Sanlam

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1. Introduction

The COVID-19 pandemic has placed severe strain on the economy, resulting in many business closures and job losses. To support households, businesses and the economy, in the context of relatively high income tax rates, Government will not introduce measures to increase tax revenue in the 2021 Budget.

Previously announced increases (in the June 2020 special adjustments budget), amounting to R40 billion over the next three years will be withdrawn. This change is expected to support economic recovery by reducing financial pressure on households and businesses.

The main tax proposals for 2021/22 include above inflation increases in personal tax brackets and rebates, and an 8 per cent increase in excise duties on tobacco and alcohol products.

- An above inflation increase of 5 per cent in personal income tax brackets and rebates.
- An inflation-linked general fuel levy increase of 15c/litre for petrol and diesel, and an above inflation increase of 11c/litre in the Road Accident Fund levy.
- An 8 per cent increase in alcohol and tobacco excise duties.

The following proposals are relevant to the employee benefits industry:

2. Proposals affecting the retirement industry

2.1. Allowing members to use retirement interest to acquire annuities at retirement

At retirement, a member of a retirement fund may receive an annuity. The annuity is to be provided with the balance of the member's retirement interest following commutation (where the member is allowed to take, or commute, a lump sum equal to a maximum of one-third of the retirement interest when they retire). The retirement fund can provide the annuity by paying it directly to the member or purchasing it from a South African registered insurer in the name of the fund, or purchasing it in the name of the retiring member. If a member opts to receive an annuity, the full value of their retirement interest following commutation must be used to provide either of the abovementioned annuities. Therefore, a member is prohibited from using their retirement interest to acquire various annuities. To increase flexibility for a retiring member and maximise the retirement capital available to provide for an annuity, Government proposes expanding the amount of retirement interest that may be used to acquire annuities.

Comment: If the intention is that the retiree can combine an annuity provided by the fund with an annuity provided by a long-term insurer, this is to be welcomed.

2.2. Applying tax on withdrawals of retirement interest when an individual ceases to be a tax resident

When an individual ceases to be a South African tax resident, retirement funds are not always subject to withdrawal tax in terms of the act. At issue is the tax treatment of retirement interest when an individual ceases to be a South African tax resident, but retains his/her investment in a South African retirement fund, and only withdraws from the retirement fund when he/she dies or retires from employment. Section 9(2) (I) of the act deems such amounts to be from a South African source, thus remaining within South African tax jurisdiction despite the individual no longer being a South African tax resident. The challenge arises when the individual ceases to be a South African tax resident before he/she retires and becomes a tax resident of another country. When that individual withdraws from the retirement fund, due to the application of the tax treaty between South Africa and the other country, the retirement fund interest will be subject to tax in the other country as the individual will, in terms of the tax treaty, be regarded as a tax resident in that other country. The provisions of the tax treaty between South Africa and the new resident country will result in South Africa forfeiting its taxing rights. To address this anomaly, Government proposes changing the legislation as follows:

> When the individual ceases to be a South African tax resident, the retirement fund interest will form part of the assets that are subject to retirement withdrawal tax. The individual will be deemed to have withdrawn from the fund on the day before he/she ceases to be a South African tax resident.
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> If the individual ceases to be a South African tax resident but leaves his/her investment in a South African retirement fund, and only withdraws from the retirement fund when he/she dies or retires from employment, then the retirement withdrawal tax (including associated interest) payment will be deferred until payments are received from the retirement fund or as a result of retirement. When the individual eventually receives payments from the fund, the tax will be calculated based on the prevailing lump sum tables or in the form of an annuity. A tax credit will be provided for the deemed retirement withdrawal tax as calculated when the individual ceased to be a South African tax resident.

Comment: The practical implication and/or implementation of this proposal remains to be seen.

2.3. Transfers between retirement funds by members who are 55 years or older:

The Income Tax Act stipulates that any transfer by a member of a pension, provident or retirement annuity fund (who has opted to retire early) into a similar fund would be considered a taxable transfer. The policy in this regard is not intended to tax transfers from a less to a more restrictive fund, or between similar funds. To address this anomaly, government proposes allowing tax-free transfers into more or similarly restrictive funds by members who have already opted to retire.

Comment: Government is intending to rectify certain anomalies in the Income Tax Act regarding such transfers, and this is to be welcomed.

2.4. Retirement fund reform

The COVID-19 pandemic has influenced many countries to consider allowing individuals to access their retirement savings as an interim relief measure. Alongside the 2020 Medium Term Budget Policy Statement, the National Treasury published an explanatory note with financial sector updates that noted numerous requests to allow limited pre-retirement withdrawals from retirement funds under certain conditions, such as disasters. Government continues to engage with trade unions, regulators and other stakeholders to discuss how to allow these withdrawals, together with mandatory preservation requirements.

Comment: It would seem that the intention is to link access to retirement savings in the event of unforeseen crises such as COVID-19, to new provisions regarding mandatory preservation. A development of this nature will have major implications for retirement funds and members, and will have to be subject to extensive consultation.

2.5. The minimum value for paid-up retirement annuities

The minimum value for paid-up retirement annuities has not been adjusted since 2007/08. This value will increase from R7 000 to R15 000 from 1 March 2021.

Comment: If a member of a retirement annuity fund ceases contributions and his/her fund value is less than R15 000, he/she can withdraw the benefit.

2.6. Regulation 28 – infrastructure investment

The minister indicated that the National Treasury will in this week publish draft amendments to Regulation 28 of the Pension Funds Act for public comment. The proposed amendments seek to make it easier for retirement funds to increase investment in infrastructure and improve the measurement of infrastructure investment by the FSCA. 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”. Delinking this asset category will make private equity a separate asset class with a higher investment limit.

Comment: This proposal is welcomed by the industry

2.7. Auto-enrolment

The minister said NEDLAC constituencies have agreed to accelerate the introduction of auto-enrolment for all employed workers, and the establishment of a fund to cater for workers currently excluded from pension coverage, as an urgent intervention towards a comprehensive social security system.

Comment: This has been proposed previously but will remain challenging to implement, amongst others, as it will increase the cost of employment.

3. Other matters of interest

3.1. UIF contribution ceiling

The ceiling for contributions to the Unemployment Insurance Fund (UIF) has not been increased in the last four years, despite the increase in the benefit ceiling. The UIF’s benefit provision in the last year has assisted 13.9 million workers. In these circumstances, the continued relief for employees who retain jobs and higher salaries is no longer appropriate. 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.

Comment: The maximum UIF contribution, based on the new increased benefit ceiling, will increase.

3.2. Financial sector levies

With the implementation of the Twin Peaks regulatory system since 1 April 2018, regulated companies in the financial sector will be expected to pay a levy towards the regulatory costs. A bill to impose levies on the financial sector is expected to be tabled 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 (2017).

3.3. Social Grants

Social grants are increased by less than inflation as per table below:

Table 5.9 Average monthly social grant values

Rand	2020/21	2021/22	Percentage increase
Old age	1 860	1 890	1.6%
Old age, over 75	1 880	1 910	1.6%
War veterans	1 880	1 910	1.6%
Disability	1 860	1 890	1.6%
Foster care	1 040	1 050	1.0%
Care dependency	1 860	1 890	1.6%
Child support	445	460	3.4%

Source: National Treasury

3.4. The Conduct of Financial Institutions (COFI) Bill

The second draft of the COFI Bill was published in 2020 for public consultation. The National Treasury is engaging stakeholders to discuss and clarify comments received. A revised draft of the bill will be tabled in Parliament in 2021.

3.5. 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. This 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.

4. Personal Income Tax

4.1. Personal income tax and medical credits

The personal income tax brackets and rebates will increase by 5 per cent, providing relief to households by ensuring that inflation does not automatically increase the individual tax burden.

An inflationary adjustment will apply to the value of medical tax credits which will increase from R319 to R322 for the first two members, and then 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

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