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TaxBrief. **National Budget Speech.**

Budget Overview

The Finance Minister today delivered his most challenging Budget yet for the 2021/22 fiscal year (12 months ending 31 March 2022) within an environment of a global pandemic which has resulted in falling tax revenues, increased government expenditure requirements and a real need to stimulate inclusive economic growth. The Budget speech evidenced a clear commitment from National Treasury for fiscal consolidation while still expressing hope and confidence in South Africa's economic prospects.

While there is an expected tax revenue shortfall for the 2020/21 fiscal year (year to 31 March 2021) as compared to the original forecast contained in the 2020 Budget Speech, the expected shortfall is now not as substantial as was anticipated in the Medium-Term Policy Statement delivered in October 2020. The shortfall for the 2020/2021 fiscal year is expected to be approximately R100 billion less than the pessimistic forecast given in October 2020. This has given National Treasury some fiscal space, and consequently no new direct tax increases have been proposed. In addition, previously announced plans to raise tax revenues have for the time being, at least, been withdrawn.

For the 2021/2022 fiscal year, modest increases in the personal income tax brackets and rebates have been granted. This tax relief is balanced with higher than inflation increases in excise duties applicable to alcohol and tobacco products, as well as increases in the general fuel and road accident fund levies.

Notably, from 2022 there is a proposed reduction in the corporate tax rate from 28% to 27%. The resultant revenue shortfall will be offset through curtailing interest deductions and assessed loss offsets as well as terminating certain tax incentives such as the venture capital regime.

On the expenditure side, there is a clear commitment to fiscal consolidation with a proposed average annual growth in government expenditure of less than 1% per annum over the next three years. However, no specific proposals have been made regarding the restructuring of Eskom's debt.

The consolidated budget deficit (excess of expenditure over revenue) forecast is estimated to be 14% of GDP for the fiscal year ended March 2021. This will be the highest budget deficit on record. The forecast budget deficit has resulted in increased debt levels for government. The current debt-to-GDP ratio is 80,3% and is forecast to increase to a maximum of 88,9% in 2025/26 after which debt levels are expected to stabilize.

It is clear that the time to implement inclusive economic growth initiatives is now in order to improve the economic livelihoods and well-being of all South Africans. We hope that the Finance Minister's plans in this regard translate to real economic benefits and put South Africa on the right growth trajectory for years to come.

Compiled by Group Tax on 24 February 2021

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The Budget at a glance

Direct Taxes

- There has been no increase in the maximum marginal tax rate of 45% for individuals and for trusts; no change in the CGT rate; no change in the donations tax, estate duty or transfer duty rates.
- There is a proposal to reduce the corporate tax rate to 27%- see below.

Personal tax

- The personal income tax brackets and rebates will be adjusted from 1 March 2021 by 5%, thereby reducing personal income taxes, in particular for lower to middle income households.
- Effective from 1 March 2021, medical tax credits will increase from R319 to R332 for the first two members and from R215 to R224 for each subsequent member.
- The ceiling for Unemployment Insurance Fund ('UIF') contributions will increase to R17,711.58 per month from 1 March 2021, thereby increasing the UIF burden on employers and employees.
- Additional anti-avoidance rules will be introduced with respect to loan transfers between trusts- particularly where high value assets are financed and the founder of one of the trusts is related to one or more beneficiaries of the other trust.

Corporate tax

- The corporate income tax rate will be lowered to 27% for companies with years of assessment commencing on or after 1 April 2022. It is proposed that this reduction in the corporate tax rate will be accompanied by a broadening of the tax base through limiting the use of assessed losses and interest expense deductions as well as phasing out certain tax incentives.
- Technical amendments have been proposed in respect of unrealised capital gains (or losses) when calculating the expense ratio applicable to long-term insurers.

Retirement funds

- National Treasury will publish proposed amendments to Regulation 28 to make it easier for retirement funds to increase investment in infrastructure.
- At present, paid-up members of retirement annuity funds can take a pre-retirement withdrawal of 100% of the value of their cumulative benefits provided such value is less than R7000. This threshold will be increased to R15 000 from 1 March 2021.
- Members who have opted to retire early from their retirement funds (deferred members) will be allowed to transfer their benefits tax free to similarly restrictive funds.
- The determination of the fringe benefit value of contributions made by employers to retirement funds that have both a defined contribution and a self-insured risk benefit ,will be clarified.

- National Treasury has made the following proposals, which will require further clarity:
 - A proposal to provide more annuity options to members at retirement. It appears as if members will have the option taking an annuity from a retirement fund itself in addition to purchasing an annuity from an insurer; and
 - A proposal to deem a withdrawal from a retirement fund when a member ceases to be a South African tax resident. Such a withdrawal will be subject to tax. It appears that such a member who chooses to remain in the fund, will, upon their actual withdrawal from the fund, be taxed at prevailing tax rates on date of exit with a tax credit for the tax previously levied on the deemed withdrawal.

Indirect taxes

- There is no change to the standard VAT rate of 15%.
- An inflation-related increase of 15c/litre in the general fuel levy and a higher-than-inflation increase of 11c/litre in the Road Accident Fund levy will be effective from 7 April 2021.
- Excise duties will increase for alcoholic beverages and tobacco products by 8%.
- The carbon tax rate increased by 5.2 per cent, from R127 to R134 per tonne of carbon dioxide equivalent, from 1 January 2021.
- A reduced levy of 12.5c/bag will apply to bio-based plastic bags.
- A levy is to be introduced in 2021 on the financial sector in order to fund the activities of the Prudential Authority and Financial Sector Conduct Authority.

Individuals

Tax thresholds for individuals

	TAX YEAR 2021	TAX YEAR 2022
Rebates and thresholds		
Primary rebate	R14 958	R15 714
Secondary rebate (over 65s)	R8 199	R8 613
Tertiary rebate (over 75s)	R2 736	R2 871
Tax threshold for under 65	R83 100	R87 300
Tax threshold for 65s to below 75	R128 650	R135 150
Tax threshold for 75s and over	R143 850	R151 100
Interest exemption		
Interest income under 65s	R23 800	No change
Interest income over 65s	R34 500	No change
Tax deductible monthly medical aid tax credits (as a credit against tax payable)		
For member and first dependent	R319	R332
For each additional dependent	R215	R224
Capital gains tax		
Effective rate Individuals and special Trusts	18% (Max)	No change
Annual exclusion for Individuals	R40 000	No change
Exclusion for deceased Estates	R300 000	No change
Primary residence exclusion	R2 million	No change

TAX YEAR 2021		TAX YEAR 2022
Retirement fund lump sum - Withdrawal benefits		
Lump sum amount	Rates of tax	No Change
R1 - R25 000	0% of taxable income	
R25 001- R660 000 above	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	
Retirement fund lump sum- Retirement/death/severance benefits		
Lump sum amount	Rates of tax	No Change
R1 - R500 000	0% of taxable income	
R500 001 – R700 000 above	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	
Estate duty		
Tax exemption of net estate	R3.5m	No change
Tax rate	20% on the first R30 million 25% on the amount above R30 million	
Donations tax		
Annual amount exempt from tax for natural persons	R100 000	No change
Tax rate	20% on the first R30 million 25% on the amount above R30 million	
Transfer duty		

Value of property	Rate	
R1 – R1 000 000	0%	No change
R1 000 001 - R1 375 000	3% of value above R1 000 000	
R1 375 001 - R1 925 000	R11 250 + 6% of the value above R1 375 000	
R1 925 001 - R2 475 000	R44 250 + 8% of the value above R1 925 000	
R2 475 001 - R11 000 000 value	R88 250 + 11% of the above R2 475 000	
R11 000 001 and above	R1 026 000 + 13% of the value above R11 000 000	

Income tax rates for individuals and special trusts

TAX YEAR 2021		TAX YEAR 2022	
Taxable income	Rate of Tax	Taxable income	Rate of Tax
R1 – R205 900	18 % of taxable income	R1 – R216 200	18 % of taxable income
R205 901– R321 600	R37 062 + 26% of the taxable income above R205 900	R216 201 – R337 801	R38 916 + 26% of the taxable income above R216 200
R321 601 – R445 100	R67 144 + 31% of the taxable income above R321 600	R337 801 – R467 500	R70 532 + 31% of the taxable income above R337 800
R445 101 – R584 200	R105 429+ 36% of the taxable income above R445 100	R467 501 – R613 600	R110 739+ 36% of the taxable income above R467 500
R584 201 – R744 800	R155 505 + 39% of the taxable income above R584 200	R613 601 – R782 200	R163 335 + 39% of the taxable income above R613 600
R744 801 –R1 577 300	R218 139 + 41% of the taxable income above R744 800	R782 201 –R1 656 600	R229 089 + 41% of the taxable income above R782 200
R1 577 301 and above	R559 464 + 45% of the taxable income above R1 577 300	R1 656 601 and above	R587 593 + 45% of the taxable income above R1 656 600

Businesses and trusts

	TAX YEAR 2021	TAX YEAR 2022	
Income Tax Rates			
Companies	28%	No change	
Employment companies	28%	No change	
Small business corporations			
0 – R83 100	0% of taxable income	0 – R87 300	0% of taxable income
R83 101 – R365 000	7% of taxable income above R83 100	R87 301 – R365 000	7% of taxable income above R87 300
R365 001 – R550 000	R19 733 + 21% of taxable income above R365 000	R365 001 – R550 000	R19 439 + 21% of taxable income above R365 000
R550 001 and above	R58 583 + 28% of the amount above R550 000	R550 001 and above	R58 289 + 28% of the amount above R550 000
Long-term Insurers			
Individual Policyholder Fund	30%	No change	
Company Policyholder Fund	28%	No change	
Corporate Fund	28%	No change	
Risk Policy Fund	Effective rate of 0%	No change	
Untaxed Policyholder Fund	0%	No change	
Trusts	45%	No change	
Capital Gains Tax (Effective Rates)			
Companies	22.4%	No change	
Trusts	36%	No change	
Long-term insurers			
Individual Policyholder Fund	12.00%	No change	
Company Policyholder Fund	22.40%	No change	
Risk Policy Fund	Effective rate of 0%	No change	
Corporate Fund	22.40%	No change	
Untaxed Policyholder Fund	0%	No change	

Dividends withholding tax		
	20% (effective date 22 Feb 2017)	No change
Value-Added Tax		
	15% (effective date 1 April 2018)	No change