Key takeaways from the 2024 National Budget

1. Introduction

Tax revenue performed better than expected in 2021/22 and 2022/23, largely as a result of higher commodity prices. Over the past year, however, many of the risks identified in the 2023 Budget Review have materialised. Tax revenue for 2023/24 is now expected to amount to R1.73 trillion, which is R56.1 billion less than expected in the 2023 Budget. The 2024 Budget tax proposals and longer-term reforms improve the medium-term revenue outlook, with the tax-to Gross Domestic Product (GDP) ratio reaching 25.3 per cent by 2026/27. An enduring improvement in revenue performance, however, is contingent on higher GDP growth rates. This year, for the first time since 2008/09, Government will achieve a primary budget surplus – meaning revenue exceeds non-interest spending.

In line with the 2023 Medium-Term Budget Policy Statement (MTBPS), tax increases are proposed to alleviate immediate fiscal pressures. The proposals include no inflation adjustments for personal income tax tables and medical tax credits, and higher excise duties on alcohol and tobacco products. No increase in the fuel levy is proposed. These measures will contribute to a more stable fiscal position with long-term benefits for the economy.

2. Proposals affecting the retirement fund industry

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

In 2023, changes were made to the Income Tax Act to allow for tax-neutral involuntary transfers of a retirement interest between retirement funds. This applies instances where members of pension or provident funds have reached the normal retirement age as contained in the rules of the Fund but have not yet elected to retire. However, to be tax-free, the transfer of the retirement interest should be made to a Fund that is not less restrictive. It has come to Government's attention that the law only allows certain tax-free transfers of an involuntary nature but excludes transfers from one retirement annuity fund to another. It is proposed that the law be amended to allow involuntary transfers of this nature.

Comment: *It is unclear why the proposed changes are limited to involuntary transfers between retirement annuity funds. Sanlam will comment on the proposed amendments via industry bodies.*

2.2. Two-pot retirement system

The reforms in this regard will be implemented through amendments contained in the Revenue Laws Amendment Bill and the Pension Funds Amendment Bill, both currently in the process of being finalised. This will enable changes to fund rules of retirement funds.

An estimated R5 billion is likely to be raised in 2024/25 due to tax collected as fund members access once-off withdrawals due to the two-pot retirement reform. The seed capital transfer is a once-off event, so this revenue will not flow into the following fiscal years. This reform is proposed to come into effect on 1 September 2024. The National Treasury aims to finalise the legislative process rapidly in the next few months to ensure that the industry and regulators can prepare for implementation.

Comment*: In our view it will not be possible to submit rule amendments to the FSCA until such time as the Pension Funds Amendment Bill has been enacted. The ongoing consultation process for this Bill raises concerns, as it may still be some time before the legislation is enacted.*

It is unclear on which the estimate of R5 billion of collected tax is based. If one assumes an average marginal tax rate of 25%, it will amount to R20 billion of funds being withdrawn. This is a very substantial estimated amount considering it is only covering a six-month period.

2.3 Auto enrolment

National Treasury is still in the process of considering policy proposals on how to expand the participation and coverage of all formal and informal workers in a retirement fund without excessively burdening their disposable income. These proposals build on National Treasury's December 2021 paper entitled Encouraging South African Households to Save More for Retirement. Policy research and engagement continues on the outstanding auto-enrolment, mandatory enrolment and consolidation of retirement reforms.

2.4 Unclaimed assets

At the end of 2022, the FSCA published a discussion paper entitled A Framework for Unclaimed Financial Assets in South Africa, with recommendations to address high levels of unclaimed assets (assets for which the owner is unknown or cannot be contacted) in the financial system. The FSCA has considered stakeholder feedback on the discussion paper and will release a comprehensive response in early 2024. This feedback will inform the development of a framework for the identification, monitoring, management and reporting of unclaimed assets, including tracing of beneficial owners.

3. Other matters of interest

3.1. Tax treatment of certain infrastructure projects

To encourage infrastructure investment, Government will investigate the feasibility of a flow-through tax treatment, similar to what is afforded to trusts and other investment vehicles, for certain clearly defined infrastructure projects under specified circumstances.

3.2. Interest limitation rules

Current law limits interest deductions when there is a relationship between a debtor and a creditor, and the corresponding interest income is not taxed fully. An unintended consequence of this rule may unfairly prejudice tax-exempt investors, such as pension funds, when they lend to a related party. Government will consider this matter further, with the possibility of including amendments in the 2024 Taxation Laws Amendment Bill.

3.3 Combating financial crimes and illicit activities

In February 2023, the International Financial Action Task Force (FATF) put South Africa on its "grey list" due to the deficiencies in technical compliance and effectiveness of the country's system to combat money laundering and the financing of terrorism. These deficiencies were identified in the 2021 mutual evaluation report.

In response, Government developed a strategy to build a financial system that is less vulnerable to abuse and where abusers are effectively prosecuted. This involves both legislative and regulatory changes, as well as improvements in the implementation and application of these laws and regulations. In late 2022, Government enacted two key legislative amendments: the General Laws (Anti-Money Laundering and Combating Terrorism Financing) Amendment Act (2022) and the Protection of Constitutional Democracy Against Terrorist and Related Activities Amendment Act (2022).

At its October 2023 plenary, the FATF noted that South Africa is making progress and formally re-rated 15 of the 20 deficiencies as no longer deficient. Accordingly, South Africa needs to address five outstanding technical deficiencies in which the country is only partially compliant. Government intends to address these by the end of October 2024. Addressing all the remaining actions and demonstrating that improvements are sustainable by February 2025, to be removed from the "grey list", will require a significant effort from all the relevant South African authorities.

***Comment**: The efforts to remove South Africa from the "grey list" are bound to lead to additional administrative and compliance burdens being placed on the wider financial services industry.*

3.4 Financial inclusion

The National Treasury will develop a national strategy on financial inclusion in 2024 based on the policy paper, approved by Cabinet in 2023, entitled 'An Inclusive Financial Sector for All'. The strategy's goals will include deepening financial inclusion for individuals, improving access to financial services for small, micro, and medium-sized enterprises, and enabling diversification, competition, and innovation in financial services.

In March 2023, the Corporation for Deposit Insurance was established to provide a framework to ensure depositors' funds are protected in the event of a bank failure. The establishment of this institution is one of the key amendments contained in the Financial Sector Laws Amendment Act (2021). The remaining provisions, including the provisions to enable the Corporation for Deposit Insurance to begin collecting premiums and other financial contributions, will be effective from 1 April 2024.

3.5 Measures to boost long-term investment

Government has proposed the relaxation and modernisation of certain exchange controls to promote long-term investment and foster business growth.

3.6 Gold and Foreign Exchange Contingency Reserve Account (GFECRA) reform

The GFECRA captures valuation gains on South Africa's foreign exchange reserves, i.e. if the Rand weakens against the US Dollar and other reserve currencies, the account balance increases, and vice versa. The account balance has grown to over R500 billion over the years because the Rand has depreciated significantly over time. GFECRA helps insulate the central bank's profit-and-loss statement from currency swings, as valuation losses are charged to the National Treasury. However, National Treasury believes this account is now larger than any plausible losses on foreign exchange reserves from Rand appreciation.

A proposed settlement agreement to be formalised between the National Treasury and the Reserve Bank will establish a new framework, the effect of which will be to reduce Government borrowing and improve the central bank's equity position. These adjustments will take South Africa closer to peer norms. The agreement will allocate funds across three "buckets". The first bucket, GFECRA, will retain sufficient funds to absorb exchange rate swings. The second bucket, a Reserve Bank contingency reserve, will ensure the central bank's solvency. Once the first two obligations have been settled, the remaining funds in bucket three will be distributed to the National Treasury over time.

The net result is that the Reserve Bank is expected to distribute approximately R100 billion from the current GFECRA in 2024/2025 and R25 billion each over the next two years, reducing the country's borrowing requirements.

***Comment**: While accessing a portion of the Gold and Foreign Exchange Contingency Reserve Account will reduce the Government's borrowing needs, it is a temporary measure and does not resolve our country's structural fiscal challenges.*

3.7 Curbing the abuse of the employment tax incentive scheme

Changes were made to the Employment Tax Incentive Act, 2013 in 2021 and 2023 to curb abuse of the employment tax incentive from aggressive tax schemes, which used training institutions to claim the incentive for students. It is proposed that punitive measures to support those amendments be refined in the legislation to address the abusive behaviour of certain taxpayers towards the incentive.

3.8 Tokenisation

Tokenisation is the representation of assets such as securities and payment instruments on distributed ledger technology, commonly known as blockchain. The Intergovernmental Fintech Working Group is considering the impact of tokenisation on domestic financial markets. By June 2024, a paper providing an overview of tokenisation will be published. By December 2024, a discussion paper will be published that outlines the policy and regulatory implications of tokenisation and blockchain-based financial market infrastructure.

4. Personal income tax

4.1. Income tax brackets

The personal income tax tables are reviewed annually to ensure that inflation does not automatically push personal income taxpayers into higher tax brackets.

This year no adjustment will be made, resulting in an increase in tax revenue. The annual tax-free threshold for a person under the age of 65 will remain at R95 750 from 1 March 2024. The retirement tax tables were adjusted in 2023 and remain unchanged.

The personal income tax rates remain unchanged as per the table below:

Table 4.4 Personal income tax rates and bracket adjustments

2023/24		2024/25	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 - R237 100	18% of each R1	R0 - R237 100	18% of each R1
R237 101 - R370 500	R42 678 + 26% of the amount above R237 100	R237 101 - R370 500	R42 678 + 26% of the amount above R237 100
R370 501 - R512 800	R77 362 + 31% of the amount above R370 500	R370 501 - R512 800	R77 362 + 31% of the amount above R370 500
R512 801 - R673 000	R121 475 + 36% of the amount above R512 800	R512 801 - R673 000	R121 475 + 36% of the amount above R512 800
R673 001 - R857 900	R179 147 + 39% of the amount above R673 000	R673 001 - R857 900	R179 147 + 39% of the amount above R673 000
R857 901 - R1 817 000	R251 258 + 41% of the amount above R857 900	R857 901 - R1 817 000	R251 258 + 41% of the amount above R857 900
R1 817 001 and above	R644 489 + 45% of the amount above R1 817 000	R1 817 001 and above	R644 489 + 45% of the amount above R1 817 000
Rebates		**Rebates**	
Primary	R17 235	Primary	R17 235
Secondary	R9 444	Secondary	R9 444
Tertiary	R3 145	Tertiary	R3 145
Tax threshold		**Tax threshold**	
Below age 65	R95 750	Below age 65	R95 750
Age 65 and over	R148 217	Age 65 and over	R148 217
Age 75 and over	R165 689	Age 75 and over	R165 689

***Comment**: The unchanged personal income tax table increases the inflationary pressure on households. The maximum annual tax-deductible retirement fund contribution has been R350 000 since 2016, despite Treasury committing previously to reconsider the limit from time to time. The review of the limit is long overdue.*

4.2. Medical tax credits

Medical tax credits will remain on R364 per month for the first two members, and R246 per month for additional members.

***Comment**: Some commentators were anticipating the elimination of medical tax credits to fund the National Health Insurance.*

4.3. Social grants

Expenditure on social grants (excluding the COVID-19 social relief of distress grant) will increase from R217.1 billion in 2023/24 to R259.3 billion in 2026/27 to keep pace with inflation and increase access for the eligible population. The social protection function receives R33.6 billion to fund the extension of the COVID-19 social relief of distress grant until March 2025, with further provisional allocations in 2025/26 and 2026/27. Provisional allocations for social protection are added to the fiscal framework in 2025/26 and 2026/27, pending a decision on the continuity and funding sources of the grant beyond March 2025.

Grant beneficiaries (excluding COVID-19 social relief of distress grant beneficiaries) are projected to increase from 18.8 million in 2023/24 to 19.7 million in 2026/27. The child support grant and old age grant make up 64.9% of total grant expenditure over the Medium-Term Expenditure Framework period.

The old age grant, war veterans grant, disability grant and care dependency grant will all increase by R90 in April 2024 and another R10 in October 2024. The foster care grant will increase by R50 in April 2024, and the child support grant will rise by R20 in April 2024.

The increases are as per the table below:

Table 5.7 Average monthly social grant values

Rand	2023/24	2024/25	Percentage increase
Old age	2 085	2 185	4.8%
Old age, over 75	2 105	2 205	4.8%
War veterans	2 105	2 205	4.8%
Disability	2 085	2 185	4.8%
Foster care	1 125	1 180	4.9%
Care dependency	2 085	2 185	4.8%
Child support	505	530	5.0%
Grant-in-aid	505	530	5.0%

Source: National Treasury

The National Treasury as well as the World Bank have reviewed the social grant system. However, the Department of Social Development and the National Treasury have not yet reached agreement on the way forward. The fiscal framework makes provision for funding for the COVID-19 social relief of distress grant for 2024/25. Any extension of the grant, or any replacement thereof, needs to be funded by a new revenue source or reprioritisation of other spending items. Government is still discussing options for a replacement grant and the balance between policy options to support higher employment.

***Comment**: It is noted that the total budget for grants has been increased by 19%, which is significantly more than inflation.*

Contributors: PG Marais, Anita Roodman, William Donachie, David Gluckman, Danie van Zyl, Dirk Oosthuizen, Lize De La Harpe.