



Budget Stop Press 2011

23 February 2011

“It is time to celebrate and embrace the potential of our unemployed young, knowing that they are our future. How we meet this challenge will shape the quality of life that our children and their children will enjoy.”

**Quote: Pravin Gordhan
Minister of Finance**

This circular only includes budget changes and proposals which are relevant to the financial planning environment.

1. Personal Income Tax

The Minister once again proposed welcome but restrained personal income tax relief. The table below illustrates the adjusted tax rates applicable to individual taxpayers for the 2011/2012 tax year.

Tax rates for natural persons – 2011/2012 tax year

Taxable Income	Rate of tax
R0 – R150 000	18% of each R1
R150 001 – R235 000	R27 000 + 25% of the amount above R150 000
R235 001 – R325 000	R48 250 + 30% of the amount above R235 000
R325 001 – R455 000	R75 250 + 35% of the amount above R325 000
R455 001 – R580 000	R120 750 + 38% of the amount above R455 000
R580 001	R168 250 + 40% of the amount above R580 000

Tax rebates

	2010/2011 Tax Year	2011/2012 Tax Year
Primary Rebate	R10 260	R10 755
Secondary Rebate (applicable only to taxpayers aged 65 and over)	R5 675	R6 012
Third Rebate (applicable only to taxpayers aged 75 and over)		R2 000

Tax thresholds

	2010/2011 Tax Year	2011/2012 Tax Year
Below age 65	R57 000	R59 750
Age 65 and over	R88 528	R93 150
Age 75 and over	R88 528	R104 261

This means that a taxpayer younger than 65 and earning a taxable income of R59 750 or less per annum, or a taxpayer older than 65 but younger than 75 and earning a taxable income of R93 150 or less per annum, or a taxpayer of 75 years and older and earning a taxable income of R104 261 or less per annum, will not pay any income tax in the 2011/2012 tax year.

The examples below demonstrate the tax savings for individuals (younger than 65) in terms of the proposed changes:

Taxable Income	Tax payable 2010/2011 Tax Year	Tax payable 2011/2012 Tax Year	Tax Reduction (R)	Tax Reduction (%)
R59 750	R495	0	- R495	100%
R100 000	R7 740	R7 245	- R495	6.4%
R150 000	R17 440	R16 245	- R1 195	6.9%
R250 000	R43 890	R41 995	- R1 895	4.3%
R500 000	R130 710	R127 095	- R3 615	2.8%
R1 000 000	R329 670	R325 495	- R4 175	1.3%

2. Interest and Foreign Dividend Exemption

Interest and foreign dividend exemption levels have also been revised. The domestic interest income exemption for the tax year 2011/2012 will be increased from:

- R22 300 to R22 800 per annum for taxpayers under the age of 65 and from
- R32 000 to R33 000 per annum for taxpayers aged 65 years and older.

The exemption for foreign interest and dividends remains unchanged at R3 700.

A taxpayer younger than 65 will be able to invest R506 667 at 4.5% per annum without paying tax. A taxpayer older than 65 will be able to invest R733 333 at 4.5% per annum without paying tax.

3. Taxation of Small and Micro Businesses

The tax rates applicable to small business corporations (annual turnover under R14 million) for the financial year ending 31 March 2012 (adjusted in line with the new individual tax threshold) are as follows:

Taxable Income (R)	Rate of Tax (R)
R0 - R59 750	0%
R59 751 – R300 000	10% of taxable income above R59 750
R300 001 and above	R24 025 + 28% of taxable income above R300 000

Turnover tax rates applicable (elective) for micro businesses (qualifying turnover does not exceed R1 million) for the 2011/2012 tax year are as follows:

Taxable Turnover (R)	Rate of Tax (R)
R0 – R150 000	0%
R150 001 – R300 000	1% of taxable turnover above R150 000
R300 001 – R500 000	R1 500 + 3% of taxable turnover above R300 000
R500 001 – R750 000	R7 500 + 5% of taxable turnover above R500 000
R750 001 and above	R20 000 + 7% of taxable turnover above R750 000

Turnover tax is a tax based on the turnover of a business and is available to sole proprietors, partnerships, close corporations, companies and co-operations. It is a substitute for VAT, Provisional Tax, Income Tax, Capital Gains Tax and Secondary Tax on Companies. From 01 March 2012 micro businesses that register for VAT will not be barred from registering for Turnover Tax.

4. Final Dividend Withholding Tax

The new dividends tax is set to replace the secondary tax on companies from 1 April 2012. To date, most issues have been resolved with the assistance of public consultation. In 2011, final issues will be resolved, most notably those concerning inbound foreign dividends and foreign-owned South African branches.

5. Medical Scheme Deduction

The allowable income tax deduction for contributions made by members to their medical schemes has been increased from:

- R670 to R720 per month for each of the member and first dependant (i.e. R8 640 per annum) and from
- R410 to R440 per month for each additional dependant (i.e. R5 280 per annum)

with effect from 1 March 2011.

This translates into the following tax implications for a family of four:

Deduction for medical scheme contributions in 2011/2012 tax year:

- $R720 + R720 + R440 + R440 = R2\,320$ (R27 840 per annum).

It is proposed that the monthly deductions for contributions to medical schemes and for qualifying out-of-pocket medical expenses will be converted into tax credits effective 1 March 2012. A discussion document on these credits will be published by the end of March 2011.

6. Social Security

In an effort to ensure that poverty reduction continues, social grants have been increased to keep up with inflation. The new grants are as follows:

	2010/2011	2011/2012
• Disability and Old Age Grants (Below 75)	R1 080	R1 140
• Old Age Grants (Over 75)	R1 080	R1 160
• Child support Grant	R250	R270

7. "Sin Taxes" and Fuel Levies

The following increases are proposed:

- Tax on a packet of 20 cigarettes increases by 80 cents
- Tax on a 340ml can of beer increases by 6.4 cents
- Tax on a bottle of wine increases by 13.5 cents
- Tax on a bottle of spirits increases by R2,86.

Government proposes to increase the general fuel levy by 10c/l on both petrol and diesel effective from 6 April 2011. The RAF levy will be increased by 8c/l to 80c/l on the same date.

8. Transfer Duty

Government proposes to increase the transfer duty exemption threshold from R500 000 to R600 000. The new rates applicable to Transfer Duty will be as follows:

Value of Property (R)	Rate of Tax (R)
0 - R600 000	0%
R600 001 - R1 000 000	3% of value above R600 001
R1 000 000 - R1 500 000	R12 000 + 5% of value above R1 000 001
Above R1 500 000	R37 000 + 8% of value above R1 500 000

This revised rate structure will apply to properties acquired under purchase agreements concluded on or after 23 February 2011. It will also be applicable to legal persons (close corporations, companies and trusts). The flat rate of 8% for these entities falls away.

9. CGT

Government proposes an increase to the capital gains tax exclusion amounts as follows, with effect from 1 March 2011:

- For individuals and special trusts the annual exclusion is increased from R17 500 to R20 000
- On death, during the year of assessment, the annual exclusion increases from R120 000 to R200 000
- On the disposal of a small business the exclusion increases from R750 000 to R900 000 (subject to the relevant provisos).

10. Retirement funds

Current amendments:

As of 01 March 2011, the following table will be applicable to the taxation of retirement fund lump sum benefits upon retirement, death and retrenchment:

Taxable Lump Sum (R)	Rate of Tax (R)
0 - R315 000	0%
R315 001 - R630 000	R0 + 18% of amount exceeding R315 000
R630 001 - R945 000	R56 700 + 27% of amount exceeding R630 000
R945 001 and above	R141 750 + 36% of amount exceeding R945 000

Note: In effect the R300 000 tax-free allowance is increased to R315 000.

Proposed amendments:

The following changes have been proposed:

- Employer contributions to pension fund, provident fund, and retirement annuity funds are to be included as fringe benefits (effective 1 March 2012).
- Employees will be allowed a deduction of up to 22.5% of taxable income for contributions to all approved retirement funds (i.e. pension, provident and retirement annuity funds), with a minimum annual deduction of R12 000 and an annual maximum of R200 000, to ensure greater equity (effective 1 March 2012).

Example: An individual who contributes 22.5% of their taxable income of R75 000 per month (i.e. R900 000 per annum) will only be able to deduct the R200 000 maximum instead of the actual R202 500 contributed (R22.5% of R900 000). Or, for an individual with a similar contribution rate, whose taxable income is R4 250 per month (i.e. R51 000 per annum), a minimum of R12 000 is deductible, instead of the R11 475 contributed (which is 22.5% of R51 000). The minimum annual deduction of R12 000 does not appear to make sense given that the tax threshold below which no tax is payable is R59 750.

It is anticipated that the definition of non-retirement funding income will fall away as a result. There is no indication, however, that there is any proposal to change the treatment of disallowed contributions (i.e. these would still qualify as a deduction on retirement or withdrawal where applicable). For example, whilst a self-employed taxpayer who contributes R5 000 000 to a retirement annuity would be limited to a maximum deduction of R200 000 (instead of R750 000 which would currently be deductible), the R4 800 000 contributions which were disallowed would be available as a deduction in future tax years or at retirement or death.

- The maximum one-third cash commutation limit applicable to pension funds and retirement annuity funds at retirement is to be extended to provident funds (i.e. members of provident funds will no longer be entitled to commute the full three-thirds at retirement). There is no intention to apply this to existing accumulations.
- To encourage competition, government proposes to broaden the list of service providers allowed to provide living annuities to include collective investment

schemes and the National Treasury's retail savings bond scheme. Currently living annuities can only be provided by Long Term insurers.

Future Developments

The Minister stated that proposals for consolidation of social security arrangements were well advanced. These included proposals for the introduction of a mandatory basic retirement savings plan.

11. Additional Tax Proposals

11.1 Estate Duty

The effectiveness of Estate Duty is being reviewed with several options under consideration.

11.2 Taxation of Long Term insurers

The Four-Fund approach of taxation in respect of Long Term insurance funds is under scrutiny.

11.3 Gambling

Government proposes that with effect from 1 April 2012 all gambling winnings above R25 000, including those from the National Lottery, will be subject to a final 15% withholding tax.

11.5 Taxation of employer sponsored policies

- In 2010, amendments were introduced to draw a distinction between plans whose intention is to protect employers against lost profits (eg: key-man policies) and plans whose ultimate intention is to benefit employees (and their families) against death and disability.
- These amendments provided that plans whose ultimate beneficiaries were employees (or their families) should trigger fringe benefit tax for them.
- Despite these changes, certain ambiguities and peripheral issues remain. These are currently being discussed with industry bodies and any necessary changes should be made in due course.
- Particular issues under discussion are the tax treatment of:
 - Group disability income and Group Life Assurance schemes
 - "Non-conforming" policies post the recent changes (e.g: a key person policy where premiums are not deductible and proceeds are tax-free)
 - The cession of deferred compensation policies.

11.6 VAT and Transfer Duty nexus

A notional VAT input credit may be claimed when a VAT vendor buys a fixed property from a non-VAT vendor. To combat abuse, this notional VAT input is currently limited to the transfer duty paid by the purchasing VAT vendor. It is proposed that the notional VAT input credit be de-linked from the transfer duty payable.

12. Conclusion

The Budget Speech 2011, highlighted:

Government's continued commitment to:

- job creation
- alleviate poverty
- inflation targeting
- social reform
- sustainable debt-servicing.

While some of the proposed amendments in the retirement fund space may introduce challenges, it is again reassuring to note that on the whole, there were no surprises or deviations from former policy initiatives. This provides the man in the street with a certain and secure environment in which to plan his financial affairs.

Please note that the information provided in this circular is based on proposals made in the National Budget Speech delivered on the 23rd of February 2011 in parliament, until the proposals have formally been promulgated in legislation it will only be viewed as proposals.

Compiled by: PFA/PWM HR Legal

Date: 23 February 2011

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