26 February 2020

1. Introduction

The Budget surprised in that no major tax changes were announced. Instead, Government has proposed ambitious cuts to public sector expenditure. The tax proposals include personal income tax relief through above-inflation adjustments in all brackets, along with increases in the fuel and Road Accident Fund (RAF) levies to adjust for inflation. The following proposals are relevant to the employee benefits industry:

2. Retirement reform

2.1 Harmonisation of retirement benefits

Government and the National Economic Development and Labour Council (NEDLAC) have agreed to proceed with retirement reform related to the harmonisation of all retirement benefits, including provident funds. Government will take steps to ensure the development of annuity products more suitable for the low-income market. Further reforms will include improving oversight and governance of commercial umbrella funds, fund consolidation and auto-enrolment.

Comment: Compulsory annuitisation of retirement benefits from provident funds and provident preservation funds applies from 1 March 2021. The auto-enrolment, oversight and further governance of commercial umbrella funds can have far-reaching consequences for the retirement industry, but unfortunately no further detail has yet been provided.

2.2 Unclaimed benefits

Retirement funds and the Guardian's Fund are sometimes unable to trace beneficiaries, resulting in the money remaining unclaimed. The money is invested in government bonds and other instruments. These investments are being considered for the funding of infrastructure. Government will introduce legislation later this year to centralise such funds and establish a central registry of all members of retirement funds.

Comment: It appears that a central unclaimed benefit fund may absorb all unclaimed monies, reportedly in excess of R42 Billion, currently preserved in unclaimed benefit preservation funds and other retirement funds, for the purpose of funding infrastructure. We anticipate further industry engagement in this regard. No further detail has yet been provided.

2.3 Clarifying deductions in respect of contributions to retirement funds

Paragraphs 5(1)(a) and 6(1)(a) of the Second Schedule to the Income Tax Act (1962) make provision for a deduction of retirement fund contributions that did not qualify for a deduction in terms of section 11F of the act. These paragraphs refer to "own contributions", which inadvertently prevents employer retirement fund contributions on behalf of employees (made on or after 1 March 2016) from qualifying for a deduction under either paragraph. It is proposed that the legislation be amended to remove this anomaly.

Comment: We welcome the removal of this technical anomaly.

3. Other matters of interest

3.1 Withdrawing retirement fund benefits upon emigration

Individuals are currently able to withdraw funds from their pension preservation fund, provident preservation fund and retirement annuity fund upon emigrating for exchange control purposes through the Reserve Bank. The Minister stated that the concept of emigration as recognised by the Reserve Bank will be phased out. It is proposed that the trigger for individuals to withdraw these funds be reviewed and any resulting amendments will come into effect on 1 March 2021.

3.2. Third-party cell captive insurance

In December 2019, the FSCA published a position paper to address concerns about third-party cell captive insurance, in which insurance is provided through cells, rather than directly to a client. Improving its regulation and supervision will protect consumers by ensuring that a financial advisor can no longer earn commission and share in the profits of the cell captive arrangement.

3.3 The Conduct of Financial Institutions Bill (CoFI Bill) and Retail Distribution Review

In 2018, the CoFI Bill was published for public consultation. Public workshops were held during 2019. Over 800 pages of comments were received, including feedback on governance requirements, retirement funds, payment services, financial markets and wholesale banking. A revised draft of the bill will be published for public comment and tabled in Parliament in 2020.

The FSCA published an update of its Retail Distribution Review in December 2019. The report indicates significant progress in implementation, which establishes requirements for product sales and ongoing support to the consumer, and ends “sign-on” bonuses.

3.4 Levies

The Financial Sector Levies Bill, to be submitted to Parliament during 2020, will propose the collection of levies to ensure that the Prudential Authority, the FSCA and ombuds are sufficiently resourced to carry out their duties and functions.

Comment: In the past, levies were charged in terms of Financial Services Board Act. Going forward, it will be charged in terms of the Financial Sector Levies Bill, which may have a much wider reach once enacted.

3.5 Transformation and financial inclusion

The Financial Sector Transformation Council has established eight subcommittees to review the targets in the Financial Sector Code to strengthen transformation of the financial sector. To date, the committees have developed targets for management control, skills development, socio-economic development, consumer education and retirement funds. A paper to establish a policy framework for financial inclusion in South Africa will be published for public comment in 2020.

Comment: Compliance with the Financial Sector Code and submission of a balanced scorecard is voluntary for retirement funds at present, but this is likely to change in future.

4. Personal Income Tax

4.1 Tax brackets

The personal income tax brackets and the primary, secondary and tertiary rebates will be increased by 5.2% for 2020/21, which is above expected inflation of 4.4 % (see Table 4.4 below). This adjustment provides R2 billion in tax relief. The change in the primary rebate increases the tax-free threshold from R79 000 to R83 100.

Table 4.4 Personal income tax rates and bracket adjustments

2019/20		2020/21	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 - R195 850	18% of each R1	R0 - R205 900	18% of each R1
R195 851 - R305 850	R35 253 + 26% of the amount above R195 850	R205 901 - R321 600	R37 062 + 26% of the amount above R205 900
R305 851 - R423 300	R63 853 + 31% of the amount above R305 850	R321 601 - R445 100	R67 144 + 31% of the amount above R321 600
R423 301 - R555 600	R100 263 + 36% of the amount above R423 300	R445 101 - R584 200	R105 429 + 36% of the amount above R445 100
R555 601 - R708 310	R147 891 + 39% of the amount above R555 600	R584 201 - R744 800	R155 505 + 39% of the amount above R584 200
R708 311 - R1 500 000	R207 448 + 41% of the amount above R708 310	R744 801 - R1 577 300	R218 139 + 41% of the amount above R744 800
R1 500 001 and above	R532 041 + 45% of the amount above R1 500 000	R1 577 301 and above	R559 464 + 45% of the amount above R1 577 300
Rebates		**Rebates**	
Primary	R14 220	Primary	R14 958
Secondary	R7 794	Secondary	R8 199
Tertiary	R2 601	Tertiary	R2 736
Tax threshold		**Tax threshold**	
Below age 65	R79 000	Below age 65	R83 100
Age 65 and over	R122 300	Age 65 and over	R128 650
Age 75 and over	R136 750	Age 75 and over	R143 850

Source: National Treasury

4.2 Tax-free savings accounts

The annual limit on contributions to tax-free savings accounts will be increased from R33 000 to R36 000 from 1 March 2020.

5. Medical tax credits

Government proposes minimal increases in the value of medical tax credits in 2020/21 from R310 to R319 per month for the first two beneficiaries, and from R209 to R215 per month for the remaining beneficiaries. This increases the value of the tax credit by 2.8%. This is in line with the announcement in the 2018 Budget Review that the credit would be adjusted by less than inflation to help fund the rollout of National Health Insurance over the medium term.

Comment: It would appear that some activities related to National Health Insurance will be phased in over a longer time frame than initially expected, partly due to cuts to the health budget.

6. Social Grants

In 2020 the monthly grant values will increase as follows:

- R80 increase for old age, disability and care dependency grants to R1 860 and for 75 years and older, a R80 increase to R1 880;
- R40 increase for the foster care grant to R1 040; and
- R20 increase for the child support grant to R445.

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