KEY Notes

February 2022

National Budget 2022

"…, we need to strike a critical balance between saving lives and livelihoods, while supporting inclusive growth. This budget presents this balance."

Finance Minister Enoch Godongwana

Finance Minister Enoch Godongwana delivered his first National Budget to Parliament on 23 February 2022 with a continued commitment to growth and fiscal sustainability. The need for Government to continue to support both economic growth and social support against the backdrop of difficult times emerging from the Covid-19 pandemic remains evident and at the forefront of the budget.

Overall, most commentators were not significantly surprised by any of the announcements contained in the budget, and as always, the success of the proposals contained in the budget will be in their execution. The Minister announced the following:

- Personal income tax relief through adjustments to the personal tax brackets and rebates by approximately 4.5% across the board;
- An increase of 4.5% to medical aid tax credits;
- A reduction in the corporate tax rate from 28% to 27% for companies for years of assessment commencing 1 April 2023; and
- No changes in the Estate Duty, Donations Tax, Capital Gains Tax, Interest Exemptions, Dividends Withholding Tax, Transfer Duties on properties, Tax Free Savings Accounts amounts, and surprisingly, for the first time in 30 years, no change to the Fuel Levy!

There were of course the usual increases in the "sin taxes" on alcohol and tobacco excise duties and the proposed introduction of a hefty tax on vaping products (following public consultation).

The windfall tax revenues derived from higher commodity prices (R182bn in excess of the budgeted revenue in last year's budget) has gone some way to financing the cost of the continued R350 per month social relief grant. South Africa now funds grants to nearly half of its population.

Whether the benefits can continue to be offered at these levels, given the increasing costs of funding the country's debt and other initiatives, without an increase in tax elsewhere, remains to be seen.

The budget contained some pensions-related issues – we have highlighted a few of these below.

Retirement Fund Reform

Following quickly on the implementation of the compulsory annuitisation for Provident Fund members that was implemented with effect from 1 March 2021, Government is pushing on with the reform of retirement funds through the introduction of compulsory preservation on exit. The proposals include the establishment of a "two-pot system" – specifically, members will have an "access pot" and a "preservation pot". The draft system design reflects the quid pro quo for enforcing preservation on withdrawal; that is to also allow members to access their fund benefits (up to 1/3rd) at any point in time (subject to limitations). Whilst the budget speech did not elaborate further on the details thereof, the Minister pointed out that work would continue in earnest on the issue over the next year. Further details are included in KeyNotes Edition 8.

The Budget Speech referenced some "tidying up" required in respect of the annuitisation requirements introduced with effect from 1 March 2021. These housekeeping issues include:

- Ensuring transfers from Pension Funds to Provident Funds in respect of contributions made prior to 1 March 2021 are tax-neutral (as intended by the policy framework, but not allowed for correctly in the legislation).
- Harmonising the tax treatment of retiring Provident Fund members under the age of 55 to move away from the more-penal treatment as a withdrawal.
- Clarifying that Provident Fund members with "vested rights" transferring to public funds do not lose their "vested rights" protection.

Amendments to Regulation 28

Regulation 28 is intended to be further relaxed by harmonising the offshore investment limits across investors. The allowable limit will be increased to 45% of assets, including the allowance for investments in African (ex-South Africa). The ability for investors to diversify further is viewed as increasing the attractiveness of retirement funds as a savings vehicle.

Improving the Portability of Retirement Annuity Members' Benefits

Members of Preservation Funds can opt to transfer all, or a portion of their Preservation Fund benefit to another retirement fund. Members of Retirement Annuity Funds can opt to transfer their entire Retirement Annuity Fund benefit to another Retirement Annuity Fund – at present, partial transfers are not permitted. Given the drive to harmonise funds, Government intends to increase the portability options for Retirement Annuity Fund members by allowing similar partial transfers between Retirement Annuity Funds, subject to limitations (we expect those limitations to be linked to the *de minimis* amount on retirement).

Other Future Potential Amendments

Other legislative and tax changes that will be considered in the short- to medium-term include:

- Consolidation of funds (the Financial Sector Conduct Authority is still driving for a reduction in the total number of registered retirement funds);
- Improving the governance of Umbrella Funds (possibly Commercial Umbrella Funds only but may well extend to all Umbrella Funds).

SOCIAL GRANTS

The Minister outlined that R3.33tn will be allocated over 3 years to the social wage to support low-income and vulnerable households. The biggest allocation (R58.6bn) will go to the Department of Social Development to support the various grants offered:

Nature of grant	Average 2021 / 2022 (monthly)	Average 2022 / 2023 (monthly)	% increase
State old age grant (under age 75)	R1 890	* R1 985	5.0%
State old age grant (over age 75)	R1 910	** R2 005	5.0%
Child support grant	R460	R480	4.3%
Disability grant	R1 890	R1 985	5.0%
Foster care grant	R1 050	R1 070	1.9%
Social relief of distress grant	R350	R350	0.0%

* R1 980 with effect from 1 April 2022 and R1 990 with effect from 1 October 2022

** R2 000 with effect from 1 April 2022 and R2 010 with effect from 1 October 2022

TAXATION OF RETIREMENT BENEFITS

There have, again, been **no changes** to the tax rates applicable to lump sum payments from retirement funds on withdrawal, death, retirement or retrenchment. These rates remain as follows:

DEATH, RETIREMENT OR RETRENCHMENT

Value of lump sum	Rate of tax
R0 to R500 000	0%
R500 001 to R700 000	18% of the amount above R500 000
R700 001 to R1 050 000	R36 000 plus 27% of the amount above R700 000
R1 050 001 and above	R130 500 plus 36% of the amount above R1 050 000

WITHDRAWAL (RESIGNATION OR DISMISSAL)

Value of lump sum	Rate of tax
R0 to R25 000	0%
R25 001 to R660 000	18% of the amount above R25 000
R660 001 to R990 000	R114 300 plus 27% of the amount above R660 000
R990 001 and above	R203 400 plus 36% of the amount above R990 000

Tax on a specific retirement or withdrawal lump sum benefit is equal to:

- the tax determined by the application of the tax table to the aggregate ***retirement lump sum benefit*** or ***withdrawal lump sum benefit*** and all *previous lump sum benefits* (Note); less
- the tax determined by the application of the tax table to the aggregate of all *previous lump sum benefits*.

Note: Previous lump sum benefits include:

- all retirement fund lump sum retirement benefits accruing from October 2007;
- all retirement fund lump sum withdrawal benefits accruing from March 2009; and
- all other severance benefits accruing from March 2011.

IF YOU HAVE ANY QUESTIONS OR WOULD LIKE MORE INFORMATION ON HOW THE ABOVE MAY AFFECT YOUR RETIREMENT FUND, PLEASE CONTACT YOUR KEYSTONE CONSULTANT DIRECTLY.

Please note