Personal Income tax relief for tax payers

By Piet Nel, SAICA Project Director: Tax

It will come as a quite a welcome relief to taxpayers that the Minister of Finance, Mr Tito Mboweni, did not substantially increase normal tax rates - as was generally expected. Neither did the rate of value-added tax (VAT) or the rates of other taxes increase. The Minister said that, in order to support growth, no major tax increases were proposed - indeed, there is some real personal income tax relief.

Tax revenue is projected to grow by 4.9 percent in 2020/21. The Minister expects revenue to improve over the medium term as growth recovers. Projected revenue for 2019/20 is now R63.3 billion lower than the estimate at the time of the 2019 Budget. Growth in VAT collection has moderated following the one percentage point rate increase in 2018/19.

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 proposal, made last year to increase taxes to collect an additional R10 billion, was not implemented. The Minister said that South Africa will aim to strengthen its progressive tax system by broadening the tax base and eliminating exemptions or deductions where possible.

The bad news is that the planned government spending over the next years was not reduced. So where will the money come from? The shortfall will effectively be made up by loans. In 2020/21, Government's borrowing requirement will be R432.7 billion and it is expected to reach R497.5 billion in 2022/23. The steep increase is the result of weak economic growth, the deteriorating fiscal position, an increase in domestic bond redemptions and large-scale support to distressed state-owned companies. The main risks to this financing strategy are:

- A widening budget deficit. If Gross Domestic Products growth contracts or spending increases – for example, through additional support to state-owned companies – debt and borrowing costs would increase.
- Inflation and exchange-rate risks would increase the cost of outstanding inflation-linked or foreign-currency debt.

- Further downgrades of South Africa’s credit ratings could lead to higher costs of borrowing.

Specific tax proposals

- The exemption of foreign sourced remuneration of employees working abroad will be increased to R1,25 million.
- The value of medical tax credits in 2020/21 increase to R319 per month for the first two beneficiaries, and to R215 per month for the remaining beneficiaries.
- A loophole relating to employer bursary schemes that reclassify ordinary remuneration as a tax-exempt bursary granted to the dependants of an employee will be closed.
- The pay-as-you-earn (PAYE) system will be reviewed with a view to implementing a more modern, automated process for employers that is easy to understand, access and maintain.
- The annual limit on contributions to tax-free savings accounts will be increased from R33 000 to R36 000 from 1 March 2020.
- The corporate income tax base will be broadened by restricting the offset of assessed losses carried forward to 80 per cent of taxable income, for years of assessment commencing on or after 1 January 2021.
- The fuel levy will increase by 25c per litre, which consists of 16c per litre for the general fuel levy and a 9c per litre for the RAF levy.
- No transfer duty will be payable on the purchase of property with a value below R1 million.
- Most excise duties will increase by 4.4 per cent for 2020/21, and by 6 per cent in the case of sparkling wine and 7.5 per cent for pipe tobacco and cigars.
- The carbon tax rate will increase by 5.6 per cent for the 2020 calendar year.

Exchange control:

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 treatment. 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.

Individuals who transfer more than R10 million offshore will be subjected to a more stringent verification process. Such transfers will 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. This will be phased in by 1 March 2021.

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, the concept of emigration as recognised by the Reserve Bank will be phased out. The trigger for individuals to withdraw these funds will be reviewed with resulting amendments coming into effect on 1 March 2021.

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