### **Medical tax credits**

- There were no changes announced to the medical tax credits.

### **Tax free savings account**

- There was no adjustment to the annual tax-free contribution to a tax-free savings account and no adjustment to the lifetime allowance.

### **Estate duty and donations tax**

- There were no changes announced to estate duty and donations tax.

### **Value Added Tax**

- The VAT rate shall not increase from the current 15 per cent.

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## **Social security grants**

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The average monthly social security grant increases will be as follows:

<b>Grant</b>	<b>2018/19</b>	<b>2019/20</b>
State old age	1 695	1 780
State old age, over 75	1 715	1 800
War veterans	1 715	1 800
Disability	1 695	1 780
Foster care	960	1 000
Care dependency	1 695	1 780
Child Support	405	425

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## Reform Proposals

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### Financial Sector

As we know, 2018 saw the birth of the Prudential Authority and the Financial Sector Conduct Authority, as we moved into a twin peaks regulatory framework. The two regulators focus on prudential and market conduct risks posed by financial institutions.

The Conduct of Financial Institutions Bill (see *On the Scales* 3 of 2019) has been released for public comment. This Bill proposes a single comprehensive law to regulate the behaviour of financial institutions and ensure they treat customers fairly.

Additional legislation will be put in place in 2019 to protect customers in the event of a bank failing. In addition, legislation will be tabled to allow for the establishment of state-owned banks.

During 2019 National Treasury will publish a financial inclusion policy paper, to create meaningful financial inclusion and stronger protection of financial customers.

Through NEDLAC there has been extensive consultation on the first draft of the comprehensive social security paper. This consultation process should conclude at the end of 2019 and then the paper will be revised and issued for broader public consultation.

### Retirement reform

The following proposals were made at a high level in Budget 2019 and we will need to see the exact wording to understand the impact of these proposed changes.

1. When a member of a fund retires and receives an annuity, any contributions to the fund that did not qualify for a deduction when determining the member's taxable income are tax-exempt. However this exemption does not apply to annuities received from a provident or provident preservation fund.

**Proposal:** extend the exemption to provident and provident preservation fund members who receive annuities. This exemption applies to contributions made after 1 March 2016.

2. Funds are allowed to make extraordinary payments to former members' tax free, including surplus and bulking amounts. However some funds were de-registered before they could receive bulking settlements from administrators.

**Proposal:** extend the tax-free status of such payments where the payments are made by a fund administrator directly to a former member, subject to meeting relevant criteria.

- Surviving spouses that receive a spouse's pension and an income from employment will have PAYE deducted in respect of both sources of income. However on assessment, the combined sources of income may result in the surviving spouse moving up a tax bracket and being liable to pay additional tax, which they had not budgeted for.

**Proposal:** surviving spouses should receive effective communication relating to tax and financial issues. The monthly spouse's pension should be subject to PAYE withholding at a specified flat rate. Tax rebates should not be taken into account in the calculation of spouse's pensions.

- We know that annuitisation of provident funds has been postponed until 2021. This issue is currently being debated at NEDLAC.

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#### Retirement funds

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- There have been no changes to the lump sum tax tables for retirement and withdrawal benefits.
- The contribution deduction limits of 27.5 per cent of remuneration or taxable income, capped at R350 000 remain unchanged.

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#### Individual tax

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Personal tax tables (natural persons) will remain unchanged

#### 2019/2020 tax year

TAXABLE INCOME (R)	RATES OF TAX (R)
0 – R195 850	18% of taxable income
195 851 – 305 850	R35 253 + 26% of taxable income above R195 850
305 851 – 423 300	R63 853 + 31% of taxable income above R305 850
423 301 – 555 600	R100 263 + 36% of taxable income above R423 300
555 601 – 708 310	R147 891 + 39% of taxable income above R555 600
708 311 – 1 500 000	R207 448 + 41% of taxable income above R708 310
1 500 001 and above	R532 041 + 45% of taxable income above R1 500 000

#### Rebates

The primary rebate will be increased to R14 220 per year (currently R14 067).

The secondary rebate which applies to individuals aged 65 to 74 will be increased to R7 794 per year (currently R7 713).

The third rebate which applies to individuals aged 75 and older will be increased to R2 601 per year (currently R2 574).

#### *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 R78 150 to R79 000
- For persons between the ages of 65 and over, it will be increased from R121 000 to R122 300
- For persons 75 years and older, it will be increased from R135 300 to R136 750

#### *Interest rate exemptions*

- The interest rate exemptions will not be adjusted for inflation and will therefore remain the same.

<b>Interest exemption for individuals</b>	
Under age 65	R 23 800
Age 65 and over	R 34 500

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#### **Transfer duty**

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No changes to transfer duty rates were announced.

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#### **Capital Gains Tax**

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There were no changes announced to the taxation of capital gains.

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#### **Value Added Tax**

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The VAT rate shall remain unchanged at 15 per cent.

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#### **Tax free savings account**

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There was no adjustment to the annual tax-free contribution to a tax-free savings account which remains at R33 000 per year. There is also no adjustment to the lifetime allowance of R500 000.

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### Medical tax credits

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There will be no increase in the monthly medical tax credits for the medical schemes contribution.

Monthly medical tax credits for all taxpayers		
	2018/19	2019/20
Member	R 310	R310
First beneficiary	R 310	R310
Additional beneficiaries	R 209	R209

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### Estate duty and donations tax

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The 2019 Budget makes no changes to existing estate duty or to current tax on donations.

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### Tax administration - proposals

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After the introduction of the carbon tax, it is proposed that emission-reduction credits could be used to reduce carbon tax liabilities. To avoid a double-benefit scenario, where the same emission reduction leads to both an income tax exemption and reduced carbon tax liabilities, the tax exemption will be repealed from June 2019.

It is proposed that the legislative provisions relating to tax compliance certificates will be updated to include recent system requirements.

Government intends to start taxing electronic cigarettes and tobacco heating products. National Treasury and the Department of Health will consult on the appropriate mechanism, structure and timing of the tax.

National Treasury will publish a draft Environmental Fiscal Reform Policy Paper in 2019. The paper will outline the options to reform existing environmental taxes to broaden their coverage. It will consider the role taxes can play in addressing air pollution and climate change, promoting efficient water use, reducing waste and encouraging improvements in waste management.

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## Other

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### *Sin taxes*

As to be expected, there is an increase of between 7.4 per cent and 9 per cent in excise duties on alcoholic beverages and tobacco products.

### *Fuel levies*

With effect from 3 April 2019, the general fuel levy on fuel will increase by 15 cents per litre, while the RAF levy will be increased by 5 cent per litre. The newly introduced carbon tax of 9 cent per litre on petrol and 10 cent per litre on diesel will become effective on 5 June 2019.

### *Electricity levies*

There is no change in the electricity levy.

### *Sugar taxes*

From 1 April 2019, a health promotion levy, which taxes sugary beverages, will increase to 2.21 cents per gram in excess of 4 grams of sugar per 100 milliliters.

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## At the end

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The Minister looked to the Bible for guidance in his speech, quoting verses that spoke of growth, renewal and the need to plant the seeds of our future, despite the challenges we face.

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*If you need more information, please contact your consultant.*

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