2016 Budget Review

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The budget was always going to be an exercise in damage control. Minister Gordhan had been passed a hot potato that he had to juggle and somehow satisfy the ratings agencies, the taxpayers and citizens of South Africa in general. The budget in general seeks to achieve a balance between raising taxes and cutting expenditure. Both of these issues had to be dealt with very carefully though as it is a municipal election year.

A key theme of this budget is that higher taxes are coming the way of the wealthy but most surprisingly this did not take the form of the suggested 'super tax'. Instead higher Capital Gains inclusion rates for both companies and individuals (effective tax rates of 22.4% and 16.4% respectively) together with an increase in the annual amount above which capital gains become taxable were seen. Transfer Duty rates on 'high end' properties (above R 10 million) were also increased by 18% and measures were proposed to strengthen the estate duty and donations tax regimes.

Tax base broadening measures occupied centre stage. Minister Gordhan made it clear that time was running out for taxpayers who had undisclosed assets offshore. To assist taxpayers in regularising their tax and exchange control affairs he announced a special voluntary amnesty from October 2016 to March 2017.

There is a planned provision of R 475 million to the Department of Small Business to provide assistance to small and medium sized businesses. We sincerely hope that this is spent on practical implementable measures and not socials in the form of 'roadshows'.

As expected there was limited tax relief in terms of Personal Income Tax. This relief was mainly aimed at lower and middle income taxpayers. Whilst the marginal rate of tax was not increased across the brackets this year, there is the intention to introduce a 'super tax' bracket in the near future.

Very disappointingly the economic growth predicted for 2016 is 0.9%. Economists suggest that a growth rate of 3.5% would be necessary to pull the country out of the quagmire that it is in currently. With tax revenues projected to be R 11.6 billion below the 2015 budget forecast there is clearly tough times ahead.

The Capital Gains inclusion rate for individuals and special trusts increases from 33.3% to 40% and for other taxpayers from 66.6% to 80%. The annual exclusion for individuals and special trusts increases from R 30 000 to R 40 000.

Other proposals include:

- 7.3% (R 30 cents per litre) increase in the general fuel levy
- Introduction of a R 2.30 per kg tyre levy to finance recycling initiatives
- A 50% increase in the incandescent globe tax
- A 33% increase in the plastic bag levy
- 11-12% increase in the motor vehicle emissions tax
- Introduction of a tax on sugar-sweetened beverages with effect from 1 April 2017
- Increases in Sin Taxes of between 6% and 8.5% in the duties on alcoholic beverages and tobacco products

Tax Rates and Rebates

Individuals, Estates and Special Trusts (Note 1) (Year ending 28 February 2017)

Taxable income ***Rate of tax***

R0 – R188 000 - 18% of taxable income
R188 001 – R293 600 - R33 840 + 26% of taxable income above R188 000
R293 601 – R406 400 - R61 296 + 31% of taxable income above R293 600
R406 401 – R550 100 - R96 264 + 36% of taxable income above R406 400
R550 101 – R701 300 - R147 996 + 39% of taxable income above R550 100
R701 301 and above - R206 964 + 41% of taxable income above R701 300

Note (1): Trusts for the benefit of ill or disabled persons and testamentary trusts established for the benefit of minor children.

Primary Rebate: All individuals - R13 500

Age Rebate(s):

Secondary Rebate Age 65 and older - R7 407

Tertiary Rebate Age 75 and older - R2 466

Tax Threshold: Below age 65 - R75 000
Age 65 and older - R116 150
Age 75 and older - R129 850

Exemptions

Local interest

Individuals under 65 years of age: R23 800 per annum (unchanged)

Individuals over 65 years of age: R34 500 per annum (unchanged)

Interest earned by a non-resident is exempt, unless the non-resident was physically present in SA for more than 183 days during the 12-month period preceding the date on which the interest is received or accrued. With effect from 1 March 2015, interest paid to non-residents has been subject to withholding tax at a rate of 15%.

Deductions and Tax Credits

Medical expenses

Medical scheme fees tax credit:

Monthly credit of R286 each for the taxpayer and his / her spouse (or first dependant), and a further R192 for every additional dependant; and

Over 65 years and taxpayers with a disability (taxpayer, spouse or child):

33.3% of the amount of contributions to a medical scheme as exceeds three times the medical scheme fees tax credit; and

33.3% of qualifying medical expenses incurred.

i.e. {[medical aid contributions – (medical scheme tax fees credit x 3)] + other qualifying medical expenses}, divided by a factor of 3.

Under 65 years:

25% of the aggregate of the amount of fees paid to a medical scheme as exceeds four times the medical scheme fees tax credit and qualifying medical expenses as exceeds 7.5% of taxable income (before medical deduction and excluding retirement lump sum benefits).

i.e. the amount by which the formula {[medical aid contributions – (medical scheme fees tax credit x 4)] + other qualifying medical expenses} exceeds 7.5% of taxable income, divided by a factor of 4.

Pension fund contributions

Amounts contributed to pension, provident and retirement annuity funds during a tax year are deductible by members of those funds.

Amounts contributed by employers and taxed as a fringe benefit are treated as contributions by the individual employee.

The deduction is limited to 27.5% of the greater of remuneration for PAYE purposes or taxable income (both excluding retirement fund lump sums and severance benefits). Furthermore the deduction is limited to the maximum of R 350 000.

Any contributions exceeding the limitations are carried forward to the next year and are deemed to be contributed in that following year.

The amounts carried forward are reduced by contributions set off when determining taxable retirement fund lump sums or retirement annuities

Benefits and Allowances

Travel allowances

The following table sets out the three components of the rates which may be used in determining the cost of business travel, where actual costs are not used. PAYE is withheld from 80% of travel allowances.

(20% is allowed should more than 80% of the travel be business travel):

Value of the vehicle (incl. VAT)

Rand value incl. VAT	***(Fixed cost)***	***Fuel cost (c/km)***	***Maintenance cost (c/km)***
0 - 80 000	26 675	82.4	30.8
80 001 - 160 000	47 644	92.0	38.6
160 001 - 240 000	68 684	100.0	42.5
240 001 - 320 000	87 223	107.5	46.4
320 001 - 400 000	105 822	115.0	54.5
400 001 - 480 000	125 303	132.0	64.0
480 001 - 560 000	144 784	136.5	79.5
Exceeding 560 000	144 784	136.5	79.5

Notes:

1. If the travel allowance is applicable to a portion of the tax year, the fixed cost is reduced proportionately.

2. Where the travel allowance is based on actual distance travelled and business travel during the tax year does not exceed 8 000 kilometres, no tax is payable on an allowance paid by an employer to an employee, up to the rate of 329 cents per kilometre (318 cents – 2016) regardless of the value of the vehicle.

3. The logbook method to claim business travelling expenses is compulsory.

Company car fringe benefit

Taxable value per month = 3.5% of determined value (e.g. **retail market value**) (if subject to a maintenance plan = 3.25%). These rates apply for all vehicles provided by an employer. The benefit will be reduced by any consideration paid by the employee (other than consideration relating to insurance, licensing, maintenance or fuel, for which there are specific deductions available). On assessment there will be a reduction in the fringe benefit for business use, where an employee can furnish accurate records of distances travelled for business purposes and total distances travelled. The employee will also be entitled to a reduction in the taxable fringe benefit where he / she has borne the full expenditure relating to maintenance, licensing, insurance or fuel in relation to the company car, and has kept accurate details thereof. 80% of the fringe benefit will be included in remuneration for PAYE purposes. This monthly fringe benefit inclusion may be reduced to 20% where employees travel more than 80% for business travel.

Subsistence allowances

Subsistence allowances are tax-free if they are granted to an employee who is obliged to spend at least one night away from his usual place of residence while on business and if they do not exceed the following amounts:

Varying amounts per day for meals and incidental costs for travel outside the Republic depending upon the country visited.

- R372 per day for meals and incidental costs for travel within the Republic.
- R115 per day for incidental costs only within the Republic.

Employer paid residential accommodation

The abatement factor (B in the equation) has changed to R 75 000. The accommodation fringe benefit formula is still being looked at, with potential amendments on the cards. There are also circumstances where SARS are yet to provide guidance in terms of quantifying the fringe benefit. These include:

- The sharing of accommodation (e.g. 4 employees sharing a house).
- Husbands and wives who work for the company potentially both having an accommodation fringe benefit.

Severance Benefits and Retirement Fund Lump Sum Benefits

Severance benefits are lump sums received by employees from employers in respect of the relinquishment or termination of employment for the following reasons:

- Attaining the age of 55 years; or
- Due to incapacity through sickness or other ailment; or
- Retrenchment due to cessation of trade or general reduction in staff

Severance benefits and lump sum awards from retirement funds following retirement or retrenchment are taxed according to the following table:

Taxable income from severance benefits and lump-sum benefits /
Tax payable

R0 – R500 000 - 0% of taxable income
R500 001 – R700 000 R0 + 18% of taxable income above R500 000
R700 001 – R1 050 000 R36 000 + 27% of taxable income above R700 000
R1 050 001 and above R130 500 + 36% of taxable income above R1 050 000

NB: Taxable income is cumulative and includes all lump sum payments whether on retirement (after 1 October 2007) or withdrawal (after 1 March 2009) or a severance benefit (after 1 March 2011).

Retirement Fund Lump Sum Withdrawal Benefits

Lump sum benefits in consequence of membership of a retirement fund, including amounts assigned in terms of divorce settlements in certain circumstances, other than lump sum benefits as above, are taxed according to the following table:

Taxable income from withdrawal benefits

Tax payable

R0 – R25 000 - 0% of taxable income
R25 001 – R660 000 - 18% of taxable income above R25 000
R660 001 – R990 000 - R114 300 + 27% of taxable income above R660 000
R990 001 and above - R203 400 + 36% of taxable income above R990 000

Note: Taxable income is cumulative and includes all lump sum payments whether on retirement (after 1 October 2007) or withdrawal (after 1 March 2009) or a severance benefit (after 1 March 2011).

SARS interest rates –

Fringe benefits (From 1 February 2016**)** – interest-free or low interest loans – 7.75%

From 1 March 2016

Late or underpayment of tax	- 9.75%
Refund of overpayment of provisional tax	- 5.75%
Refund of tax on appeal	- 9.75%
Refund of VAT after prescribed period	- 9.75%
Late payment of VAT	- 9.75%
Customs and Excise	- 9.75%

Companies and Trusts

Tax Rates

(Financial years ending on any date between 1 April 2016 and 31 March 2017)

Basic rate (other than entities specified below): 28%

Companies in certain special economic zones (proposed): 15%

Trusts (other than special trusts): 41%

Small business corporations:

Taxable income	***Rate of tax***

R0 – R75 000 - 0 % of taxable income
R75 001 – R365 000 - 7% of taxable income above R75 000
R365 001 – R550 000 - R20 300 + 21% of taxable income above R365 000
R550 001 and above - R59 150 + 28% of the amount above R550 000

• An elective presumptive turnover tax applies for micro-businesses. The rates are:

Taxable turnover	***Rate of tax***

0 – R 335 000 - 0%
R335 001 – R500 000 - 1% of each R1 above R335 000
R500 001 – R750 000 - R1 650 + 2% of the amount above R500 000
R750 001 and above - R6 650 + 3% of the amount above R750 000

Note: Qualifying micro-businesses (within the R1 million turnover limit) are able to pay Turnover Tax, VAT and Employees' Tax twice a year.