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cutting through complexity

SAPA - ANNUAL PAYE UPDATE BREAKFAST, 2014

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Content: Chapter 4

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Personal income tax relief

Table 4.2 Personal income tax rate and bracket adjustments, 2013/14 – 2014/15

2013/14		2014/15	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 - R165 600	18% of each R1	R0 - R174 550	18% of each R1
R165 601 - R258 750	R29 808 + 25% of the amount above R165 600	R174 551 - R272 700	R31 410 + 25% of the amount above R174 550
R258 751 - R358 110	R53 096 + 30% of the amount above R258 750	R272 701 - R377 450	R55 960 + 30% of the amount above R272 700
R358 111 - R500 940	R82 904 + 35% of the amount above R358 110	R377 451 - R528 000	R87 370 + 35% of the amount above R377 450
R500 941 - R638 600	R132 894 + 38% of the amount above R500 940	R528 001 - R673 100	R140 045 + 38% of the amount above R528 000
R638 601	R185 205 + 40% of the amount above R638 600	R673 101	R195 183 + 40% of the amount above R673 100
Rebates		**Rebates**	
Primary	R12 080	Primary	R12 726
Secondary	R6 750	Secondary	R7 110
Tertiary	R2 250	Tertiary	R2 367
Tax threshold		**Tax threshold**	
Below age 65	R67 111	Below age 65	R70 700
Age 65 and over	R104 611	Age 65 and over	R110 200
Age 75 and over	R117 111	Age 75 and over	R123 350

Medical credits

<table>
<tr><th>Regime driver</th><th>Taxpayer</th><th>Taxpayer, spouse, child</th><th>All others</th></tr>
<tr><td>Type of deduction</td><td>65 years + older</td><td>Person with a disability</td><td>All others</td></tr>
<tr><td>Standard monthly medical scheme fees</td><td colspan="3">- R257 (was 257) monthly tax credit for taxpayer & first dependent
- R172 (was 162) monthly tax credit for each additional dependent</td></tr>
<tr><td>Excess medical scheme fees</td><td colspan="2">Deduct 33.3% of the amount by which medical scheme fees exceed 3 x the credit</td><td rowspan="2">Deduct 25% of the amount by which the aggregate of the medical scheme fees that exceed 4 x the credit and all qualifying medical expenses exceed 7,5% of taxpayer’s taxable income</td></tr>
<tr><td>All qualifying medical expenses</td><td colspan="2">Deduct 33.3% of all qualifying medical expenses</td></tr>
</table>

- **Note that as from 1 March 2014, taxpayers 65 and older will no longer be entitled to a deduction, but rather a credit as calculated above.**

Tax-preferred savings accounts

- Tax-preferred savings accounts, first mooted in the Budget Review, 2012 will proceed with effect from 1 March 2015.
- With an initial annual contribution limit of R30 000 (to be increased in line with inflation), and a lifetime contribution limit of R500 000.
- The account will allow investments in bank deposits, collective investment schemes, exchange-traded funds and retail savings bonds.
- Eligible service providers will include banks, asset managers, life insurers and brokerages.
- A discussion note outlining the proposed design features, which may include exemptions for interest earned, dividends and capital gains, will be published in March 2014.

Retirement savings reforms

- The changes to the taxation of contributions to retirement funds (announced in 2013, effective from 1 March 2015) will provide additional relief to the majority of retirement fund members and encourage them to save for retirement.
- Employer contributions are deemed to be a fringe benefit in the hands of the employee. Both employee and employer contributions will be deductible, up to a limit, for income tax purposes by the employee.
- With a defined benefit fund (DB), the value is harder to calculate due to an inherent element of cross-subsidisation across members where the value of actual contributions does not match up with the member's benefits.
- The formula used to estimate the contribution amount for DB plans was legislated in 2013. The methodology for calculating the formula will be detailed by way of regulation in 2014.

Retirement savings reforms
Revised contribution incentives for retirement savings

Source	Contribution type – base	% cap	Monetary cap	Retirement fund
Employer taxpayer	Employer contribution = fringe benefit = deemed employee contribution	Unlimited	Unlimited	All retirement funds
All individual taxpayers	The greater of remuneration or taxable income (excl. lump sum income). Rollover of non-deductible contributions & any amount that remains are not taxable upon exit. Contributions include amounts paid towards risk benefits & administration costs.	27.5%	Maximum of R350 000	All retirement funds

- **Effective date 1 March 2015.**

Retirement savings reforms
Provident fund post-retirement annuity alignment

- **As from 1 March 2015 provident fund members will be required to annuitise upon retirement.**
- **However, the vested rights of existing members are protected–**
  - **above 55 years (remaining in that fund) by not requiring them to annuitise any retirement savings in that provident fund; and**
  - **by not requiring annuitisation in respect of any accumulated savings as at 1 March 2015 & any growth thereon (irrespective of whether member remains in the fund).**
- **The *de minimus* requirement has been raised to R150 000 (now R75 000).**
- **The phasing out of the means-test for the old age grant is proposed for 2016.**

Taxation of retirement contributions
Exemption for non-deductible retirement contributions

- Non-deductible contributions will be exempt from income tax in respect of retirement interests, regardless of whether these interests are withdrawn as part of a lump sum or by way of compulsory annuity.

- The exemption will not be available to subsequent holders of the annuity.

- As a default rule, the proposed exemption will apply on a “first come, first serve” basis.

- Lastly, the exemption will apply regardless of whether the entire retirement interest or only two-thirds thereof was used to purchase the annuity.

- Effective as from 1 March 2014.

Retirement savings reform
Retirement fund benefit payouts

- **The policy approach for the timing of accrual of retirement fund benefits will be reviewed to provide certainty and ease practical application.**
- **The accrual of retirement benefits in the case of retirement, death and withdrawal is often separated from the date of payout, leading to anomalies for both taxpayers (employer and employee).**
- **Clarity must be provided in respect of when monies remain ‘fund money’ (with resultant fund growth), or become a fund benefit with resultant interest growth.**

Retirement fund lump-sum tax tables

- **Lump-sum benefits are taxed according to two tables – pre-retirement withdrawals (mainly following resignations) and at retirement. The former has not been adjusted since its introduction in 2007, while the latter was adjusted once, in 2011.**

- **The proposed amendments to these tables are to be effective from 1 March 2014. The taxable income brackets will be increased by about 10 per cent.**

- **There is a larger increase in the bottom bracket for the retirement lump sum table to avoid instances where lower-income workers may be required to pay tax on their lump-sum, even though they did not benefit from a deduction due to their taxable income falling below the tax-free threshold**

Retirement fund lump-sum tax tables

Table 4.4 Retirement fund lump sum pre-retirement withdrawal benefits tax adjustments, 2013/14

2013/14		2014/15	
Taxable income (R)	**Rates of tax**	**Taxable income**	**Rates of tax**
R0 - R22 500	0% of taxable income	R0 - R25 000	0% of taxable income
R22 501 - R600 000	18% of taxable income above R22 500	R25 001 - R660 000	18% of taxable income above R25 000
R600 001 - R900 000	R103 950 + 27% of taxable income above R600 000	R660 001 - R990 000	R114 300 + 27% of taxable income above R660 000
R900 000 +	R184 950 + 36% of taxable income above R900 000	R990 000 +	R203 400 + 36% of taxable income above R990 000

Table 4.5 Retirement fund lump sum withdrawal benefits tax adjustments, 2013/14 – 2014/15

2013/14		2014/15	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 - R315 000	0% of taxable income	R0 - R500 000	0% of taxable income
R315 001 - R630 000	18% of taxable income above R315 000	R500 001 - R700 000	18% of taxable income above R500 000
R630 001 - R945 000	R56 700 + 27% of taxable income above R630 000	R700 001 - R1 050 000	R36 000 + 27% of taxable income above R700 000
R945 000 +	R141 750 + 36% of taxable income above R945 000	R1 050 000 +	R130 500 + 36% of taxable income above R1 050 000

Company cars

- **The use of a company car by an employee is a taxable fringe benefit based on the market value of the vehicle. However, car manufacturers that import vehicles calculate the fringe benefit at cost.**

- **To align the treatment of company car fringe benefits for all employees (whether or not they work for a vehicle manufacturer), government proposes that actual retail market value be used in all cases. This reform will be phased in over four years.**

- **Adjustments are also proposed to treat employees who bear the costs relating to fuel and the upkeep (maintenance, insurance and licence) of their company car in a more equitable manner.**

Employment Tax Incentive (ETI)

- **Government introduced the employment tax incentive at the beginning of 2014: The incentive is a tool to help reduce youth unemployment.**

- **Currently, excess amounts can be set off against future PAYE liabilities.**

- **To enhance operation of this incentive, SARS is developing a mechanism to reimburse firms in instances where the incentive exceeds PAYE payable.**

- **The refund system will become effective during the fourth quarter of 2014.**

- **Government will monitor implementation of the incentive and may, if necessary, strengthen measures to protect workers from practices that abuse its intent.**

Content: Annexure C

- Individuals, employment and savings
- Personal insurance policies
- The “loss” requirement for keyperson policies
- Employer-provided residential accommodation
- Cross-border retirement saving
- Alignment between the Unemployment Insurance Act (2001) and the Unemployment Insurance Contributions Act (2002)

Personal insurance policies: Sections 10 (gI) & 23(r)

- **Background: The tax treatment of life and disability premiums and policy proceeds that was aligned in 2013 will come into effect from 1 March 2015; the premiums will not be deductible and the policy proceeds will be tax free.**

- **Reasons for change: The wording prohibiting the deduction of the premium for tax purposes does not cover all circumstances, which may allow providers to argue that certain structured products fall outside the ambit of the legislation.**

- **Proposal: The wording should be clarified so that premiums paid in respect of all personal insurance policies of a personal nature will not be allowed as a deduction against income, and that the policy proceeds from such policies are free from tax free.**

The “loss” requirement in respect of keyperson policies: Section 11(w)

- **Background: In 2011 the tax regime around for keyperson policies was changed to allow an election of upfront premium deduction and taxable policy proceeds or to accept the default non-deductible premium with tax- free policy proceeds. Most employers opted to accept the default option.**

- **Reason for change: The policy will not qualify as for election if it protects the employer against, not loss, but a contingent liability such as the repayment of a loan should the employee or director die before the loan is repaid. The proviso relating to the cession of the policy seems contradictory to the policy intent.**

- **Proposal: Proposed that the wording relating to the cession of the policy be deleted so as to confirm the policy position that an insurance policy will not qualify if it does not protect the employer against a loss.**

Employer-provided accommodation for use – basic structure: Paragraph 9 of the 7th Schedule

- Background: The value of the fringe benefit for employer-provided accommodation is determined in relation to the "rental value" representing the value of the use of the accommodation. Depending on the circumstances in which the employer provided the accommodation, different methods are used to calculate the "rental value":
  - a specific formula using the income of the employee, a factor referred to as the "remuneration proxy", and the period that the employee used the accommodation;
  - the aggregate of the total rentals payable and other associated costs; or
  - the portion of the accommodation costs borne by the employer that pertains to the use by the employee.

- It is proposed that the valuation of the fringe benefit resulting from employer-provided accommodation be reviewed.

Employer-provided accommodation for use – third party rentals: Paragraph 9 of the 7th Schedule

- **Should the actual value of the use of the accommodation be less than the calculated "rental value", the employer may apply for a tax directive from SARS for a lower amount.**

- **In instances where the employer provides rental accommodation sourced from a third party to an inbound expat employee, the "rental value" is often higher than the actual value. As a result, employers often apply for a tax directive to ensure that the employee is taxed as a fringe benefit on the actual (market) value of the use of the accommodation.**

- **It is proposed that if employer-provided accommodation is rented by the employer from an unconnected third party, the value of the fringe benefit should be the cost to the employer in providing the accommodation.**

Employer-provided accommodation for use – shared accommodation: Paragraph 9 of the 7th Schedule

- **In practice employers often require employees to share employer-provided accommodation.**

- **However, there is currently no apportionment available in the case where employees share accommodation, leading to an inequitable result as the calculation in the main is based on the “remuneration’ of the employee.**

- **It is proposed that a form of apportionment be considered.**

Cross-border retirement saving
Retirement fund benefit payouts

- South African residents working abroad and foreign residents working in South Africa regularly contribute to local and foreign pension funds. With overall retirement reform now in effect, cross-border pension issues need to be reconsidered.

- Given the complexity of the issues involved, it is proposed that the review take place over two years during which extensive consultation will take place.

- Certain provisions in the Income Tax Act refer to “pension” or to “pensions or an annuity”. The wording excludes lump sum retirement fund benefit pay-outs.

- It is proposed that the provisions be amended to apply equally to annuities and lump sums since the policy that the taxability of retirement fund benefit payouts should not be influenced by the format in which the payment is being made.

Alignment between the Unemployment Insurance Act & the Unemployment Insurance Contributions Act

- The Unemployment Insurance Amendment Bill (2013) proposes that the Unemployment Insurance Act be amended to extend unemployment insurance benefits to learners in learnership training, civil servants and foreign workers in South Africa.

- It is proposed that the Unemployment Insurance Contributions Act be aligned with the amended legislation where required.

- It is not envisaged that civil servants will contribute towards the Unemployment Insurance Fund. However, the fiscus will make funds available to the Unemployment Insurance Fund to cover the cost of spend on government workers that become eligible to claim from the Unemployment Insurance Fund.

Tax Review Committee

- **The Minister of Finance appointed the Committee, headed by Judge Dennis Davis, in May 2013, with a broad brief to investigate aspects of the tax system and make recommendations for possible reforms.**

- **The Committee recommends in its first report (which examines the taxation of small and medium enterprise) the replacement of small business corporation accelerated deductions and progressive tax rates with an annual tax compliance rebate, subject to certain conditions. The committee also recommends the retention of turnover tax on micro businesses with a reduction in tax rates on taxable turnover.**

- **During 2014, the committee will commission work to assess the impact of the tax system on economic growth and job creation, and review VAT, mining taxes and estate duties.**

Miscellaneous: Retirement reform

- There will be further reforms over the period ahead. Legislation has already been passed to improve governance over pension and provident funds, and to align the rules and tax treatment of pension and provident funds, while at the same time protecting vested rights.

- Government is still seeking improved coverage and preservation of retirement funds, and lower costs in the system.

- Currently consulting within NEDLAC on measures to cover the 6 million employed South Africans who do not enjoy access to an employer-sponsored retirement plan.

- Intend to move progressively towards a mandatory system of retirement for all employed workers.

Miscellaneous: Retirement reform

- **Further steps will be taken to make sure South Africans have a secure income in retirement. Unnecessary costs in the system will be cut.**

- **Agreement has been reached with the Association of Savings and Investment of South Africa on a way forward to reduce the level of charges for retirement savings products.**

- **Draft regulatory reforms will be published shortly.**

Questions

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