"I submit before this august House the National Budget. It reflects, to the best of my judgment, the nation's financial situation. It is in the interest of our people and our country, and not in the narrow objectives of any political party. It is to safeguard the sound financial status of the Republic. I do this in my role as Minister of Finance, performing my fiduciary responsibility as the guardian of the nation's finances."

Minister of Finance Tito Mboweni - 2019 Budget speech
1. Personal Income Tax

The 2019 Budget brings about no adjustments to the income tax brackets. The table below illustrates the tax rates applicable to individual taxpayers and special trusts for the 2019/2020 tax year:

<table>
<thead>
<tr>
<th>Taxable Income (R)</th>
<th>Rate of tax (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 195 850</td>
<td>18% of taxable income</td>
</tr>
<tr>
<td>195 850 - 305 850</td>
<td>35 253 + 26% of taxable income above 195 850</td>
</tr>
<tr>
<td>305 850 - 423 300</td>
<td>63 853 + 31% of taxable income above 305 850</td>
</tr>
<tr>
<td>423 300 - 555 600</td>
<td>100 263 + 36% of taxable income above 423 300</td>
</tr>
<tr>
<td>555 600 - 708 310</td>
<td>147 891 + 39% of taxable income above 555 600</td>
</tr>
<tr>
<td>708 310 - 1 500 000</td>
<td>207 448 + 41% of taxable income above 708 310</td>
</tr>
<tr>
<td>1 500 000 and above</td>
<td>532 041 + 45% of taxable income above 1 500 000</td>
</tr>
</tbody>
</table>

*The above table is extracted from the draft 2019 Rates and Monetary Amounts and Amendment of Revenue Laws Bill.*

<table>
<thead>
<tr>
<th>Tax rebates</th>
<th>2018/2019 Tax Year (R)</th>
<th>2019/2020 Tax Year (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary rebate</td>
<td>14 067</td>
<td>14 220</td>
</tr>
<tr>
<td>Secondary rebate (Age 65 to below 75)</td>
<td>7 713</td>
<td>7 794</td>
</tr>
<tr>
<td>Tertiary rebate (Age 75 and older)</td>
<td>2 574</td>
<td>2 601</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tax thresholds</th>
<th>2018/2019 Tax Year (R)</th>
<th>2019/2020 Tax Year (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below age 65</td>
<td>78 150</td>
<td>79 000</td>
</tr>
<tr>
<td>Age 65 to below 75</td>
<td>121 000</td>
<td>122 300</td>
</tr>
<tr>
<td>Age 75 and older</td>
<td>135 300</td>
<td>136 750</td>
</tr>
</tbody>
</table>
This means that a taxpayer earning less than these thresholds will pay no income tax in the 2019/2020 tax year.

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

<table>
<thead>
<tr>
<th>Taxable income (R)</th>
<th>2018/19 rates (R)</th>
<th>Proposed 2019/20 rates (R)</th>
<th>Tax change (R)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>150 000</td>
<td>12 933</td>
<td>12 780</td>
<td>-153</td>
<td>-1.18%</td>
</tr>
<tr>
<td>300 000</td>
<td>48 265</td>
<td>48 112</td>
<td>-153</td>
<td>-0.32%</td>
</tr>
<tr>
<td>500 000</td>
<td>113 808</td>
<td>113 654</td>
<td>-153</td>
<td>-0.13%</td>
</tr>
<tr>
<td>750 000</td>
<td>210 474</td>
<td>210 320</td>
<td>-153</td>
<td>-0.07%</td>
</tr>
<tr>
<td>1 000 000</td>
<td>312 974</td>
<td>312 820</td>
<td>-153</td>
<td>-0.05%</td>
</tr>
<tr>
<td>1 500 000</td>
<td>517 974</td>
<td>517 820</td>
<td>-153</td>
<td>-0.03%</td>
</tr>
<tr>
<td>2 000 000</td>
<td>742 974</td>
<td>742 820</td>
<td>-153</td>
<td>-0.02%</td>
</tr>
</tbody>
</table>

2. VAT

A one percentage point increase in the VAT rate took effect on 1 April 2018. The VAT rate remains unchanged at 15%. As from 1 April 2019 white bread flour, cake flour and sanitary pads will be zero rated.

3. Estate Duty and Donations Tax

Estate duty and donations tax remains unchanged.
### Donations Tax Rates for donations on or after 1 March 2018

<table>
<thead>
<tr>
<th>Taxable Donation (R)</th>
<th>Rate of Donations Tax (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 30 000 000</td>
<td>20% of each Rand</td>
</tr>
<tr>
<td>30 000 001 and above</td>
<td>6 000 000 + 25% of dutiable estate above 30 000 000</td>
</tr>
</tbody>
</table>

### 4. Capital Gains Tax

The Capital Gains Tax inclusion rates remain the same and are as follows:

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

The effective capital gains tax rates are as follows:

- Individuals and Special Trusts: 18%
- Trusts: 36%
- Companies: 22.4%

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

### 5. Interest Exemption

The interest exemption thresholds remain 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.

6. Dividend withholding tax

The local dividend withholding tax rate remains unchanged at 20%.

7. Taxation of Small Businesses

The tax rates for small business corporations (gross income not exceeding R20 million) for financial years ending on any date between 1 April 2019 and 31 March 2020 are:

<table>
<thead>
<tr>
<th>Taxable Income (R)</th>
<th>Rate of Tax (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 79 000</td>
<td>0% of taxable income</td>
</tr>
<tr>
<td>79 000 - 365 000</td>
<td>7% of taxable income above 79 000</td>
</tr>
<tr>
<td>365 000 - 550 000</td>
<td>20 020 + 21% of taxable income above 365 000</td>
</tr>
<tr>
<td>550 000 and above</td>
<td>58 870 + 28% of taxable income above 550 000</td>
</tr>
</tbody>
</table>

*The above table is extracted from the draft 2019 Rates and Monetary Amounts and Amendment of Revenue Laws Bill.

The tax rates for micro businesses (turnover not exceeding R1 million per year) for financial years ending on any date between 1 March 2019 and 28 February 2020 are:

<table>
<thead>
<tr>
<th>Taxable Turnover (R)</th>
<th>Rate of Tax (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 335 000</td>
<td>0% of taxable turnover</td>
</tr>
</tbody>
</table>
8. Transfer duty

The rates of transfer duty remains unchanged at:

<table>
<thead>
<tr>
<th>Property Value (R)</th>
<th>Rate of Tax (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 900 000</td>
<td>0% of property value</td>
</tr>
<tr>
<td>900 001 - 1 250 000</td>
<td>3% of property value above 900 000</td>
</tr>
<tr>
<td>1 250 001 - 1 750 000</td>
<td>10 500 + 6% of property value above 1 250 000</td>
</tr>
<tr>
<td>1 750 001 - 2 250 000</td>
<td>40 500 + 8% of property value above 1 750 000</td>
</tr>
<tr>
<td>2 250 001 - 10 000 000</td>
<td>80 500 + 11% of property value above 2 250 000</td>
</tr>
<tr>
<td>10 000 001 and above</td>
<td>933 000 + 13% of property value above 10 000 000</td>
</tr>
</tbody>
</table>

9. Medical Tax Credits

In order to generate additional revenue of one billion rand in 2019/2020, the initial monthly tax credit (for contributions to medical schemes) for all taxpayers remains unchanged at:

- R310 for a taxpayer;
- R620 for a taxpayer and his or her first dependant;
- R209 is afforded for each additional dependant.
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 taxpayers who are disabled or who have disabled dependants, 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.

Where multiple taxpayers contribute towards the medical scheme of a third party (for example, adult children jointly contributing to a parent’s medical scheme), the medical tax credit is apportioned between the contributing taxpayers in the same ratio as the amount of the contributions paid by that taxpayer bears to the total amount of the contributions payable.
10. **Tax-Free Savings Accounts**

TFSAs remain unchanged:

- Contributions are currently subject to an annual limit of R33 000 and a lifetime limit of R500 000.
- Investment returns, growth and pay-outs in respect thereof are tax free.

Any amount contributed in excess of the above limits will be taxed at a rate of 40%.

11. **Retirement Reform**

**Taxation of contributions**

Effective since 1 March 2016 as per the “T Day” tax reforms:

- Contributions by employers to all retirement funds are taxed as a fringe benefit in the hands of the employee member;
- 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 remuneration or taxable income (inclusive of taxable capital gains), with a yearly deduction cap of R350 000.

The 2017 and 2018 Taxation Laws Amendment Acts clarified that the deduction may only be applied against the amount of taxable income before:

- Adding taxable capital gains; and
- Applying the deduction for donations to public benefit organisations and the foreign tax deduction.
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.

This rollover will also apply to excess contributions made to retirement annuity funds and pension funds prior to 1 March 2016, but not to contributions made to provident funds prior to 1 March 2016.

12. “Sin Taxes” and Levies

The following increases are proposed:

- Tax on a packet of 20 cigarettes increases by R1.14
- Tax on a 340ml can of beer increases by R0.12
- Tax on 750ml of fortified wine increases by R0.37
- Tax on a 750ml bottle of spirits increases by R4.54

Government proposes to increase the general fuel levy by 15c p/l with effect from 3 April 2019. It is proposed that the RAF Levy will be increased by 5c/l. Carbon tax will be implemented on 1 June 2019. Carbon tax on fuel will be effective from 5 June 2019 and will be 9c/l on petrol and 10c/l on diesel. Diesel refunds cannot be claimed against this tax. This will push up the general fuel levy to R5.63/l on petrol and R5.49/l on diesel.

The health promotion levy, which taxes sugary beverages, has been implemented from 1 April 2018. The tax rate is increased to 2.21c/gram for sugar content in excess of 4g/100ml.
Government intends to start taxing electronic cigarettes and tobacco heating products. National Treasury and the Department of Health will consult on the appropriate mechanisms, structure and timing of the tax.

13. Other Proposals

**Foreign employment income tax exemption for South African residents**

From 1 March 2020, South African residents spending more than 183 days (of which at least 60 days are continuous) a year in employment outside South Africa will be subject to South African tax on foreign employment income exceeding R1 million. To prevent monthly withholding of income tax both in South Africa and the foreign country, it is proposed that South African employers reduce their monthly local pay-as-you-earn (PAYE) withholding by the amount of foreign taxes withheld on the employment income. Before implementation, a workshop will be held to consult taxpayers on their administrative concerns. Any resulting amendments will be processed during the 2019 legislative cycle.

**Collective Investment Schemes**

Amendments were proposed in the 2018 Taxation Laws Amendment Bill to tax the profits of some collective investment schemes as revenue instead of capital. After reviewing the public comments on this draft, government decided that more time is needed for it to work with industry to find solutions that will not negatively affect the relevant groups. This study is proposed for the 2019 legislative cycle.

**Social Security Reform**
In 2016 government released a paper for comment setting out their plans for a comprehensive social security reform programme and a refreshed paper is set to be released by the end of 2019. Government’s further utterances have indicated that this initiative is still firmly on the agenda.

**Other Retirement Sector Reforms**

Further reforms in the pipeline are:

- Bringing all public retirement funds within the same regulatory framework as private funds;
- Rationalising the number of funds so that only the cost effective funds remain;
- Simplifying and reducing the costs of retirement fund products;
- The concession, of having a member’s disallowed contributions reduce the taxable annuity amounts of compulsory annuities, is to be extended to compulsory annuities purchased on or after 1 March 2016 with funds from provident and provident preservation funds;
- Surviving spouse pensions to be taxed at a flat rate without reference to the actual income or rebates that should apply for the annuitant. The excess PAYE paid (if any) is to be recovered by these taxpayers upon assessment;
- Nedlac and the Labour Council are engaging on the issues relating to the proposed provident fund annuitisation reform which has been delayed to 2021;
- The “default regulation” reforms will be effective on 1 March 2019 and the outstanding draft conduct standards pertaining to default living annuities and default smooth bonus investment portfolios are currently
being finalised.

**Financial Sector Reforms**

With the establishment of the Financial Sector Conduct Authority (FSCA) and the Prudential Authority in April 2018, South Africa has begun operating the Twin Peaks regulatory model. This approach puts equal emphasis on monitoring the prudential and market conduct risks posed by financial institutions.

Prudential risks arise when firms are unable to meet their financial obligations. Market conduct risks relate to how financial institutions behave in the market, including how they treat their customers.

The authorities are working to build capacity to achieve their comprehensive mandates, which involve a broad scope of jurisdiction over all South African financial institutions.

**Other priorities include:**

- Strengthening the regulation and supervision of banking institutions.
- Implementing prudential regulation and supervision of financial conglomerates.
- Establishing a framework for significant owners (people who control or materially influence a financial institution).
- Strengthening the resolution framework to ensure that the failure of a major financial institution is handled in a way that minimises its impact on the economy.
- Encouraging developments in financial technology (fintech). This will be supported by a fintech policy paper developed by the National Treasury.
• Supporting an inclusive and transformed financial sector.

In tandem with the creation of the FSCA, market conduct legislation is undergoing significant reform. The Conduct of Financial Institutions Bill proposes to create a single comprehensive law for the financial sector, and repeal myriad laws now in place. The new law will better regulate the behaviour of financial institutions and ensure that they treat customers more fairly. The bill will be subject to extensive consultation and engagement to ensure it is appropriate and effective once enacted.

The FSCA will consult on a conduct standard for retail banks, which have historically been subject to limited regulation of customer interactions. It will require banks to treat customers fairly, ensure that appropriate processes govern product design and sales, and manage customer complaints properly.

Gambling taxes

The 2012 Budget proposed a gambling tax in the form of a one per cent levy to fund rehabilitation and awareness-raising programmes to mitigate the negative effects of excessive gambling. Government intends to publish draft legislation for public comment during 2019.

Cryptocurrency

Cryptocurrency is a digital asset that is used as a medium of exchange.

On 6 April 2018 the South African Revenue Service issued a press release stipulating that it does not regard cryptocurrencies as currency and that funds received from cryptocurrency related transactions may either be taxed as normal income, or as a taxable capital gain, depending on the circumstances of each matter.
The 2018 Taxation Laws Amendment Act amended the definition of “financial instrument” to include any cryptocurrency. It further amended the Income Tax Act in order to ring-fence losses from the trade in cryptocurrencies where the taxpayer pays tax at the maximum marginal tax rate (45%).

The VAT Act has also been amended with effect from 1 April 2019 to provide that the issue, acquisition, collection, buying or selling or transfer of ownership of any cryptocurrency constitutes financial services for purposes of this Act.

**Conclusion**

As was the case with the last two budgets, this budget again attempts to address various divergent agendas and economic realities. Faced with reduced tax collections, dismal growth and even more financial commitments (viz: a worsening budget deficit, SOE bailouts, NHI and higher education), Minister Mboweni has responded with a “holding pattern” budget, with hardly any significant changes to the current income tax regime. A significant feature of this year’s budget is the fact that the personal income tax marginal tax table remains unchanged, which as a result of inflationary bracket creep, is expected to net an additional R12.8 billion in taxes.

The “silver bullet” of last year’s VAT rate increase has not realised as much additional revenue as expected, due to greater than expected VAT refund claims. The Minister was heartened by the fact that at least these refunds were “ploughed” back into the economy.
The agricultural references to reaping what we sow and ensuring that the ground is fertile to enable future growth were recurring themes in the speech. The Minister intimated that the Budget was informed by six fundamental prescripts:

- Achieving higher rate of economic growth
- Increasing tax collection through revitalising SARS
- Reasonable and affordable expenditure
- Stabilising and reducing debt
- Reconfiguring SOEs
- Managing the public sector wage bill

It is self-evident that individual 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 remain as sweet as ever. It would be foolhardy to attempt to navigate the complex regulatory and investment environment without financial advice. In addition, although the estate duty rates remain unchanged, asset growth could mean an increase in estate duty liability. Therefore the importance of an updated estate plan should not be underestimated.

Government has undertaken to facilitate a more investor friendly environment while pursuing a radical transformation of the South African economic landscape.

The Minister informed that; “this is a Budget that plants a seed for renewal and growth. It is all of our duty to tend the seed and see that it grows strong, tall and fruitful. It is a budget for the future”
PLEASE NOTE THAT THE INFORMATION PROVIDED IN THIS CIRCULAR IS BASED ON PROPOSALS MADE IN THE NATIONAL BUDGET SPEECH DELIVERED ON THE 20th OF FEBRUARY 2019 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: 20 February 2019

Contact your Old Mutual Financial Adviser or your Broker.
www.oldmutual.com