KEY Notes

EDITION 4, FEBRUARY 2020

NATIONAL BUDGET 2020

Finance Minister Mboweni, in delivering the National Budget to Parliament on 20 February 2020 invited us to join the race in which "*winning takes patience, prudence and perseverance*". Given the state of government finances, those attributes will all be required.

As most people who have dissected the budget in detail will probably agree, it was a budget that surprised on the positive side. Whilst most commentators expected tax increases in order for Government to attempt to plug the ever-increasing budget deficit, the Minister announced the following:

> *"Do you not know that those who run in a race all run, but only one receives the prize? Run in such a way that you may win."*
>
> Finance Minister Mboweni, quoting 1 Corinthians 9 v 24

- Personal income tax relief through adjustments to the personal tax brackets and rebates which were marginally in excess of inflation;
- Increasing the annual tax-free savings limits from R33 000 to R36 000 per annum (although the lifetime limit has remained unchanged at R500 000);
- Increasing (although marginally) the medical aid tax credits;
- Increasing the threshold on transfer duties for property (property costing R1 million or less will no longer be subject to transfer duty); and
- Increasing the exemption on foreign remuneration to R1.25 million per annum.

The intention behind these measures is to support economic growth, which has been declining steadily. There were of course the usual increases in the fuel levy and "sin tax" increases in alcohol and tobacco excise duties.

The key focus of the budget was on the reduction in structurally high spending. Some of those reductions come with a cost of lower economic growth, but with an intention to focus the resources available in the most effective way possible. The most contentious cut relates to the expected R160 billion adjustments to the public sector wage bill over the medium term.

We will be watching this space along with all South Africans, affected public servants and international ratings agencies to see whether government has the political will to follow through with these proposals.

The budget was "light" on pensions-related issues – we have highlighted a few of these below.

RETIREMENT FUND REFORM

"Government and the National Economic Development and Labour Council have agreed to proceed with retirement reform related to the harmonisation of all retirement benefits, including provident funds. Government will take steps to ensure the development of annuity products more suitable for the low-income market. Further reforms will include improving oversight and governance of commercial umbrella funds, fund consolidation and auto-enrolment."

There has been no firm progress on the harmonisation of retirement funds over the last number of years, and in particular, the compulsory annuitisation of retirement fund benefits from Provident Funds. With significant challenges expected from public servant unions on the wage bill proposals, we await to see whether there will be any significant progress on this front in the next fiscal year.

In 2018, the Conduct of Financial Institutions Bill was published for public consultation. Public workshops were held during 2019 and over 800 pages of comments were received, including feedback on governance requirements, retirement funds, payment services, financial markets and wholesale banking. A revised draft of the Bill is expected to be published for public comment and tabled in Parliament in 2020.

UNCLAIMED BENEFITS

It is no secret that the retirement fund industry has struggled to trace and make payments to beneficiaries of unclaimed benefits (with a significant portion of those benefits resulting from the surplus apportioned as part of the surplus legislation which was promulgated in 2001).

"Retirement funds and the Guardian's Fund are sometimes unable to trace beneficiaries, resulting in the money remaining unclaimed. The money is invested in government bonds and other instruments. These investments are being considered in the mobilisation of funding for infrastructure. Government will introduce legislation later this year to centralise such funds and establish a central registry of all members of retirement funds."

The implications of the above statement are unknown at this stage, but in our view, there are two possible approaches which may be followed:

- Mobilising the underlying assets into investment in infrastructure development or other government projects (possibly freeing up government budget to be directed elsewhere); and / or
- Centralising the assets in a government-administered fund. It is questionable whether this will result in better outcomes for beneficiaries of unclaimed benefits, but it may provide government with the scope to utilise a portion of the funds for other purposes.

We await the draft legislation that will give effect to this proposal before commenting further on its potential effectiveness or the impact it may have on retirement funds and unclaimed benefit funds.

CLARIFYING DEDUCTIONS IN RESPECT OF CONTRIBUTIONS TO RETIREMENT FUNDS

Paragraphs 5(1)(a) and 6(1)(a) of the second schedule to the Income Tax Act (ITA) make provision for a deduction of retirement fund contributions that did not qualify for a deduction in terms of section 11F of the ITA. These paragraphs refer to "*own contributions*", which would inadvertently prevent retirement fund contributions made by an employer on behalf of employees (on or after 1 March 2016) from qualifying for a deduction under either paragraph. It has been proposed that the ITA be amended to remove this anomaly and it is likely that this will come through in the Taxation Laws Amendment Bill of 2020.

WITHDRAWING FUNDS ON EMIGRATION

The concept of emigration as recognised by the Reserve Bank will be phased out. This will change the trigger by which Individuals withdraw funds from their pension preservation fund, provident preservation fund and retirement annuity fund upon emigrating for exchange control purposes through the Reserve Bank.

PRESCRIBED ASSETS

Conspicuous by its absence was any mention of Prescribed assets (which may be viewed as a positive signal to the markets that this is not high on the legislative agenda).

SOCIAL GRANTS

The number of South Africans in receipt of a social grant is expected to increase to 19 million by the 2022 / 2023 financial year. Inflationary increases of between 4.2% and 5.0% have been applied to the various grants for the 2020 financial year – details are provided below:

Nature of grant	Average 2020 / 2021 (monthly)	Average 2019 / 2020 (monthly)	% increase
State old age grant (under age 75)	R1 860	R1 780	4.5%
State old age grant (over age 75)	R1 880	R1 800	4.4%
Child support grant	R445	R425	4.7%
Disability grant	R1 860	R1 780	4.5%
Foster care grant	R1 040	R1 000	4.0%

TAXATION OF RETIREMENT BENEFITS

There have 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.

Keystone Actuarial Solutions is an actuarial consultancy based in Johannesburg, South Africa. We specialise in providing high quality, genuinely independent advice and services to the Boards of retirement funds and to the sponsors of such funds. Our consulting actuaries share a common vision that independent, focussed consulting advice, provided by an experienced team, will result in better outcomes for retirement fund members and pensioners.

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