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BUDGET 2018

MAIDEN SPEECH, HITS VAT AND NENE IS BACK!

By Gavin Butchart, Financial Director and General Tax Practitioner (SA)

South Africans woke up yesterday to yet another cabinet reshuffle.
The announcement of many new appointments were met with mixed reaction. With both Pravin Gordhan and Nhanhla Nene back in the fold, but Bathabile Dlamini retained somehow, Ramaphosa was quick to explain that the cabinet reshuffle was part of a process to set the country on a new path in the run-up to the 2019 elections.

The mid-term budget of last year struck fear into the hearts and minds of taxpayers, as then Finance Minister Malusi Gigaba confirmed South Africa was facing severe revenue shortfalls of R50.8bn for 2017/18, which over three years, could reach R209bn.

This year's budget address saw an increase in the Value Added Tax (VAT) rate (set at 15% up from previous 14%; last adjusted in 1993) effective 1 April 2018, which is estimated to result in additional revenue of R22.9 billion. This attracted the most attention from media, lobby groups and opposition parties, with Treasury stating South Africa is now more in line with global averages.

COMPARATIVE STANDARD VAT RATES PER COUNTRY

COUNTRY	VAT RATE
NIGERIA	5%
AUSTRALIA	10%
BOTSWANA	12%
EGYPT	13%
SOUTH AFRICA	15%
NEW ZEALAND	15%

COUNTRY	VAT RATE
CHINA	17%
ISRAEL	17%
GERMANY	19%
UNITED KINGDOM	20%
FRANCE	20%
FINLAND	24%

South African taxpayers face an already high tax burden compared to the rest of the world, and no-one was spared.

Many of the taxes will affect those on different income levels but as was expected, the high-income earners and wealthier individuals will have to contribute more towards the fiscus as Finance Minister Malusi Gigaba attempted to at least narrow the gaping budget deficit in the years ahead.

Personal income tax remains one of the biggest earners for government and it is estimated that income tax will bring in R505.8bn in revenue, VAT R348bn and company tax R231bn. This years proposed tax measures are expected to raise an additional R36 billion in 2018/19.

WHERE IS THE MONEY GOING TO?

SOME OTHER KEY CHANGES:

⇒ The Estate duty rate will increase from 20% to 25% for the portion of the dutiable estate exceeding R30 million, and donations taxed at a higher rate of 25% in respect of the portion exceeding R30 million, effective 1 March 2018.

⇒ In promoting eco-friendly choices, the plastic bag levy, car emissions tax and the levy on incandescent light bulbs will be increased.

⇒ Sugary beverages will now be taxed under a new health promotion levy, effective 1 April 2018.

⇒ The fuel levy has been increased by 52 cents/litre. (22 cents/litre towards fuel taxes and 30 cents/litre towards the Road Accident Fund levy).

⇒ Alcohol and tobacco excise duties will be increased between 6-10%.

⇒ Luxury ad valorem excise duty for motor vehicles will be increased from 25% to 30%.

⇒ Classification of cellular telephones will be updated to include smartphones to ensure they attract ad valorem excise duties.

⇒ In addition, the ad valorem excise duty rates, now at 5% and 7%, will be increased to 7% and 9%, ensuring that households spending more on luxury goods contribute proportionately more to revenue, effective 1 April 2018.

▸ OFFSHORE ALLOWANCES INCREASED:

✓ The offshore investment allowance for institutional investors would be increased from 25% to 30%.

✓ At the same time, the allowance for investments into the rest of Africa would also increase by 5% to 10%.

Effectively this means that asset managers and pension funds can now take a greater portion of their asset pool offshore. Many firms, including the likes of Allan Gray that have had to close their international funds to new investment as they had reached their limits, will therefore be able to open them again.

The change to the offshore investment allowance also immediately causes a change to Regulation 28 of the Pension Funds Act. This sets the asset allocation limits for individual pension funds.

"From a regulatory perspective, Regulation 28 changes automatically as the offshore limits are linked to whatever the Reserve Bank publishes, unless the Financial Services Board (FSB) prescribes a different percentage," it was reported on Moneyweb.

RETIREMENT REFORM PROPOSALS:

TAX TREATMENT OF CONTRIBUTIONS TO RETIREMENT FUNDS SITUATED OUTSIDE SA:

The Income Tax Act currently exempts all retirement benefits from a foreign source for employment rendered outside South Africa from taxation. The interaction of this exemption with double taxation agreements and other provisions of the Income Tax Act will be reviewed to ensure that the principle of allowing deductible contributions only in cases where benefits are taxable is upheld.

TAX TREATMENT OF PRESERVATION FUNDS UPON EMIGRATION.

Upon formal emigration an individual is able to withdraw the full value of their retirement annuity, after paying the applicable taxes.

Government will consider aligning the tax treatment of different types of retirement fund withdrawals in such circumstances.

No changes to the taxation of capital gains or dividends tax and remain at the same rates.

INCOME TAX: INDIVIDUALS AND TRUSTS

TAX RATES FOR THE PERIOD 1 MARCH 2018 TO 28 FEBRUARY 2019

Individuals and special trusts

TAXABLE INCOME (R)	RATE OF TAX (R)
0 - 195 850	18% of taxable income
195 851 - 305 850	35 253 + 26% of taxable income above 195 850
305 851 - 423 300	63 853 + 31% of taxable income above 305 850
423 301 - 555 600	100 263 + 36% of taxable income above 423 300
555 601 - 708 310	147 891 + 39% of taxable income above 555 600
708 311 - 1 500 000	207 448 + 41% of taxable income above 708 310
1 500 001 and above	532 041 + 45% of taxable income above 1 500 000

TRUSTS OTHER THAN SPECIAL TRUSTS: RATE OF TAX 45%

REBATES	
Primary	R14 067
Secondary (Persons 65 and older)	R7 713
Tertiary (Persons 75 and older)	R2 574

AGE	**TAX THRESHOLD**
Below age 65	R78 150
Age 65 to below 75	R121000
Age 75 and over	R135 300

▸ INTEREST EXEMPTIONS

Interest earned from a South African source by any individual under 65 years, up to R23 800 per annum, and individuals 65 and older, up to R34 500 per annum, is exempt from income tax.

▸ TAXATION OF CAPITAL GAINS

CAPITAL GAINS ON THE DISPOSAL OF ASSETS ARE INCLUDED IN TAXABLE INCOME

MAXIMUM EFFECTIVE RATE OF TAX:	
Individuals and special trusts	18%
Companies	22.4%
Other trusts	36%

▸ OTHER TAXES DUTIES AND LEVIES

VALUE-ADDED TAX(VAT)

VAT is levied at the standard rate of 15% on the supply of goodsandservicesbyregisteredvendors.
Previous VAT rate was 14% and will remain in place until end March 2018.

- ✓ **A vendor providing taxable supplies of more than R1 million per annum must register for VAT**.
- ✓ A vendor providing taxable supplies of more than R50 000, but not more than R1 million per annum may apply for voluntary registration.
- ✓ Certain supplies are subject to a zero rate or are exempt from VAT.

▸ ESTATE DUTY

Estate duty is levied on property of residents and South African property of non-residents less allowable deductions. The duty is levied on the dutiable value of an estate at a rate of 20% on the first R30 million and at a rate of 25% above R30 million.

A basic deduction of R3.5 million is allowed in the determination of an estate's liability for estate duty as well as deductions for liabilities, bequests to public benefit organisations and property accruing to surviving spouses.

▸ DONATIONS TAX

Donations tax is levied at a flat rate of 20% on the value of property donated. However, the amount of donations exceeding R30 million is taxed at a rate of 25%.

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SPEAK TO ANY OF OUR OFFICES COUNTRYWIDE TO ASSIST WITH YOUR INVESTMENT STRATEGY

GAVIN BUTCHART - Financial Director and General Tax Practitioner (SA)

GAVIN BUTCHART Brenthurst Wealth in March 2007 and presently heads up the Johannesburg office as well as the tax and accounts department.

He has an accounting diploma and gained many years experience in the accounting and tax fields, whilst working at various prestigious law firms and Brenthurst Wealth. Gavin is a registered General Tax Practitioner (SA) and a member of the South African Institute of Tax Professionals.

Gavin is currently completing his B.Com degree and has successfully completed the First Regulatory Examination, which enables him to give advice on all investment matters under supervision.

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