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Effects of the 2018/2019 Budget on Individuals

By Joseph Komape

Background

The Minister of Finance, Malusi Gigaba, presented the National Budget for the 2018/2019 financial year on Wednesday, 21 February 2018. The Budget brought about both burden and relief in the form of adjustments to various tax tables for individuals. For example, the Budget increased the minimum taxable bracket for individuals earning from R0-R189, 880 to R0-R195, 850. This means that an individual earning a taxable income not exceeding R195, 850 per year will be taxed at the minimum rate of 18%.

The maximum taxable bracket for individuals in the 2017/2018 year was raised from 41% to 45% and remains at that level in the current budget. The second highest bracket of 41% remained unchanged in the current period at R708, 311 - R1, 500, 000 who will be taxed at 41%. A new maximum super tax bracket for taxable income of R1, 500,001 and above was introduced in the 2017/2018 year of assessment and people earning above this amount are taxed at 45%.

Tax Thresholds

The tax thresholds for individuals were also increased albeit at relatively low rates to accommodate lower income groups. As a result, individuals are in real terms worse off than previously, especially considering the proposed increase in the value added tax from 14 percent to 15 percent effective 1 April 2018. The tax threshold is the maximum amount of taxable income that will not attract a tax liability. For individuals younger than 65, the tax threshold has been increased from R75, 750 to R78, 150 (a mere one percentage increase and therefore resulting in bracket creep).

In turn, the primary rebate increased from R13, 565 to R14, 067. For individuals aged 65 years and older but younger than 75, the tax threshold has increased from R117, 300 to R121, 000. This means that an individual in this age group earning a taxable income of up to R121, 000 per annum is not subject to income tax. In turn, the secondary rebate has increased from R7, 479 to R7, 713 per year. Taxpayers in this age group will be entitled to both, the primary rebate of R14, 067 and the secondary rebate of R7, 713 per year, totalling R21, 780.

For individuals aged 75 years and older, the tax threshold has increased from R131, 150 to R135, 300 per year, also a mere 3% increase and therefore not keeping up with inflation. The tertiary rebate increased from R2, 493 to R2, 574. Taxpayers in this age group will be entitled to claim the primary, secondary and tertiary rebates combined totalling R24, 354.

It is worth noting that special trusts are taxed in the same way as natural persons. However, special trusts are not granted tax rebates and therefore effectively pay higher rates than individuals

Provisional Tax

An individual (regardless of age) will be exempt from paying provisional tax if that individual does not carry on any business and the individual's taxable income does not exceed the tax threshold for the tax year, or if his or her taxable income from interest, foreign dividends and rental or remuneration from an unregistered employer, such as a foreign employer or a foreign employer without an employer representative in the republic, will be R30, 000 or less for the tax year.

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Provisional taxpayers are required to provide estimations of taxable income. The significance of this is that underestimation penalties may be imposed on any underestimation and provisional taxpayers must ensure that estimates are seriously calculated to avoid a possible penalty exposure.

Exempt Portion of Interest Income

The exempt portion of interest income from a South African source remains unchanged at R23, 800 for natural person taxpayers under the age of 65 years and at R34, 500 for taxpayers at aged 65 years and older. This means that there is no adjustment for inflation. Non-residents may be subject to tax on the interest earned in South Africa. The interest may, however, be exempt from tax in the hands of a non-resident natural person who is physically absent from South Africa for at least 181 days during the twelve-month period before the interest accrues or is received, and who was not carrying on business through a fixed place of business in South Africa during that period of twelve months.

A withholding tax at the rate of 15% applies to interest payable to non-residents from 1 March 2015. This excludes interest earned from any sphere of government, a bank or where a debt is listed on the recognised exchange. The relevant double taxation agreements may provide some relief from withholding tax by way of foreign tax credits in the foreign jurisdiction.

Interest derived by a resident from a foreign source is included in the gross income of such resident without exemption, but a foreign tax credit may be available and claimed in terms of section 6quat of the Act.

Foreign Dividends Exemption

The exemption on foreign dividends is granted in full to the extent that at least 10% is held in a foreign company and granted in part where the holding is less than 10% and subject to the criteria laid down in section 10B of the Act.

Medical Aid Contributions

Effective 1 March 2014, all members of medical aid schemes (including members who are 65 years and older) are granted a tax credit in respect of their contributions to the medical aid schemes. The credit is granted against the tax payable by the member.

Retirement Funds

Effective 1 March 2016, contributions made to a provident fund, pension fund and retirement annuity fund are treated in a uniform manner. Contributions made by the employer for the benefit of employees are treated as taxable fringe benefits. Individual taxpayers are granted a deduction on the contribution to these funds of 27.5% of the greater of remuneration for PAYE purposes and the taxable income (excluding taxable capital gains) and before the deduction on donations to qualifying public benefit organisations.

Illustrative example

An illustrative example should help to explain the tax amendments between the 2019 and 2018 years of assessments:

Terence's annual cost to company remained unchanged in the 28 February 2018 and the 28 February 2019 years of assessment. However, his medical scheme contribution increased from R4, 000 to R4, 500 per month in the 2019 year. Terence has registered himself, his wife and two children as dependents on his medical scheme.

Example: Assuming salary remains the same

Description	2018	2019	Movement
Basic salary	R55 283,34	R55 283,34	R0,00
Travel allowance	R9 583,33	R9 583,33	R0,00
Provident fund	R5 750,00	R5 750,00	R0,00
Medical aid	R5 250,00	R5 250,00	R0,00
Group schemes	R800,00	R800,00	R0,00
Monthly remuneration	R76 666,67	R76 666,67	R0,00
Less: Medical deduction	(R0,00)	(R0,00)	R0,00
Less: Group schemes	(R0,00)	(0,00)	R0,00
Less: 20% Deemed Business Travel (80% is subject to PAYE)	(R1 916,67)	(R1 916,67)	R0,00
Net remuneration before RF Less RF deduction*	R74 750,00 (R5 750,00)*	R74 750,00 (R5 750,00)*	R0,00 R0,00
Net remuneration after RF Annual equivalent (*12)	R69 000,00 R828 000,00	R69 000,00 R828 000,00	R0,00 R0,00
Basic tax (per tax tables)	R209 032,00	R207 448,00	R2 068,00
Marginal rate tax [(41% of R119 690) (41% of R119 690)]	R49 072,90	R49 072,90	R0,00
Total tax liability	R258 104,90	R256 520,90	(R1 584,00)
Less primary rebate	(R13 635,00)	(R14 067,00)	R432,00
Tax payable	R244 469,90	R242 453,90	R2 016,00
Tax credits: Section 6A Medical			
Less: Terence and wife (R303*2*12) (R310*2*12)	(R7 272,00)	(R7 713,00)	R441,00
Less: Two children (R204*2*12) (R209*2*12)	(R4 896,00)	(R5 016,00)	R120,00
Net tax payable	R232 301,90	R229 724,90	(R2 577,00)
Monthly tax payable (PAYE)	R19 358,49	R19 143,74	(214.75)
Net pay/Bank	R45 508,18	R45 722,93	R214,75

*RF deduction applies to provident funds, pension funds and retirement annuity funds. The deduction equals to 27.5% of remuneration subject to PAYE, limited to R350, 000 per annum. The provident fund and pension fund contributions by the employer are no longer exempt (but taxable) fringe benefits from 1 March 2018.

Terence will have a tax saving on his monthly tax payment of R158, 75 (R19 425, 67 less R19 584, 42) in the 2019 year of assessment.

The excess of the total contributions over four times the tax credit will be added to other qualifying medical expenses, e.g. non-refundable expenses by the medical scheme (among others), and compared to 7,5% of taxable income, excluding retirement fund lump sums and severance packages, to see if they qualify for deduction through a tax return.

For example, Terence's total annual tax credits = R7, 440 + R5, 016 = R12, 456. Terence's total annual contribution to medical scheme = R5, 250 per month x 12 = R63, 000. The excess of R63, 000 over four times the total annual tax credits of R49, 824 (R12, 456 x 4) = R13, 176.

The out-of-pocket medical expenses, together with any other medical expenses that may have been incurred outside the country, together with the R13, 176, are the total expenses for which only 25% will be granted as a secondary medical scheme fees credit, provided the sum exceeds 7.5% of taxable income (excluding retirement lump sum and severance benefit).

At taxable income of R828, 000, 7.5% = R62, 100. Since the R13, 176 does not exceed R62, 100 (7.5% of taxable income of R828, 000 (R69, 000 x 12), no secondary credit will be granted in respect of the medical scheme contributions. If Terence, his spouse or his child were disabled, the excess of the annual contribution over three times the annual credit limits and the sum of the non-recoverable expenses, expenses incurred outside the Republic and any expenses that will have been incurred in consequence of physical disability will be granted as secondary credit up to 33.3% without applying the limitation of 7.5% taxable income.

If Terence were at age 65 years and/or older, his medical contribution and medical expenses tax treatment will be similar to those of persons with a disability.

Subsistence Allowances

A subsistence allowance is paid to employees to enable them to cover daily meals and/or incidental expenses. The daily amount deemed acceptable to be spent on meals and related costs in the event where an employee spends at least one night away from his usual place of residence in the Republic, has increased from R397.00 to R416.00 per day from 1 March 2018. Any amount paid over and above this will result in the PAYE being withheld.

Incidental expenses normally include cost of writing pads, pens, and any such out-of-pocket expenditure that the employee may need to incur to carry out their daily duties. The tax-free portion of an incidental cost has increased from R122.00 to R128.00 per day from 1 March 2018. Any excess paid over this tax-free limit will result in PAYE being withheld.

The PAYE on both the meals and incidental costs on one hand and the PAYE on the incidental expenses on the other, will be withheld only on the excess paid over the amount deemed expended daily. Allowances for travels outside the Republic can be obtained from the SARS website under Legal and Policy/Secondary Legislation/Tax Notices/2017.

Capital Gains Tax (CGT)

The annual exclusion on any taxable capital gains made by an individual taxpayer from disposals remains unchanged at R40, 000 per year. The exclusion in the event of death remains unchanged at R300, 000. The exclusion on the gain made from the disposal of a primary residence also remains unchanged at R2, 000,000 which means that no inflationary allowance is made.

The inclusion rate for CGT remains unchanged at 40% for any disposals made on or after 1 March 2016. With the introduction of the new maximum bracket of R1, 500,001 and above at a maximum rate of 45%(from the 2017/2018 year of assessment), the effective CGT rate for individuals in the highest taxable income bracket increases from 16.4% (old maximum rate of 41% x CGT inclusion rate of 40%) to 18% (new maximum rate of 45% x CGT inclusion rate of 40%).

Donations Tax and Estate Duty

The rate of tax on donations remained at 20%, up to the amount of R30 million. However, a higher rate of 25% will be levied on the excess should an individual makes a donation over and above R30 million threshold.

The rate of tax on estate duty remained at 20%, up to the amount of R30 million. However, a higher rate of 25% will be levied on the excess should an individual make bequest an estate over and above R30 million threshold. However, the first R100 000 and the R3 500 000 exclusions on both the donation and the estate duty respectively remain unchanged.

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