Budget 2020

"It will require the wisdom of King Solomon: finding immediate solutions to the country's most pressing needs without lapsing into a downward fiscal spiral. With the country clinging to its last investment grade rating while economic growth continues to disappoint, the stakes are high" [Moneyweb, 20 February 2019]

Background to budget

"An extra R50bn must be raised"

"Treasury has arguably run out of room to increase tax collections through further rate hikes "

- "SA starts the new fiscal year with an estimated revenue shortfall of anything between R50 and R130 billion" [R63 billion in the end]
- "Figures from SARS show that 97% of all the income tax collected from individuals comes from a mere three million people. This out of a total estimated population of 58.7m according to a report issued by Statistics SA"

[Moneyweb 7 February 2020]

- "In 2018, of the 21 million individual **taxpayers** only 6.4 million (30%) were expected to submit tax returns. Furthermore, only 4.9 million **taxpayers** (23%) submitted returns and were assessed."

[Wikipedia]

Continued

- "SA has an estimated **2070 high net worth individuals** — those who are worth $10m or more, while the country has lost 130 residents worth $10 million or more over the same period." [AfrAsia Bank South Africa Wealth Report 2019]

- "One way to change bad behavior is to consider an **income inequality tax**, similar to the one proposed by US senator Bernie Sanders. He suggests that a company's corporate income tax rate should be increased by 0.5% if its CEO earns 50 times more than its average worker, and up to a maximum of 5% if the wage gap is 500 times. The corporate tax rate in the US is 21%. …An inequality tax may lead companies to reconsider whether it is worth their while to have such a highly paid CEO" [Business Day 10 February 2020]

- "**It is worth repeating the following: a good budget from the point of view of consumers will not be a good budget from the point of view of bond investors. The former want tax relief and more social spending. The latter want a smaller deficit, which means some combination of higher tax revenues, less spending, wage cuts and so on**. If it imposes austerity measures too harshly, the fragile economy could crumble. However, if it doesn't give investors a credible plan to cap the growth in debt, its borrowing costs are likely to rise. In a nutshell then, taxpayers shouldn't expect much in terms of respite and what relief there is will be skewed to lower income earners. However, major tax increases are unlikely. Tax increases, including a higher Vat rate, which remains low by global standards at 15%, will probably wait for a stronger economy. [Moneyweb 13 February 2020]

Cosatu Proposals

- "Cosatu proposes tax increases aimed largely at higher-income earners such as hikes in inheritance tax, estate duties, personal and company taxes, and increased VAT on luxury goods. "

- "And broader discussion on using prescribed assets to support industrial strategy"

[Business Day 30 January 2020]

- "There are however alternatives to raising taxes or borrowing more. One is to raid the SA pension and retirement funds. That is to compel them to hold more SA debt of one kind or another on less favourable terms than in the past. Such forms of expropriation without compensation have one major advantage for the politicians imposing them: their full consequences will not become obvious for many years. When they do it will be in the form lower returns for pension funds, and depleted pension payments, and ultimately the bill presented to taxpayers for underfunded defined benefits owed to public sector employees, which is largely incalculable today."

[Business Day 7 February 2020]

Continued

- “In terms of corporate income tax, **there is no scope to raise taxes**. Internationally, the trend is for corporate tax rates to come down, not go up. South African corporate revenue is also very concentrated, with just 325 companies contributing 58% of corporate tax collections”

- “Belgium has enacted a major corporate income tax reform, cutting the corporate tax rate from 34 per cent to 29.6 per cent in 2018-2019, and then to 25 per cent in 2020. Various other technical changes to tax and company law are also being introduced. “ [STEP Newsletter 19 February 2018]

- **“Corporate tax** is imposed in the United States at the federal, most state, and some local levels on the income of entities treated for tax purposes as corporations. Since January 1, 2018, the effective corporate tax rate in the United States of America **is a flat 21 percent** due to the passage of the "Tax Cuts and Jobs Act" on December 20, 2017.” [Wikipedia]

- The UK has reduced its company rate from 30% to 19%. **HMRC data indicates that the top 1 per cent of earners now contribute 28 per cent of all income taxes to the Treasury, while the top 5 per cent contribute almost half. [STEP Newsletter January 2019]**

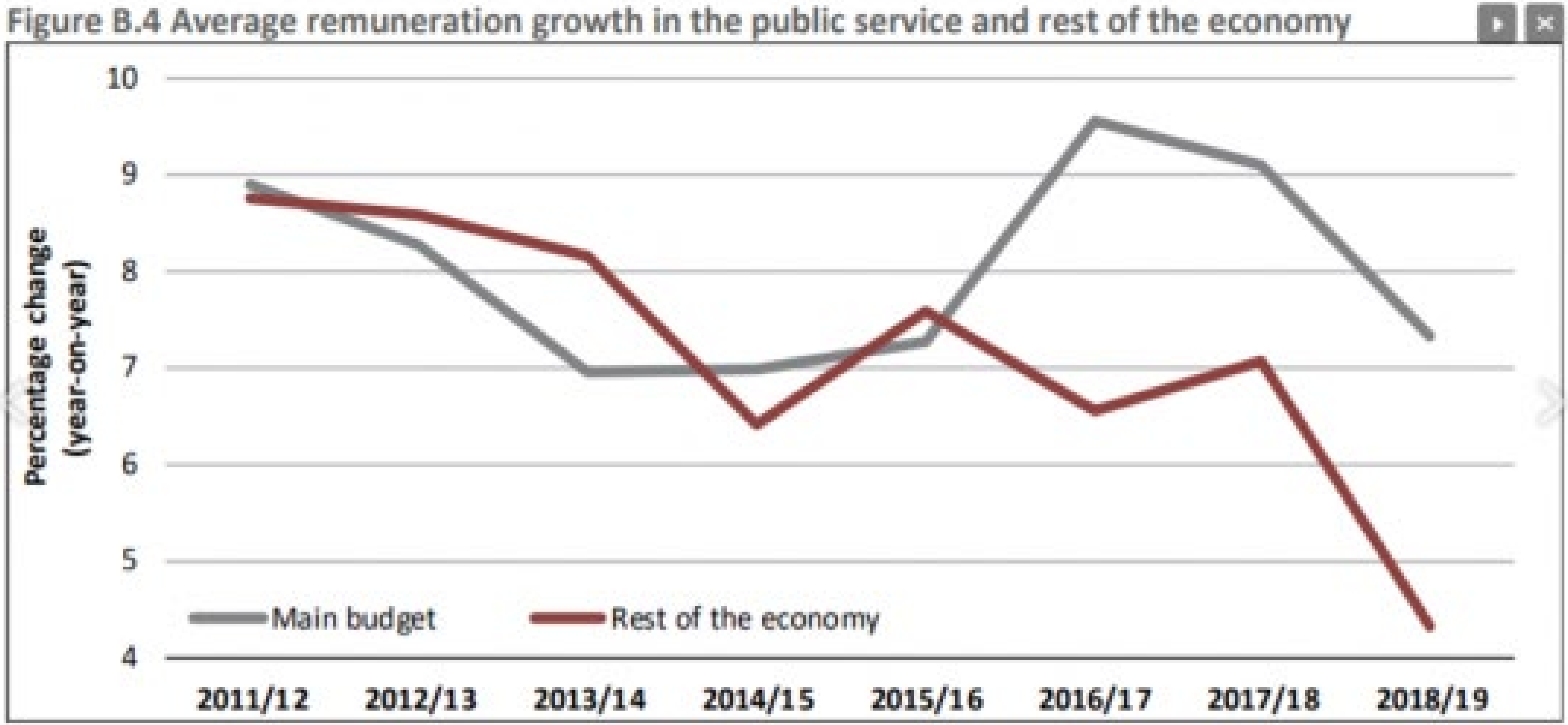
The problem?

- The South African government is faced with a dilemma: public servant wages are the fastest-growing expenditure item in its budget, but with the unemployment rate at over 29%, retrenchments and salary cuts are not in favour.
- In the first half of 2019 the average annual wage per civil servant increased by 10.4%, compared with 2.1% in the private sector. On average their salaries have continued to increase above the inflation rate over the past decade.
- The combination of lower revenue and increased spending will widen the budget deficit to an average of 6.2% over the next three years.
- As indicated in the graph below, remuneration has widened about 40% in real terms over the past decade.

[Moneyweb 11 February 2020]

The Problem?

Discovery



Source: Statistics South Africa

Summary of tax options

▪ Vat Hike [1%]	R22bn
▪ PIT fiscal drag	R8bn
▪ Medical Tax Credit fiscal drag	R1bn
▪ Individual CGT incl. rate increase	R2bn
▪ Fuel levy increase	R3bn
▪ Estate duty increase to 30%	R0.8bn
▪ Sugar tax	R1bn

[Source: PWC, on Moneyweb 19 February]

Issues under discussion

- Marginal tax rate increase: can it be increased again? Will there be some form of loan levy?
- Will a wealth tax/inequality tax be introduced? A tax on taking money offshore?
- Will VAT increase again?
- Will there be any changes to the Capital Gains Tax inclusion rates?
- Estate Duty and donations tax-will they go up? Any attempt to attack Trusts? Not much more is really left with Para 7C?
- The 2nd Davis Committee report-scrapping of para 4q, roll overs between spouses?

Tax Rates in Portugal

Discovery

Income tax rates for 2019 (2019 return)

Grade	Annual taxable income	Rate
1	up to €7 091	14.5%
2	€20 261 - €25 000	35%
3	€25000 - €36 856	37%
4	€36 856 - €80 640	45%
5	more than €80 640	48%

Additional solidarity rate

- In 2019, an additional solidarity rate, which varies between 2.5% and 5%, applies to taxpayers with a taxable income exceeding EUR 80 000. [PWC]

Tax rates in Sweden “where the tax rate is over 60% and everyone is happy!”

- Top rate for individuals: 60.1%
- Sales Tax/VAT rate: 25%
- CGT: flat rate of 30%

Swedish tables

0%	: from 0 kr to 18 800 kr (9.24Kr =1 $)
32% (ca. 11% county and 20% municipality tax)	: from 18 800 kr to 468 700 kr
32% + 20%	: from 468 700 kr to 675 700 kr
32% + 25%	: above 675 700 kr

Company tax rate is 22%!

(Wikipedia)

But look at Africa….

Rates in Botswana

Individual top rate	:	25%
Company (IFSC and other special types)	:	15%
Dividends	:	0%
CGT at death	:	0%
CGT-land and fixed property	:	Indexed Base Cost
Death Duty (Capital Transfer or Donation)	:	5%

Rates in Mauritius

▪ Company rate	:	15%
▪ Individual top rate	:	15% (on all income above exemptions depending on status-taxpayer plus three dependants, for example, exempt up to 480 000 Rupees-ie-R165 000!
▪ CGT	:	Nil (apart from immovable property)
▪ Estate Duty/Donations Tax	:	Nil

Botswana

The Switzerland of Africa?

- Economic indicators
- “The domestic economic growth rates for 2019 and 2020 are estimated at 3.6% and 4.4%, respectively.
- Foreign exchange reserves amounted to P70.6 billion in November 2019, representing 14 months import cover for goods and services.
- The revised budget forecast for 2019/2020 is a deficit of 3.9% of GDP.
- The projected 2020/21 budget deficit is estimated at P5.22 billion representing 2.4% of GDP”
- Botswana’s top marginal rate is 25%, kicks in at 144 000 Pula

- [KPMG-Botswana Budget Speech summary-February 2020]

Continued

- “Botswana projects a narrower budget deficit in the 2020/21 fiscal year as the government cuts expenditure and revenue collection improves, Finance Minister Thapelo Matsheka said on Monday.
- The diamond-producing southern African country's deficit is forecast to narrow to 2.4% of GDP in 2020/21 from 3.9% in the fiscal year ending March, Matsheka said in his budget speech.
- **Botswana plans to swing back to a budget surplus in 2021-22** after four straight years of deficits, he added. The country had initially expected to run a budget surplus in 2020-21.
- "Despite the positive economic growth prospects, the country remains in challenging fiscal situation. We plan to return to budget surpluses in the last two years of our six-year development plan which ends in 2023.
- "The goal is to strike a balance between funding of programmes and infrastructure development which are necessary to transform the economy to a high income status by 2036 without setting on a fiscally unsustainable trajectory. *(www.Nasdaq.com*, Feb 3 2020*)*

- **1$ =11.06 Pula** [As at 26 February 2020]

Singapore

The Garden of Eden for taxpayers?

"Economic Performance in 2019

- Singapore's economy grew by a modest 0.7% in 2019. This is the weakest growth since the 2008 Financial Crisis. Just as the global economy was beginning to recover, the Coronavirus Disease 2019, or COVID-19, outbreak hit us. <u>Our immediate concern is to protect you and your families.</u> The first is the Stabilisation and Support Package. This will stabilize the economy and support our workers and enterprises, by helping workers to stay in their jobs and enterprises with cash flow. I will give additional help to sectors more directly affected by the outbreak.
- <u>**Households will be impacted by the slowdown too. In every Budget, we always provide support to families. But in view of the current situation, we will have a special Care and Support Package, to provide additional, timely help to more households with cost of living**</u>. The less well-off will get more help.

- $500 SkillsFuture Credit top-up for adult Singaporeans aged 25 and above
- Support for firms to train and redesign jobs for workers
- Special $500 SkillsFuture Credit top-up for Singaporeans aged 40 to 60
- Increase capacity of reskilling programmes to support more local workers in their 40s and 50s in career transitions

Cont.

- Hiring incentive for employers who hire local jobseekers aged 40 and above through reskilling programmes
- Up to $300 for all Singaporeans aged 21 and above in 2020
- Additional $100 for each Singaporean parent with at least one Singaporean child aged 20 and below in 2020
- PAssion Card Top-up- $100 top-up for all Singaporeans aged 50 and above in 2020
- Additional 20% of Workfare payments for work done in 2019, with a minimum payment of $100 Grocery Vouchers
- $100 per year in 2020 and 2021 for Singaporeans aged 21 and above living in 1-room or 2-room HDB flats
- More Government-supported pre-school places
- Raise income ceiling for the Additional Subsidy for preschool and Kindergarten Fee Assistance Scheme (KiFAS) to $12,000 a month

Continued

- School meals subsidies increased for secondary school students
- Bursaries for Higher Education-Higher bursaries for students in polytechnics and autonomous universities
- Increase of up to $200 a year in cash bursary quantum for full-time ITE students

- Up to $160,000 in housing grants for first-time flat-buyers
- Monthly household income ceiling raised for subsidized flats and executive condominiums to $14,000 and $16,000, respectively

- Government will match CPF Retirement Account top-ups dollar-for-dollar, up to an annual cap of $600, from 2021 to 2025
- For lower- to middle-income Singaporeans aged 55 to 70 without the prevailing Basic Retirement Sum-eligible Singaporeans can receive up to $3,000 in matched savings over the five years

Continued

- Higher pre-school subsidies across all eligible income tiers
- Low-income families pay as little as $3 per month for full-day childcare at pre-schools operated by Anchor Operators
- Annual pre-university bursary quantum raised from $900 to $1,000
- Transport subsidies increased for all students

- **A Package will be implemented when GST rate increase takes effect, sometime from 2022 to 2025- Cash payout of $700 to $1,600 over five years, for adult Singaporeans**
- Majority of Singaporeans households will receive offsets to cover at least five years' worth of additional GST expenses- Lower-income households will receive more, with those in 1- to 3-room HDB flats receiving offsets of about 10 years' worth of additional GST expenses
- Up to $160,000 in housing grants for first-time flat-buyers
- Monthly household income ceiling raised for subsidized flats and executive condominiums to $14,000 and $16,000, respectively
- Healthcare subsidies of up to 80% at Public Healthcare Institutions and aged care services"

[Singaporebudget.gov.sg]

Cayman Islands Budget

Discovery

NB: Cayman imposes no direct personal, corporate or property taxes. 0% tax rate

- "**No new fees or taxes levied on the public**
  Mister Speaker, this component of our fiscal strategy is one of the key ways that we are working to control the cost of living and doing business in the Cayman Islands. This is critically important for the management of our economy and the quality of life for our people. The last time that the Cayman Islands Government introduced significant revenue measures was in the 2012/13 financial year. It is truly phenomenal that for the last four budget cycles we have not sought to implement increased revenue measures.
  In fact, we have done what many would say is truly impossible and actually reduced the fees charged by Government – a truly remarkable achievement!
  For the 2018 and 2019 financial years the Government is not seeking to introduce any new revenue measures!"

- **Operating Surplus**
  "For 2018, the Government is forecast to earn Operating Revenue of $730.7 million, incur Operating and Financing Expenses of $644.1 million. This results in a forecast Core Government surplus of $86.6 million"

Cont.

- “**The 2018 and 2019 Budgets deliver**:
  Stable, annual Operating Revenues of $730.7 million in 2018 and $722.8 million in 2019 – without increasing the tax burden…”

- “**Our overriding fiscal strategy** is to manage Government’s finances in such a manner that there are:
  Substantial operating surpluses each year; No new fees or taxes levied on the public; and No new borrowings apart from refinancing an element of the 2019 Bond…”

- “The Government is forecast to earn $934.8 million in total revenue for 2016/17. This is $26.3 million higher than the $908.5 million forecast in the original budget.
  The improved revenues are mainly as a result of $13.1 million higher than expected revenues from stamp duty on land transfers; and $12.7 million more from import duty on motor vehicles, gasoline and diesel imports..”

[Cayman Islands 2018-19 Budgets]

The Good News

Tax Year 95/96!

R 0 - 5000	17% of each R1
5000 - 10 000	R850 + 18% above 5000
10 000 - 15 000	R1750 + 19% above R10 000
15 000 - 20 000	R2700 + 20% above R15 000
20 000 - 30 000	R3700 + 21% above R20 000
30 000 - 40 000	R5800 + 31% above R30 000
40 000 - 50 000	R8600+ 42% above R40 000
50 000 - 60 000	R12 200+ 43% above R50 000
60 000 - 80 000	R16 300 + 44% above R60 000
80 000 and up	**R24 700 + 45% above R80 000**

NB: 1984-85 marginal rate was 50% at R28000 per annum!

Cont.

- **Overview**

- "Over the past five years, government has increased rates of personal income tax, dividends tax, capital gains tax and VAT, while raising the fuel levy and excise duties on alcohol and tobacco. The tax-to-GDP ratio has steadily increased over this period, reaching 26.2 per cent, which is close to its democratic-era peak of 26.4 per cent in 2007/08. The 2019 Budget announced that an additional R10 billion in tax revenue would be raised in 2020/21 to support fiscal consolidation. At the time, real GDP growth was expected to be 1.5 per cent for 2019 and 1.7 per cent for 2020.

- Since then, the economy has faltered and growth estimates have been revised down to 0.3 per cent for 2019 and 0.9 per cent for 2020. **Substantial tax increases may obstruct short-term recovery**. **As a result, government will not raise any taxes to collect the additional R10 billion in 2020/21.**

- "In contrast with many other countries, however, **South Africa's corporate income tax rate has remained unchanged at 28 per cent for more than a decade. As the gap with our trading and investment partners grows, the country's relative competitiveness declines. India, the United States and the United Kingdom have all recently reduced their corporate income tax rates below 28 per cent**. Reducing the corporate income tax rate will encourage businesses to invest and expand production, improve the country's competitiveness as an investment destination…"

The Good News

"The personal income tax brackets and the primary, secondary and tertiary rebates will be increased by 5.2 per cent for 2020/21"

- "The personal income tax brackets and the primary, secondary and tertiary rebates will be increased by 5.2 per cent for 2020/21, which is above expected inflation of 4.4 per cent (Table 4.4). 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. "**

- "**Medical tax credits :**Government proposes an increase 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 per cent. It 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. "

- "**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**.

Cont.

- **<u>The main tax proposals for 2020/21 are:</u>**
- Above-inflation increase in the personal income tax brackets and rebates.
- Limit corporate interest deductions to combat base erosion and profit shifting as well as restricting the ability of companies to fully offset assessed losses from previous years against taxable income.
- Increases of 25c per litre to the fuel levy, which consists of a 16c per litre increase in the general fuel levy and a 9c per litre increase in the RAF levy.
- Increase the annual contribution limit to tax-free savings accounts by R3 000 from 1 March 2020.
- Increase excise duties on alcohol and tobacco by between 4.4 and 7.5 per cent. Also, government will introduce a new excise duty on heated tobacco products, to be taxed at a rate of 75 per cent of the cigarette excise rate with immediate effect.
- <u>Government will increase the cap on the exemption of foreign remuneration earned by South African tax residents to R1.25 million per year from 1 March 2020</u>.

Continued

Tax Tables – 2020/21-at last increased for inflation!

Taxable income	Rates of tax
R0 – R205 900	18% of each R1
R205 901 – R321 600	R37 062 + 26% above R205 900
R321 601 – R445 100	R67 144 + 31% above R321 600
R445 101 – R584 200	R105 429+ 36% above R445 100
R584 201 – R744 800	R155 505 + 39% above R584 200
R744 801-R1 577 300	R218 139 + 41% above R744 800
R1 577 301 and above	R559 464 +45% above R1 577 300

Estimates of individual taxpayers and taxable income

Discovery

Taxable income	Registered individuals	Income tax payable before relief [bn]	Income tax payable now
R80-150 000	2 084 683 [29.2%]	23.8	22.4
R500-750 000	615 177 [8.6%]	90.4	87.9
R750-1000 000	266 169 [3.7%]	65.9	64.5
R1000-1 500 000	182 883 [2.6%]	71.0	70.1
R1 500 000 and up	125 029 [1.7]	150.6	149.6

NB: Around 125 000 Individuals earn more than R1 500 000 p.a.

Source: National Treasury

Difference

Taxable income	2019/20 rates	Proposed 2020/21 rates	Tax change	% change
100 000	3780	3 042	(738)	(19.5%)
200 000	22 112	21 042	(1070)	(4.8%)
500 000	113 654	110 235	(3420)	(3.0%)
1000 000	312 820	307 813	(5007)	(1.6%)
2 000 00	**742 820**	**734 721**	**(8099)**	**(1.1%)**

NB: Around 125 000 Individuals earn more than R1 500 000 p.a.

Source: National Treasury

The Good News

Last year in brackets

- Primary rebate increased to **R14 958** [**R14 220]** per annum, Secondary rebate up to **R8 199** [**R7 794]** per annum, third rebate for the over 75s up to **R2 736** [**R2 601]**.
- Tax thresholds increased to **R83 100 [R79 000]** per annum for under 65s; **R128 650** [**R122 300]** per annum for over 65s, and **R143 850** [**R136 750]** for 75s and older.
- All taxpayers saving-even those in the R1m pa saving R0.9bn, while those over R1,5m pa saving R1bn

Cont.

- **<u>Transfer duties</u>**: The brackets to calculate transfer duties on the sale of property, last adjusted in 2017, will be adjusted for inflation **<u>from 1 March 2020</u>**. No transfer duty will be liable on the purchase of property with a value below R1 million.

- Transfer duty rate adjustments 2020/21:

R0- R1 000 000	0% of property value
R1 000 001 - R1 375 000	3% of property value above R1 000 000
R1 375 001 - R1 925 000	R11 250 + 6% of property value above R1 375 000
R1 925 001 - R2 475 000	R44 250 + 8% of property value above R1 925 000
R2 475 001 - R11 000 000	R88 250 + 11% of property value above R2 475 000
R11 000 001 and above	R1 026 000 + 13% of property value above R11 000 000

Cont.

Discovery

Foreign remuneration exemption

- "**Government will increase the cap on the exemption of foreign remuneration earned by South African tax residents to R1.25 million per year from 1 March 2020.**

- Some advisors have recommended emigration, as recognized by the Reserve Bank, as a way to break tax residency. **However, this is only one factor considered by SARS**. Government wants to encourage all South Africans working abroad to maintain their ties to the country. **Consequently, this concept of emigration will be phased out by 1 March 2021**. Details appear in Annexure E. "
- **Annexure E: ""Tax and exchange control treatment of individuals**
- Following reforms to the income tax treatment of South African tax residents who receive remuneration outside the country, **government proposes to remove the exchange control treatment for individuals, while strengthening the tax t**reatment. The intention is to allow individuals who work abroad more flexibility, provided funds are legitimately sourced and the individual is in good standing with the South African Revenue Service. "

Offshore **Continued-NB-how will this affect** <u>retirement funds</u>?

Discovery

- “<u>Individuals who transfer more than R10 million offshore will be subjected to a more stringent verification process</u>. Such transfers will also trigger a risk management test that will include certification of tax status and the source of funds, and assurance that the individual complies with anti-money laundering and countering terror financing requirements prescribed in the Financial Intelligence Centre Act (2001). This will be phased in by 1 March 2021.

- <u>**Under the new system, natural person emigrants and natural person residents will be treated identically. Additional restrictions on emigrants – such as the restrictions on emigrants being allowed to invest, and the requirement to only operate blocked accounts, have bank accounts and borrow in South Africa – have been repealed**</u>. The concept of emigration as recognized by the Reserve Bank will be phased out, to be replaced by a verification process based on the requirements above.

- <u>**Tax residency for individuals**</u> will continue to be determined by the ordinarily resident and physically present tests as set out in the Income Tax Act (1962). Under existing international standards, South Africa participates in the automatic sharing of information between tax authorities on individuals’ financial accounts and investments. These cooperative practices will remain in place to ensure that South African tax residents who have offshore income and investments pay the appropriate level of tax. “

Other changes

Discovery

General Amendments

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. "

Addressing the circumvention of anti-avoidance rules for trusts

- "In 2016, anti-avoidance measures were introduced to curb the transfer of growth assets to trusts using low interest or interest-free loans, which was done to avoid estate duty on the asset's subsequent growth in value. In 2017, these rules were strengthened to prevent the transfer of growth assets through low interest or interest-free loans made to companies owned by trusts. **Certain taxpayers are undermining the adjusted rules by subscribing for preference shares in companies owned by trusts that are connected to the individuals**. To curb this new form of abuse, it is proposed that the rules preventing tax avoidance through the use of trusts be amended." **HJ**-you were warned!

Cont.

More small changes

<u>Addressing an anomaly in the tax exemption of employer-provided bursaries</u>

- "A number of employer bursary schemes seek to reclassify ordinary remuneration as a tax-exempt bursary granted to the dependents of an employee. Government proposes to close this loophole. These amendments will take effect on 1 March 2020. "

<u>Reviewing the venture capital company tax incentive regime</u>

- "The venture capital company tax incentive regime has a sunset clause of 30 June 2021. Government will review the effectiveness, impact and role of this regime to ascertain whether the incentive should be discontinued. "

<u>Failure by public benefit organization's approved to receive tax-deductible donations to submit audit certificates</u>

- "If a public benefit organization fails to comply with specific requirements for receiving tax-deductible donations, SARS may regard these donations as taxable income for the organization. If the failure is not addressed within a reasonable period, the receipts issued by the organization will no longer be valid for claiming tax deductions…"

Offshore

Discovery

Amending the anti-avoidance provision regarding change of residence

- Capital gains tax is levied when a person ceases to be a South African tax resident. When a company ceases to be a resident, there is a deemed disposal of its assets that triggers capital gains tax. Despite these rules, residents that hold shares in the company could subsequently dispose of the shares and qualify for a participation exemption for the sale of company shares. It is proposed that amendments be made to the legislation to close this loophole.

Withdrawing retirement funds upon emigration-NB!

- "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. As a result of the exchange control announcements in Annexure E, the concept of emigration as recognized by the Reserve Bank will be phased out. **It is proposed that the trigger for individuals to withdraw these funds be reviewed. Any resulting amendments will come into effect on 1 March 2021."**

RA Issues (Not in budget)

Discovery

Non-deductible contributions

Facts

- Client aged 43, terminally ill with cancer. Divorced, with 2 young children. Had a R10m life policy.
- We cashed out the life policy, using the terminal illness benefit. The client invested the R10m in a single premium RA. The contribution was non-deductible. Problem-ex-wife still a dependent under 37C, and kids minors.
- We therefore matured the RA, even though client only 43, because he qualified as disabled, and moved the R10m to a living annuity. We nominated a trust as the beneficiary of the living annuity.

Continued

Issue

- "When the client died a few weeks later, the R10m paid out tax free, CGT free, Executor's fees free, and estate duty free to a trust for the two kids. **NB-this was before 1 March 2015**, law now amended-see next slide

- **NB-technical problem with SARS because contribution in same year as death,** SARS are not allowing the non-deductible contribution, **as it is not on their system as a non-deductible contribution**.

- **NB-**for those making non-deductible RA contributions close to retirement, must:

➢ Make the contribution in year 1, and then retire only in year 2

➢ **Make sure the contribution is claimed from SARS and disallowed,** so it is on their system as a disallowed contribution. A big problem where client is not claiming the contribution because has low taxable income, for example.

Continued

Discovery

- Section 3 (2) (b A) of the Estate Duty Act reads:
- “so much of the amount **of any contribution made by the deceased** in consequence of membership or past membership of any pension fund, provident fund, or retirement annuity fund, as was not allowed as a deduction in terms of section 11 (k) or (n) of the Income Tax Act…”

- Subsection (1) comes into operation on 1 January 2016 and applies in respect of the estate of a person who dies on or after that date **in respect of contributions made on or after 1 March 2015”**
- **Interesting potential change now if dependents don’t take the lump sum-NB!**

NB: Large non-deductible RA contributions no longer reduce the planner’s estate duty problem

Tax Tips for tax year end

Discovery

- This year is a leap year, so have an extra day before tax year end to plan!

- **Clients should be attending to the following:**

- **Charitable donations :** Make sure they maximize their donations to registered PBO's to increase their tax deductibility. **Deduction is limited to 10% of taxable income**. Must be supported by a Section 18A tax certificate issued by the PBO

- **Depreciation**-if they buying things like laptops and machinery they should buy it before month end. Section 11(e) and Interpretation Note No. 47, Annexure A, detail the write-off periods for machinery. Small items that cost less than R7000 per asset may be written off in full in the year of acquisition. [Eg. Laptops]

Continued

- **Use the R100 000 annual donations exemption**

- Tax year ends 29 February 2020-many clients have not used their R100 000 donations exemption. Remember, its use it or lose it!

- Section 56 (2) (b) of the Income Tax Act allows every natural person to donate R100 000 free of donations tax per tax year. NB-this is not tax deductible!

- Section 56 (1) (b)- there is no donations tax on donations between spouses. This is without limit.

- Husband and wife should therefore donate R200 000 per year as a couple, to a trust. The money belongs to the trust, without a loan account. **NB-don't take short cuts-the money must come from each one of their bank accounts separately**!

Continued

- **Trust invests money in a 5 year endowment policy to avoid tax problems:**

➢ Avoids tax on interest earned, or application of Section 7

➢ Avoids any CGT in the trust's hands if units sold

➢ Also avoids any consequences if the proposed changes to the taxation of trusts as per the Davis Report are ever implemented

Benefits

- R 200 000 per annum is removed from the donor's estate. Growth takes place in the trust. A nest egg is built up for the family, free of estate duty.

- The policy belongs to the trust and there is no loan account to attack

- Note-the trust must take out the policy from inception, so no 2nd hand policy problems. Trust must be set up first. No policy must be ceded to the trust, or else there will be double CGT-in the portfolio, and again when it pays out.

- Owning an endowment policy avoids changes in trust tax legislation

Problem to avoid

- Trust owns an endowment policy. A has donated R100 000 per annum to the trust to pay for the policy. There is therefore no loan account or asset in A's estate

- The endowment policy has a life assured in error

- When the life assured dies, the policy will pay out. That will trigger estate duty in the deceased estate, because of Section 3 (3) (a) ....

NB: <u>A trust owned endowment should NOT have a life assured</u>

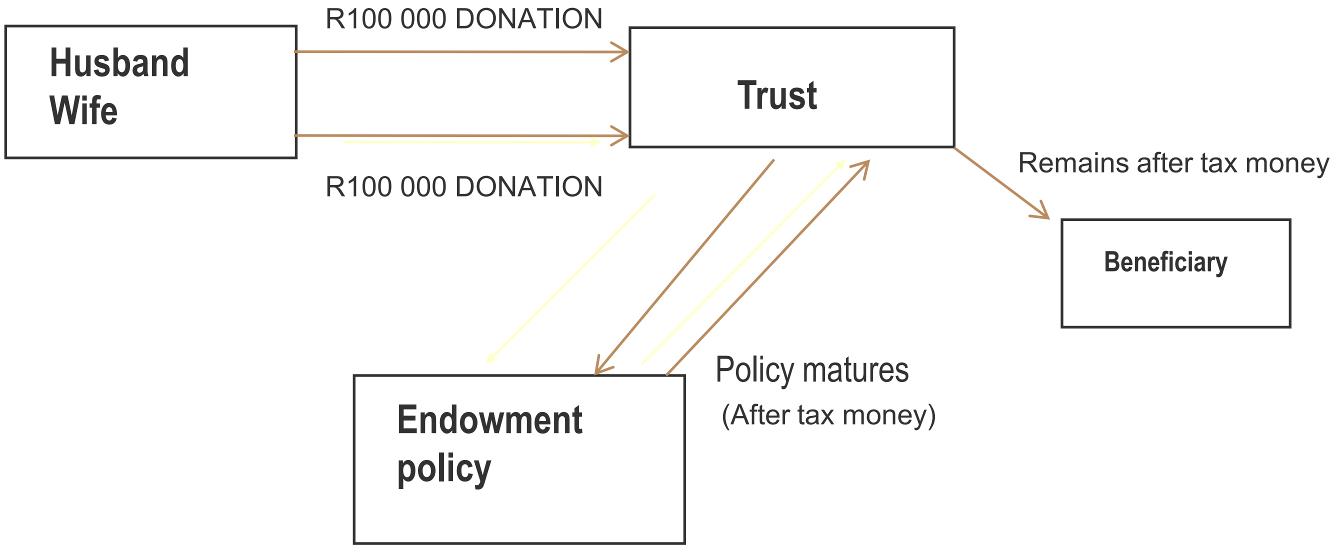
Continued-Legislation-deemed asset

- Section 3 (3) (a) of the Estate Duty Act reads as follows:

“Property which is **<u>deemed</u>** to be property of the deceased includes-

(a) so much of any amount <u>due and recoverable</u> under any policy of insurance which is a “domestic policy” <u>upon the life of the deceased</u> as exceeds the aggregate amount of any premiums or consideration proved to the satisfaction of the Commissioner to have been paid by any person who is entitled to the amount due under the policy, together with interest at six per cent per annum calculated upon such premiums or consideration from the date of payment to the date of death…”

Diagram of Donations Plan



Tax tips for tax year end-cont.

Discovery

- Maximize client's RA contribution-up to 27.5% of taxable income subject to overall capping of R350k in the year

- Make use of the R33000 per annum available to invest in a tax free investment [R36 000 from next year]

- **NB-if you are paying trust income or capital to a beneficiary to pass the tax down to them, make sure the trust resolution is signed BEFORE the end of the tax year!**

Conclusion

- Most important, did not:
  - Raise marginal rates/VAT/CGT. Could have been a lot worse!
  - Introduce/mention the second Davis Committee report

Annuitisation of provident funds?

Retirement fund reform

“Government and the National Economic Development and Labour Council 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. “

- Is annuitisation going to happen at last-meant to in 2021?