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National Budget 2021

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Finance Minister: "Our national icon, the Nobel Laureate, Archbishop Emeritus Desmond Tutu reminded us that: "Hope is being able to see that there is light despite all of the darkness". He observed that sometimes we forget that just beyond the clouds the sun is shining."

Finance Minister Tito Mboweni's budget speech (24 February 2021) seems to have been, generally speaking, well received. The budget was free of major tax hikes with no new taxes introduced. The Minister stated that: "We have chosen not to introduce the R40 billion in tax measures initially proposed in the October Medium Term Budget Policy Statement".

Personal Tax

Relief through tax bracket and rebate adjustments
The Minister recognised that further increases in personal income taxes would put pressure on beleaguered households and undermine economic recovery. Thus, no rate increases were announced. The Minister went further to state that government aims to reduce personal tax rates over time.

The new tax brackets and rebates for personal income taxpayers show an increase of 5 per cent on average. The Minister pointed out that if you are earning above the new tax-free threshold of R87 300, you will have at least an extra R756 in your pocket from 1 March 2021. The adjusted tax brackets from 1 March 2021 to 28 February 2022 for individuals and trusts in South Africa are set out below.

Medical tax credits have been adjusted by inflation and increase from R319 to R332 for the first two members, and from R215 to R224 for all subsequent members.

Table 4.4 Personal income tax rates and bracket adjustments

2020/21		2021/22	
Taxable income (R)	Rates of tax	Taxable income (R)	Rates of tax
R0 - R205 900	18% of each R1	R0 - R216 200	18% of each R1
R205 901 - R321 600	R37 062 + 26% of the amount above R205 900	R216 201 - R337 800	R38 916 + 26% of the amount above R216 200
R321 601 - R445 100	R67 144 + 31% of the amount above R321 600	R337 801 - R467 500	R70 532 + 31% of the amount above R337 800
R445 101 - R584 200	R105 429 + 36% of the amount above R445 100	R467 501 - R613 600	R110 739 + 36% of the amount above R467 500
R584 201 - R744 800	R155 505 + 39% of the amount above R584 200	R613 601 - R782 200	R163 335 + 39% of the amount above R613 600
R744 801 - R1 577 300	R218 139 + 41% of the amount above R744 800	R782 201 - R1 656 600	R229 089 + 41% of the amount above R782 200
R1 577 300 and above	R559 464 + 45% of the amount above R1 577 300	R1 656 600 and above	R587 593 + 45% of the amount above R1 656 600
Rebates		**Rebates**	
Primary	R14 958	Primary	R15 714
Secondary	R8 199	Secondary	R8 613
Tertiary	R2 736	Tertiary	R2 871
Tax threshold		**Tax threshold**	
Below age 65	R83 100	Below age 65	R87 300
Age 65 and over	R128 650	Age 65 and over	R135 150
Age 75 and over	R143 850	Age 75 and over	R151 100

Source: National Treasury

The minimum value for paid-up retirement annuity funds

Under the Income Tax Act, retirement annuity fund members are, with very few exceptions, locked into the retirement annuity fund until they are 55 years of age. One of the limited exceptions to this is if their balance (before tax) does not exceed R7 000. This value has not been adjusted since the 2007/2008 tax year. Good news for members is that this value will increase from R7 000 to R15 000 from 1 March 2021.

Travel and home office allowances

In light of the large scale move to working at home over the past year, Treasury stated it will review current travel and home office allowances. Treasury recognised that this would affect salary structuring and would be a multi year project, starting with consultations this tax year.

Wealthy individuals

The Minister announced that this tax year SARS will establish a dedicated unit to improve the tax compliance of individuals with wealth and complex financial arrangements.

Corporate tax

The corporate income tax rate will be lowered to 27 per cent for companies with years of assessment commencing on or after 1 April 2022. This will be effected along with a broadening of the corporate income tax base by limiting interest deductions and assessed losses. The possibility of further lowering of the tax rate over the medium-term was also confirmed again.

VAT

Value-added tax remains unchanged at 15 per cent.

Retirement fund reform

Annuitisation, auto-enrolment and national fund
The Minister mentioned what has already been announced by Treasury previously in the Medium-term Budget Policy Statement, that is:

- Annuitisation of provident funds is going ahead on 1 March 2021;
- NEDLAC constituencies have agreed to accelerate the introduction of auto-enrolment for all employed workers, and
- NEDLAC constituencies have agreed to the establishment of a fund to cater for workers currently excluded from pension coverage.

No further information was provided on these topics than has been provided previously.

Regulation 28
The Budget Review documents refer to the proposed amendments to Regulation 28 which government states will make it easier for retirement funds to increase investment in infrastructure and improve the measurement of infrastructure investment by the FSCA. These amendments will go through a public comment process.

The proposed amendments refer to infrastructure investment already permitted through various asset classes and suggest delinking the asset category related to "hedge funds, private equity funds and other assets not referred to in this schedule". Treasury stated that delinking this asset category will make private equity a separate asset class with a higher investment limit.

Prescribing assets for pension funds
Annexure A to the Budget Review is the report of the Minister of Finance to Parliament. Annexure A includes a section on the report of the Standing and Select Committees on Finance ("Committee") on the 2020 second revised fiscal framework, which includes the following quote from that Committee's report:

"The committee reiterates its view expressed in its special adjustment budget report that: "Government should engage with all stakeholders, including the private sector on how to unlock domestic investment through impact investments and Regulation 28 of the Pension Funds Act [1956]. NT needs to consider creating the necessary regulatory mechanisms to ensure increased pension fund investments directly into infrastructure projects including real estate, which can unlock capital that currently is not finding its way into projects. The majority in the Committee believe there should be more engagement on the feasibility of prescribing assets for pension funds and will request a presentation by the Financial Sector Conduct Authority (FSCA) and NT on this when the FSCA releases the policy paper as announced by the Minister of Finance in his post-adjustment budget briefing to the Committee. National Treasury should also consider how pension fund members can leverage their retirement fund assets to improve their personal financial circumstances..."

This statement includes reference to not just an amended Regulation 28 and investment in infrastructure but also to the feasibility of prescribing assets for pension funds and further engagement on this.

The statement in the Minister's report as regards the above Committee quote was:

"Alongside the 2020 MTBPS, the National Treasury released an explanatory note on financial sector updates including the review of Regulation 28 – to allow retirement funds to invest more in infrastructure – and, under certain conditions, early access to retirement savings. Annexure F provides an update on these matters."

Annexure F did not contain further information specifically as regards prescribing assets for pension funds but does mention Regulation 28 and access to pension fund monies by members, as set out in this note.

Financial Inclusion Paper
At the same time the Medium-term Budget Policy Statement was published, National Treasury published the first draft of the Financial Inclusion Policy Paper, "An Inclusive Financial Sector for All" ("the Paper") for public comment. It aims to establish a policy framework for financial inclusion in South Africa. Treasury is of the view that financial systems have substantially developed in South Africa in the past 20 years, however, financial systems have not sufficiently closed the gap that exists in access to financial services by individuals and small, medium and micro enterprises (SMMES). In addition, international and domestic

factors such as the pandemic, low economic growth, continuing high unemployment levels, increasing consumer prices, and greater household dependency on credit, impact negatively on household and business financial health.

The Paper explores what needs to be done to:

a) deepen the financial inclusion of individuals,

b) extend access to financial services for SMMES; and

c) to leverage a more diversified provider and distribution base for financial services in South Africa.

Budget 2021 stated that 20 institutions provided comments on the Paper and that National Treasury will facilitate workshops with stakeholders to discuss these comments before finalising the Paper this year. It will also work with industry and civil society working groups and forums to develop a financial inclusion strategy, including a monitoring mechanism, to assess the state of financial inclusion and the impact of this policy.

The Conduct of Financial Institutions Bill
The first draft of the Conduct of Financial Institutions Bill (COFI) was published for public consultation in December 2018. The second draft was published on 29 September 2020 for public consultation.

As a reminder:

- COFI is a key pillar in government's Twin Peaks financial sector regulatory reform process that aims to entrench better financial customer outcomes in the South African financial sector. It is a financial institution-facing law that mostly sets conduct principles for financial institutions to meet (principle-based legislation).
- The overall approach is the application of overarching principle-type requirements to categories of activities and financial institutions. However, it is acknowledged that more detailed requirements, delivered by way of conduct standards, are necessary to support the overarching principles in certain circumstances.
- COFI will significantly streamline the legal landscape (i.e. the laws that financial institutions are currently subject to) for conduct regulation of financial institutions and others.
- One of the aims of COFI is to give legislative effect to the market conduct policy approach, including implementation of the Treating Customers Fairly (TCF) principles. COFI ensures that the TCF principles are legally binding and enforced on all financial institutions.

The National Treasury is engaging stakeholders to discuss and clarify comments received and a revised draft of the Bill will be tabled in Parliament in 2021.

Transformation and financial inclusion
The Financial Sector Transformation Council established seven subcommittees to review the targets in the Financial Sector Code to strengthen transformation. The subcommittees are developing targets for management control and skills development, socioeconomic development and consumer education, retirement funds and ownership, access to financial services, preferential procurement and empowerment financing.

It was stated that this tax year the subcommittees will finalise and submit the revised targets to the Financial Sector Transformation Council for approval and then to the Department of Trade, Industry and Competition to publish for public comment.

Access to retirement fund monies by members
In the Medium-term Budget Policy Statement, the Minister recognised that retirement funds are designed primarily to promote life-cycle savings, and encourage individuals to save while working to provide an income when they retire. However he stated that Treasury had received a number of proposals to enable limited pre-retirement withdrawals from retirement funds, especially during times of a disaster like the COVID-19 pandemic. He went on to state that Treasury has consulted with NEDLAC partners to introduce the necessary legislative amendments next year to allow for limited withdrawals under certain circumstances, but linked to mandatory preservation requirements.

Continuing with this theme, in Budget 2021 the Minister recognised that the Covid-19 pandemic had influenced many other countries to allow members of retirement funds to access their retirement savings. He reiterated what was stated in the Medium-term Budget Policy Statement and further that Government continues to engage with trade unions, regulators and other stakeholders to discuss how to allow these withdrawals, together with mandatory preservation requirements.

The long-awaited Levies Bill
This Bill is still awaited. The Minister stated that with the implementation of Twin Peaks, regulated institutions in the financial sector will be expected to pay a levy towards regulatory costs. It was stated that the Bill is expected to be tabled in Parliament in "early 2021" and the resulting revenue will fund the Prudential Authority, the Financial Sector Conduct Authority and other entities and activities outlined in the Financial Sector Regulation Act.

Retirement funds – three technical amendments to the Income Tax Act

The Budget Review includes four proposed technical amendments in order to correct anomalies in the Income Tax Act. Given the information currently available, the amendments are not yet fully understood and consideration will be given to the final wording of the proposed amendments, once available.

Annuities on retirement
The first proposed amendment refers to the circumstance when a member retires and can commute an amount for cash and take the rest as an annuity. Depending on the rules of the fund, that annuity can be provided by the fund, purchased from an insurer in the name of the fund or purchased from an insurer in the name of the member. Treasury referred to the aim of increasing flexibility for a retiring member and maximising the retirement capital available to provide for an annuity by expanding the amount of retirement interest that may be used to acquire annuities.

Non tax residents who retire from a fund or who die
Treasury provides background to the effect that if a member of a fund ceases to be a tax resident and later retires from the fund or dies, the Income Tax Act deems such amounts to be from a South African source, thus remaining within the South African tax jurisdiction, despite the member no longer being a South African tax resident. However the member is already a tax resident of another country and the benefit may be subject to tax in that country and not South Africa as a result of a tax treaty.

Thus, government proposed a change to the Income Tax Act such that when the member ceases being a tax resident in South Africa the member will be deemed to have withdrawn from the fund on the day before he/she ceases to be a South African tax resident.

What appears to be proposed is that if the member then leaves their monies in the fund until retirement or death then the tax (and interest) on the deemed withdrawal will be deferred until the monies are paid out of the fund or the member retires. When payments are actually received from the fund the payments will then be taxed.

Transfers between retirement funds of retiring members who are 55 years or older
Government refers to members who have already opted to retire and want to transfer their fund benefits to another fund and an amendment to ensure that such members can transfer tax-free to a similarly restrictive or more restrictive fund.

Clarifying the calculation of the fringe benefit for employer contributions to a retirement fund
Treasury provides the following background:

"From 1 March 2016, all employer contributions to a retirement fund on behalf of employees were considered taxable fringe benefits for the employees. If the contribution contains a defined benefit component, the fringe benefit is calculated and the employer must provide the employee with a contribution certificate. An anomaly arises in instances where a retirement fund provides both a retirement benefit in relation to the defined contribution component and a self insured risk benefit. The current interpretation of the legislation would result in the classification of the total contribution to the fund as a defined benefit component because self insured risk benefits are not considered a defined contribution component."

Thus, Treasury has proposed that: "… self insured risk benefits be classified as a defined contribution component to ensure that retirement funds that provide both defined contribution component retirement benefits and self insured risk benefits can provide the fringe benefit value based on the actual contribution".

Unemployment Insurance Fund (UIF) contribution ceiling

The ceiling for contributions to UIF has not been increased in the last four years, despite the increase in the benefit ceiling. The contribution ceiling will therefore return to be in line with the benefit ceiling and set at R17 711.58 per month from 1 March 2021.

National Budget 2021Fuel levy, Road Accident Fund levy and sin taxes

- An inflation-linked general fuel levy increase of 15c per litre for petrol and diesel.
- An above-inflation increase of 11c per litre for the Road Accident Fund levy.
- Smoking and drinking will be 8 per cent more expensive.

This publication does not provide advice.
If you have any questions / comments on the above, please contact your consultant.