"In the words of the Freedom Charter: 'South Africa belongs to all who live in it'."

Minister Gordhan

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

1. Personal Income Tax

This year, due to the tough economic environment, the Minister had to effect changes to close the deficit. Minister Gordhan opted to raise the R28 billion in extra taxes required, by mainly focusing on adjusting personal income and excise taxes. On the personal income tax side an increase in the dividends withholding tax rate, and a new increased marginal rate for high income taxpayers. The table below illustrates the adjusted tax rates applicable to individual taxpayers and special trusts for the 2017/2018 tax year:

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>Rate of tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>R0 - R189 880</td>
<td>18% of each R1</td>
</tr>
<tr>
<td>R189 881 - R296 540</td>
<td>R34 178 + 26% of the amount above R189 880</td>
</tr>
<tr>
<td>R296 541 - R410 460</td>
<td>R61 910 + 31% of the amount above R296 540</td>
</tr>
<tr>
<td>R410 461 - R555 600</td>
<td>R97 225 + 36% of the amount above R410 460</td>
</tr>
<tr>
<td>R555 601 - R708 310</td>
<td>R149 475 + 39% of the amount above R555 600</td>
</tr>
<tr>
<td>R708 311 - R1 500 000</td>
<td>R209 032 + 41% of the amount above R708 310</td>
</tr>
<tr>
<td>R1 500 000 and above</td>
<td>R533 625 + 45% of the amount above R1 500 000</td>
</tr>
</tbody>
</table>
With effect from 1 March 2017, all trusts excluding special trusts are taxed at a flat rate of 45%.

### Tax rebates

<table>
<thead>
<tr>
<th></th>
<th>2016/2017 Tax Year</th>
<th>2017/2018 Tax Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary rebate</td>
<td>R13 500</td>
<td>R13 635</td>
</tr>
<tr>
<td>Secondary rebate</td>
<td>R7 407</td>
<td>R7 479</td>
</tr>
<tr>
<td>(Age 65 to below 75)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tertiary rebate</td>
<td>R2 466</td>
<td>R2 493</td>
</tr>
<tr>
<td>(Age 75 and older)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Tax thresholds

<table>
<thead>
<tr>
<th></th>
<th>2016/2017 Tax Year</th>
<th>2017/2018 Tax Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below age 65</td>
<td>R75 000</td>
<td>R75 750</td>
</tr>
<tr>
<td>Age 65 to below 75</td>
<td>R116 150</td>
<td>R117 300</td>
</tr>
<tr>
<td>Age 75 and older</td>
<td>R129 850</td>
<td>R131 150</td>
</tr>
</tbody>
</table>

This means that a taxpayer earning less than these thresholds will pay no income tax in the 2017/2018 tax year.

The examples below demonstrate the impact of the proposed changes on individuals younger than 65:

### Tax impact for individuals younger than 65

<table>
<thead>
<tr>
<th>Taxable income (R)</th>
<th>2016/17 rates (R)</th>
<th>Proposed 2017/18 rates (R)</th>
<th>Tax change (R)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>150 000</td>
<td>13 500</td>
<td>13 365</td>
<td>-135</td>
<td>-1.0%</td>
</tr>
<tr>
<td>300 000</td>
<td>49 780</td>
<td>49 348</td>
<td>-432</td>
<td>-0.9%</td>
</tr>
<tr>
<td>500 000</td>
<td>116 460</td>
<td>115 824</td>
<td>-636</td>
<td>-0.5%</td>
</tr>
<tr>
<td>750 000</td>
<td>213 431</td>
<td>212 490</td>
<td>-941</td>
<td>-0.4%</td>
</tr>
<tr>
<td>1 000 000</td>
<td>315 931</td>
<td>314 990</td>
<td>-941</td>
<td>-0.3%</td>
</tr>
<tr>
<td>1 500 000</td>
<td>520 931</td>
<td>519 990</td>
<td>-941</td>
<td>-0.2%</td>
</tr>
<tr>
<td>2 000 000</td>
<td>725 931</td>
<td>744 990</td>
<td>19 059</td>
<td>2.6%</td>
</tr>
</tbody>
</table>
2. Capital Gains Tax (CGT)

Inclusion rates remain the same and are as follows:

- Individuals and Special Trusts: 40%
- Companies: 80%
- Trusts (other than Special Trusts): 80%

Due to the increase of the maximum marginal tax rate for individuals and trusts the effective capital gains rate increases as follows:

- Individuals and Special Trusts: from a maximum rate of 16.4% to 18%
- Trusts: from 32.8% to 36%

The effective rate for companies remains the same at 22.4%

The annual exclusion for individuals remain at R40 000 and R300 000 in the year of death.

This increase in the effective rates may have an impact on investments held by individuals and trusts.

3. Interest Exemption

The interest exemption threshold remains as follows:

- R23 800 per annum for taxpayers under the age of 65,
- R34 500 per annum for taxpayers aged 65 years and older.

It is expected that these amounts will remain unchanged in future.

4. Dividend withholding tax

Effective 22 February 2017 the local dividend withholding tax rate increases from 15% to 20%.¹

The exemption for foreign dividends received by South African residents will be adjusted in line with this new rate effective from 1 March 2017.

¹ There is a difference in the effective date published in the "SARS Pocket Tax Guide" and the date provided in the National Treasury Budget Review document. The effective date above reflects the date in the National Treasury Budget Review document.
5. Taxation of Small Businesses

The tax rates for small business corporations (gross income under R20 million) for financial years ending on any date between 1 April 2017 and 31 March 2018:

<table>
<thead>
<tr>
<th>Taxable Income (R)</th>
<th>Rate of Tax (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>R0 - R75 750</td>
<td>0% of taxable income</td>
</tr>
<tr>
<td>R75 751 - R365 000</td>
<td>7% of taxable income above R75 750</td>
</tr>
<tr>
<td>R365 001 - R550 000</td>
<td>R20 248 + 21% of taxable income above R365 000</td>
</tr>
<tr>
<td>R550 001 and above</td>
<td>R59 098 + 28% of the amount above R550 000</td>
</tr>
</tbody>
</table>

The tax rates for micro businesses (turnover not exceeding R1 million per year) are applicable for any year of assessment ending during the period of 12 months ending on 28 February 2018:

<table>
<thead>
<tr>
<th>Taxable Turnover (R)</th>
<th>Rate of Tax (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>R0 - R335 000</td>
<td>0% of taxable turnover</td>
</tr>
<tr>
<td>R335 001 - R500 000</td>
<td>1% of the taxable turnover above R335 000</td>
</tr>
<tr>
<td>R500 001 - R750 000</td>
<td>R1 650 + 2% of the taxable turnover above R500 000</td>
</tr>
<tr>
<td>R750 001 and above</td>
<td>R6 650 + 3% of the taxable turnover R750 000</td>
</tr>
</tbody>
</table>
6. Transfer duty

The new rates of transfer duty for property transferred as from 1 March 2017 are as follows:

<table>
<thead>
<tr>
<th>Property Value (R)</th>
<th>Rate of Tax (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>R0 – R900 000</td>
<td>0% of property value</td>
</tr>
<tr>
<td>R900 001 - R1 250 000</td>
<td>3% of property value above R900 000</td>
</tr>
<tr>
<td>R1 250 001 - R1 750 000</td>
<td>R10 500 + 6% of property value above R1 250 000</td>
</tr>
<tr>
<td>R1 750 001 - R2 250 000</td>
<td>R40 500 + 8% of property value above R1 750 000</td>
</tr>
<tr>
<td>R2 250 001 - R10 000 000</td>
<td>R80 500 + 11% of property value above R2 250 000</td>
</tr>
<tr>
<td>R10 000 001 and above</td>
<td>R933 000 + 13% of the property value above R10 000 000</td>
</tr>
</tbody>
</table>

7. Medical Tax Credits

With effect from 1 March 2017, the initial monthly tax credit (for contributions to medical schemes) for all tax payers is R303 and for a taxpayer and his or her first dependent is R606. An additional monthly credit of R204 is afforded to each additional dependent.

- For taxpayers younger than the age of 65 an additional tax credit will be given of an amount equal to 25% of the aggregate of:
  - the amount by which their contribution exceeds four times their tax credit (for contributions), plus
  - their out of pocket expenses

  that exceeds 7.5% of their taxable income (excluding any retirement fund lump sum benefit, retirement fund lump sum withdrawal benefit and severance benefit).

- For taxpayers 65 years of age or older, or who are disabled or who have disabled dependents, an additional tax credit will be given of an amount equal to the aggregate of:
  - 33.3% of the amount by which their contribution exceeds three times their tax credit (for contributions), plus
  - 33.3% of their out of pocket expenses.
The additional tax credit afforded to employees who are 65 years and older with respect to their contributions to medical schemes may also be accounted for in the monthly PAYE calculations. This facility is also afforded to provisional tax payers who are 65 years of age and older.

Future adjustments may be balanced with the funding requirements of national health insurance.

8. Tax-Free Savings Accounts

As from 1 March 2015, the TFSA was introduced into the South African investment market place for individuals:

- Contributions are currently subject to an annual limit of R30 000 and a lifetime limit of R500 000.
- Government proposes increasing the annual limit to R33 000.
- Investment returns, growth and payouts in respect thereof are tax free.

Old Mutual has been providing these investments since 1 March 2015.

9. Retirement Reform

Taxation of contributions

With effect from 1 March 2016:

- Contributions by employers to all retirement funds are fringe benefit taxed in the hands of the employee.
- The full employer contribution is deductible by the employer.
- The tax deductions for member contributions were simplified and improved with a uniform deduction of 27.5% of the higher of taxable income or remuneration, with a yearly deduction cap of R350 000.

The 2016 Taxation Laws Amendment Act clarified that taxable income also includes passive income (e.g. annuity income and taxable interest) and taxable capital gains, for purposes of the 27.5% component of the deduction. The deduction is however applied to taxable income before the addition of taxable capital gains. There has been some confusion as regards how the R350 000 yearly cap is to be applied, as currently, there is no provision...
for employers to smooth this over the whole tax year. It is proposed that this deduction is spread over the tax year.

Contributions that exceed the allowable deduction are deemed to have been made in the following year and will be deductible subject to the limits applicable in that year.

The Taxation Laws Amendment Act of 2016 confirmed that the rollover only applies to excess contributions made to retirement annuity funds and pension funds that were made prior to 1 March 2016. Contributions made to provident funds prior to 1 March 2016, will not form part of this concession and will not be deductible. Only contributions made to provident funds as of 1 March 2016 that exceed the limit will enjoy the roll-over relief.

Any contributions that remain unapplied as deductions upon the member's exit from the fund, may be applied against members’ retirement benefits at retirement, firstly against the lump sum and then against the annuity income.

Provident funds’ annuitisation
The proposal that compels certain provident fund and provident preservation fund members to purchase an annuity at retirement is subject to NEDLAC negotiation and consensus. If there is no consensus, this proposal will not be implemented and the continuation of the deduction for member contributions to provident funds will be reviewed.

Preservation of benefits after reaching normal retirement age
In 2014, changes to the Income Tax Act allowed individuals to elect when to retire. This meant that the lump sum benefit accrued to the individual on the date on which the member elected to retire and not at normal retirement age. Therefore a member could elect to retire after reaching normal retirement age if the rules of the fund provides for this.

However, once a member elects to retire, the Act does not currently allow for lump sum benefits to be transferred from one retirement fund to another. It is therefore proposed that transfers of retirement interests be allowed from one retirement fund to a retirement annuity fund, provided that the fund rules make provision for this.
**Tax-exempt status of pre-March 1998 build-up in public sector funds**

The Income Tax Act makes provision for the transfer of the tax-free portion of lump sum benefits from a public sector fund to a pension fund. It is proposed that this tax-free treatment be extended to all subsequent transfers to another pension fund as well.\(^2\)

**Removing time limit to join an employer umbrella fund**

Existing employees who do not join a newly established employer umbrella fund have 12 months within which to join the fund. To encourage employees to contribute towards their retirement, it is proposed that this 12-month limit be removed and that employees be allowed to join without time restriction, provided that the rules of the fund make provision for this.

**10. “Sin Taxes” and Levies**

The following increases are proposed:

- Tax on a packet of 20 cigarettes increases by R1.06
- Tax on a 340ml can of beer increases by 11.9c
- Tax on 750ml of wine increases by 26c
- Tax on a 750ml bottle of spirits increases by R4.43

Government proposes to increase the general fuel levy by 30c p/l with effect from 5 April 2017. It is proposed that the RAF Levy will be increased to 9c/l. This will push up the general fuel levy to R4.82 p/l of petrol and R4.67 p/l of diesel.

Government will look to expand the VAT base in 2018/19 tax year. It is proposed that the zero rating on fuel be removed. This will be subject to consultation.

Government proposes to implement a tax on sugar-sweetened beverages as soon as the necessary legislation is approved. The proposed tax rate will be 2.1c/gram for sugar content in excess of 4g/100ml. Of the proposed rate, 50% will apply to concentrated beverages.

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\(^2\) Even though the National Treasury Budget Review document only makes reference to pension funds, it is anticipated that this proposal would be extended to all relevant approved retirement funds.
11. Special Voluntary Disclosure Programme (SVDP)

The Minister introduced a Special Voluntary Disclosure Programme to encourage taxpayers to disclose their affairs and to disclose any unauthorised assets and income abroad, before SARS obtains the information as part of the automatic exchange of information between tax authorities. The process for SVDP applications runs from 1 October 2016 to 31 August 2017. Any applications submitted after 31 August 2017 will not qualify for the special rules under the SVDP and the normal Voluntary Disclosure Programme rules will apply.

12. Trusts and Loan Accounts

Section 7C was introduced by the Taxation Laws Amendment Act of 2016 and applies to instances where a loan, credit or advance is made by a natural person or at the instance of such a person by a company to which the person is a connected person, to a trust to which that person or company (or any person who is a connected person to that trust or company) is a connected person (i.e. where such company or person, or anybody connected to them, is a beneficiary of such trust).

Subject to certain exemptions, where a trust incurs no interest or interest at a rate lower than the official rate of interest (currently 8%), an amount equal to the difference between the interest incurred by the trust (if any) and the interest that would have been incurred at the official rate of interest would be treated as a donation made to the trust (by such connected person or company) on the last day of the tax year of the trust (i.e. 28/29 February) – thus potentially triggering donations tax. This section is effective from 1 March 2017 and applicable to loans, credit or advances made to trusts before, on and after 1 March 2017.

Some taxpayers have already attempted to avoid the provisions of this section by channelling these types of loans to companies owned by trusts. It is proposed to extend the scope of this section to counter these avoidance schemes.

13. Other Proposals

Employees’ Tax and Reimbursed Travel Expenses

To simplify the calculation of employees’ tax, it is proposed that employees should only be taxed on the portion of the travel expenses reimbursed by an employer that exceeds the rate or distance fixed by the Minister.
SA residents’ foreign employment income tax exemption

Employment income earned by South African residents working in a foreign country for more than 183 days a year is exempt from tax subject to certain conditions. To avoid escaping taxation, it is proposed that this exemption only apply if the employment income is taxed in the foreign country.

Social Security Reform

Government recently released a paper for comment setting out their plans for a comprehensive social security reform programme. A further paper is to be released by mid-year.

National Health Insurance (NHI)

A follow-up to the 2011 paper was released in 2016. Government has undertaken to release a paper setting out further detail shortly. In the meantime, a limited NHI fund is to be set up catering for maternal, disability and elderly benefits as well as for the provision of spectacles. Various funding options are being considered including possible adjustments to the medical tax credits currently being afforded to medical scheme members.

Financial Sector Reforms

The Twin Peaks reforms for prudential and market conduct regulations are on track with the recent tabling of the Financial Sector Regulations and Insurance Bill. In the short term the FSB is focusing on certain specific market conduct concerns such as the demarcation of medical schemes, emolument attachments on state employees and consumer credit insurance abuses.

Other Retirement Sector Reforms

Some further reforms in the pipeline are:

- Auto enrolment of employees into retirement funds;
- Clarifying trustee duties as regards investment and preservation defaults and annuity strategies for retirees – a second more principles based version of the “default regulations” has been released for comment;
- National Treasury to consult with industry as regards developing low cost value for money annuities for lower income employees;
- Simplifying and reducing the costs of retirement fund products;
- Ensuring effective intermediation;
• Introducing the concept of an umbrella fund into the Pension Funds Act so that these funds may be regulated more appropriately; and
• National Treasury and the FSB to develop an appropriate unclaimed benefit policy.

Conclusion

Minister Gordhan has found himself in a similar position to last year and again produced a budget which attempts to address various divergent agendas and economic realities. There is specific focus on the transformation of the South African economic landscape – both the nature of the economy and who owns and controls it.

The funding of these agendas is challenging in the economic environment that South Africa currently faces.

It is now more clear than ever that taxpayers need to invest their hard-earned money in a tax-efficient way. In this regard, the tax-efficient benefits of retirement funds and TFSAs should not be overlooked, especially in light of the more favourable tax deduction regime for retirement funds and the increased limit for the TFSA.

Minister Gordhan indicated that the expected growth rate for 2017 was simply too low to meet our national development targets. Government has undertaken to facilitate a more investor friendly environment while pursuing a radical transformation of the South African economic landscape. The Minister called on all South Africans to assist in meeting these challenges and invoked the words of the poet SEK Mqhayi when referring to the soldiers who lost their lives on the SS Mendi a century ago; "Somebody has to serve, so that others can live."

PLEASE NOTE THAT THE INFORMATION PROVIDED IN THIS CIRCULAR IS BASED ON PROPOSALS MADE IN THE NATIONAL BUDGET SPEECH DELIVERED ON THE 22nd OF FEBRUARY 2017 IN PARLIAMENT. UNTIL THE PROPOSALS HAVE FORMALLY BEEN PROMULGATED IN LEGISLATION IT WILL ONLY BE VIEWED AS PROPOSALS.

Income Tax Calculator

If you want to calculate your monthly income tax and compare it to that of last year, you can make use of Old Mutual’s Income Tax Calculator, which has been updated to also include the tax changes applicable to retirement funds. You will therefore be able to see the benefits of retirement reform where your income tax is concerned.
This calculator takes your **monthly** income, retirement contributions, medical expense amounts and your employer’s contribution to risk benefits and retirement funds into account and can be found via the following link:

https://www.oldmutual.co.za/markets/south-african-budget/income-tax-calculator

Compiled by: Personal Finance Legal & Product Legal
Date: 22 February 2017