20 February 2019

Finance Minister Tito Mboweni's 2019 Budget does not introduce significant changes to the retirement fund industry, but the effect of the 'belt-tightening' measures will be felt by all retirement fund members.

The Budget will be remembered as one of the few instances where no adjustment was made to the tax tables and the effect of 'bracket creep' is expected to raise just more than R12 billion. There were also no inflationary adjustments to the medical tax credits and once again, disappointingly, no adjustment to the retirement/death/withdrawal lump sum tax tables.

The tax measures for the 2019 Budget are designed to raise an estimated total of R15 billion in additional revenue in 2019/20.

The following proposals are relevant to the employee benefits industry:

1. Retirement reform

The Minister has confirmed that government, business, labour and civil society have engaged extensively on the first draft of the comprehensive social security paper through the National Economic Development and Labour Council (NEDLAC). The process should come to a close in 2019, after which the paper will be revised and released for broader public consultation.

The NEDLAC is also engaging on retirement reform issues related to provident fund annuitisation, which has been postponed to 2021.

The outstanding conduct standards are being finalised to support the full implementation of the retirement fund default regulations on 1 March 2019.

2. Specific tax changes proposed

Exemption relating to annuities from a provident or provident preservation fund

Once a member of a retirement fund retires and receives an annuity, any contributions to the retirement fund that did not qualify for a deduction when determining the member's taxable income, are tax-exempt and taken into account when calculating tax on any lump sum benefit or annuity payments.

This exemption currently does not apply to annuities received from a provident or provident preservation fund. To encourage annuitisation (regular payments in retirement), it is proposed that this exemption be extended to provident and provident preservation fund members who receive annuities. The exemption would apply for contributions made after 1 March 2016.

Tax treatment of bulk payments to former members of deregistered funds

Retirement funds are permitted to make certain extraordinary payments to their members tax free, provided that these payments are approved by the Minister of Finance in a Government Gazette notice. In 2009, the Minister of Finance issued a notice in Government Gazette No. 32005 approving retirement funds to make tax-free payments of "secret profits", surplus payments and unclaimed benefits.

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When the Government Gazette notice was issued, some deregistered retirement funds had already paid fund administrators, but the amounts were not yet paid to the affected members and/or beneficiaries. It is proposed that these payments currently held by fund administrators on behalf of deregistered retirement funds qualify as tax-free payments, provided they meet the relevant criteria.

Reviewing the tax treatment of surviving spouses' pensions

Members can deduct contributions to their retirement funds from their taxable income when determining their monthly employees' tax and annual income tax payable. Upon the death of a member, the surviving spouse may be entitled to receive a monthly spousal pension from the retirement fund. These spousal pension payments are subject to PAYE by the retirement fund.

If the surviving spouse also receives a salary or other income, it is added to the spousal pension to determine his or her correct tax liability on assessment. The result of the assessment is often that the surviving spouse has a tax liability that surpasses the employees' tax withheld by the employer and retirement funds during the year of assessment, since the aggregation of income pushes them into a higher tax bracket. In most cases, the surviving spouse does not foresee the additional tax liability and does not save money to settle the liability. This creates a cash flow burden and a tax debt for the surviving spouse. It is proposed that:

- Surviving spouses are provided with more effective communication relating to tax and financial issues.
- The monthly spousal pension be subject to PAYE withholding at a specified flat rate, to be announced.
- Tax rebates should not be taken into account in the calculation of spousal pensions.

Any PAYE excessively withheld as a result of this proposal will be refunded upon assessment.

3. Personal Income Tax

No changes will be made to personal income tax brackets. By not adjusting the income tax brackets for inflation, Government is expecting to raise R12.8 billion in revenue. Individuals with an inflationary increase in their taxable income will face a larger tax burden.

The primary, secondary and tertiary rebates will be increased by a mere 1.1%. The tax-free threshold for personal income taxes will increase from R78 150 to R79 000.

The tax rates, rebates and brackets are indicated below:

Table 4.4 Personal income tax rates and bracket adjustments

2018/19		2019/20	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 - R195 850	18% of each R1	R0 - R195 850	18% of each R1
R195 851 - R305 850	R35 253 + 26% of the amount above R195 850	R195 851 - R305 850	R35 253 + 26% of the amount above R195 850
R305 851 - R423 300	R63 853 + 31% of the amount above R305 850	R305 851 - R423 300	R63 853 + 31% of the amount above R305 850
R423 301 - R555 600	R100 263 + 36% of the amount above R423 300	R423 301 - R555 600	R100 263 + 36% of the amount above R423 300
R555 601 - R708 310	R147 891 + 39% of the amount above R555 600	R555 601 - R708 310	R147 891 + 39% of the amount above R555 600
R708 311 - R1 500 000	R207 448 + 41% of the amount above R708 310	R708 311 - R1 500 000	R207 448 + 41% of the amount above R708 310
R1 500 001 and above	R532 041 + 45% of the amount above R1 500 000	R1 500 001 and above	R532 041 + 45% of the amount above R1 500 000
Rebates		**Rebates**	
Primary	R14 067	Primary	R14 220
Secondary	R7 713	Secondary	R7 794
Tertiary	R2 574	Tertiary	R2 601
Tax threshold		**Tax threshold**	
Below age 65	R78 150	Below age 65	R79 000
Age 65 and over	R121 000	Age 65 and over	R122 300
Age 75 and over	R135 300	Age 75 and over	R136 750

4. Medical tax credits

The Minister announced that there will be no inflationary increase in medical tax credits.

The 2018 Budget review announced that medical tax credits would be increased below the rate of inflation over a three-year period to help fund the rollout of national health insurance. To generate additional revenue of R1 billion in 2019/20, there will be no change in the monthly medical tax credit for medical scheme contributions.

5. Strengthening the Financial Services Sector

The Minister's summary includes the following highlights:

Enhancing the Twin Peaks Regulatory Model

With the establishment of the Financial Sector Conduct Authority (FSCA) and the Prudential Authority in April 2018, South Africa has begun operating the Twin Peaks regulatory model. This approach puts equal emphasis on monitoring the prudential and market conduct risks posed by financial institutions. Prudential risks arise when firms are unable to meet their financial obligations. Market conduct risks relate to how financial institutions behave in the market, including how they treat their customers.

Both Regulators are working to build capacity to achieve their comprehensive mandates, which involve a broad scope of jurisdiction over all South African financial institutions.

A stronger legal framework for treating customers fairly

Market conduct legislation is undergoing significant reform. The Conduct of Financial Institutions Bill proposes to create a single comprehensive law for the financial sector, and repeal a myriad of laws now in place. The new law will better regulate the behaviour of financial institutions and ensure that they treat customers more fairly. The bill will be subject to extensive consultation and engagement to ensure it is appropriate and effective once enacted.

Protecting customers and maintaining financial stability: a comprehensive resolution framework

A Financial Sector Laws Amendment Bill will be tabled in Parliament during 2019 and once enacted, it will create a legal framework to ensure financial stability and protect customer funds in the event that banks or any other systemically important financial institutions fail.

Diversifying the financial sector

The Financial Matters Amendment Bill, tabled in Parliament in January 2019, will allow for the establishment of state-owned banks. Under this legislation, qualifying state-owned companies will be able to register as banks in terms of the Banks Act once they have met all requirements. Currently, the Banks Act only allows for the registration of public companies as banks.

Financial Inclusion

During 2019, the National Treasury will publish a financial inclusion policy paper that proposes establishing two bodies to support policy implementation.

- An intra-government financial inclusion taskforce, chaired by the National Treasury, will oversee implementation of agreed policies and interventions.
- A financial inclusion forum will allow industry and other non-governmental stakeholders to engage policymakers and regulators on strategic priorities.

A national financial inclusion strategy will be developed from discussion arising from these two bodies.

6. Social Grants

Government has allocated R567 billion for social grant payments. In 2019, the grant values will increase as follows:

- R80 increase for old age, disability, war veterans and care dependency grants.
- R40 increase for the foster care grant to R1 000.
- The child support grant will increase to R420 in April and to R430 in October.

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