KEY Notes

FEBRUARY 2023

NATIONAL BUDGET 2023

> *Our pursuit of higher growth remains anchored on three pillars.*
>
> - *Firstly, we are ensuring a stable macroeconomic framework to create a conducive environment for savings, investment and growth.*
> - *Secondly, we are implementing growth-enhancing reforms in key sectors, particularly in energy and transport.*
> - *And thirdly, we are strengthening the capacity of the state to deliver quality public services, invest in infrastructure and fight crime and corruption.*
>
> Finance Minister Enoch Godongwana

Finance Minister Enoch Godongwana delivered his second National Budget to Parliament on 22 February 2023 against the backdrop of significant domestic and international economic challenges.

This was a pro-growth budget which provided some relief to individuals. The Minister also took a number of important steps to reduce the impact of factors hampering our growth. For example, Government taking on a portion of Eskom's debt should, if managed properly, reduce the financial pressure on Eskom and allow it to focus on maintenance and generation capacity. Tax incentives promoting investment in renewable energy should also ease the pressure on the system over time.

The Minister announced the following:

- Personal income tax relief by approximately 4.9% across the board through adjustments to the personal tax brackets and rebates;
- An increase in medical tax credits by some 4.9% from R347 to R364 per month for the first two members, and from R234 to R246 per month for additional members;
- A reduction in the corporate tax rate from 28% to 27% for companies for years of assessment ending on or after 31 March 2023 (this was announced in the 2022 Budget and will be implemented this year);
- No changes to estate duty, donations tax, capital gains tax, interest exemptions, dividends withholding tax, tax free savings account limits, the fuel levy and the road accident fund levy; and
- An adjustment to the transfer duty bands by some 10%, increasing the value of a property on which no transfer duty is payable to R1.1 million.

There were also inflationary increases in the "sin taxes" on alcohol and tobacco excise duties (generally 4.9%), however there are to be no increases in the health promotion levy (sugar tax) for the next two years given recent challenges faced in the sugar industry.

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

"TWO-POT" SYSTEM

During 2022, much was written about the proposals regarding the introduction of compulsory preservation on exit from retirement funds and the implementation of the so-called "two-pot" system. Under the proposed system:

- a portion of each member's retirement savings will be accessible prior to retirement (either whilst still in employment or on exit from employment prior to retirement), subject to certain conditions and limits – this will be held in the "access pot"; and
- the balance must be preserved and, ultimately, used to purchase a pension on retirement – this will be held in the "retirement pot".

Previous drafts of the legislation and the public consultation process which followed highlighted that a lot of additional work is required in order to ensure that the system works and is acceptable to major stakeholders. The four main issues identified in the Budget which require significantly more thought are:

- **Seed capital:** There has been a major push for immediate access to a portion of accumulated savings, rather than access to a portion of contributions made after 1 March 2024 (the proposed implementation date), and it seems that National Treasury are looking at ways to make this happen.
- **Defined benefit funds:** It is the intention of National Treasury to include defined benefit funds in the system – the largest of these is the Government Employees Pension Fund. Doing so is, however, significantly more complex than for defined contribution funds and none of the solutions proposed to date are simple to administer or communicate.
- **Legacy retirement annuity funds:** Some legacy retirement annuity funds have underlying underpins or guarantees which complicate any possible access before the retirement or death of the member.
- **Withdrawals from the retirement pot on retrenchment:** Consideration will be given to allow access to a portion of the retirement pot on retrenchment to alleviate financial hardship, although in our view the various implementation proposals made to-date are not workable and will place an additional unmanageable burden on retirement funds.

Although we welcome the initiatives to make the system more palatable to all stakeholders, we are concerned that the complexity this introduces to the existing system will be difficult to administer and communicate to members.

Furthermore, for an implementation date of 1 March 2024 to remain realistic, industry will need to know the finer details of the proposed legislation as soon as possible. It is, therefore, somewhat disappointing that the detail provided in the Budget could, at best, be described as sparse.

EMPLOYER CONTRIBUTIONS TO A RETIREMENT FUND

An employer contribution to a retirement fund is currently treated as a deemed member contribution from an income tax perspective. There is, however, is no requirement that the equivalent employer contribution be included in the employee's declared income. This is not in line with the policy intention. It has, therefore, been proposed that the Income Tax Act be amended to require that the cash equivalent of the taxable benefit for employer retirement fund contributions be included in an employee's income before a tax deduction is allowed.

TRANSFERS BETWEEN RETIREMENT FUNDS BY MEMBERS WHO ARE OVER THE "RETIREMENT AGE"

Currently pension or provident fund members who have reached the "retirement age" (being the earliest age at which a member may elect to retire in accordance with that fund's rules) and are part of an involuntary transfer to another pension or provident fund may be subject to tax. This is not in line with the policy intention and it has, therefore, been proposed that the Income Tax Act be amended to allow such members to have their retirement interest transferred without incurring a tax liability.

Under this proposal, the value of the retirement interest, including any growth thereon, will remain ring-fenced and preserved until the member elects to retire, i.e. these members will not be entitled to the payment of a cash withdrawal benefit in respect of the amount transferred, even if they resign from employment.

The requirement to ring-fence the transferred benefit may complicate the administration of the receiving fund.

The proposal is also silent on the tax treatment of transfers between retirement annuity funds for members over the retirement age.

CONDUCT OF FINANCIAL INSTITUTIONS BILL

National Treasury has revised the Conduct of Financial Institutions ("CoFI") Bill based on feedback from stakeholders. The CoFI Bill will introduce a new legal framework for the regulation and supervision of the conduct of financial institutions. Such regulation represents a shift away from the institutional form to an activity-based licensing approach. A number of "new" licensing activities will be introduced to give effect to the FSCA's expanded mandate under the Financial Sector Regulation Act, 2017.

Although the Bill was expected to be tabled in parliament during 2022, we understand that this has been delayed until "early 2023".

The CoFI Bill, once enacted, will introduce significant amendments to the Pension Funds Act and will, therefore, have a material impact on the operation of retirement funds.

AUTO ENROLMENT

In 2021 National Treasury published a paper entitled *"Encouraging South African Households to Save More for Retirement"*. The purpose of this paper was to share ideas on how to meet the policy aim of expanding the participation and coverage of all formal and informal workers in the retirement system without placing undue burden on their disposable income. There was little movement in this regard in 2022 but it is anticipated that in 2023, National Treasury will finalise policy proposals on how to meet these policy objectives, including the consideration of a voluntary and flexible savings scheme for informal workers.

UNCLAIMED ASSETS

In September 2022, the FSCA published a discussion paper on unclaimed assets across the financial sector. One recommendation it put forward is to establish a fund into which all unclaimed assets must be transferred and managed. Alternatively, unclaimed assets could be transferred into the National Revenue Fund for the same purpose. Further consultation on these recommendations will take place in 2023. It is anticipated that a final paper will be published in 2024.

Governance of retirement funds

Legislative amendments to improve governance of retirement funds – particularly commercial umbrella funds – will be published in 2023 and tabled in Parliament thereafter.

Social grants

The Minister outlined that R66 billion will, over the medium term, go to the Department of Social Development to support the various grants offered (including R36 billion to fund the extension of the social relief of distress grant until 31 March 2024). The amounts payable in respect of various social grants are as follows:

Nature of grant	Average 2022 / 2023 (monthly)	Average 2023 / 2024 (monthly)	% increase
State old age grant (under age 75)	R1 985	* R2 085	5.0%
State old age grant (over age 75)	R2 005	** R2 105	5.0%
Child support grant	R480	R505	5.2%
Disability grant	R1 985	R2 085	5.0%
Foster care grant	R1 070	R1 125	5.1%
Social relief of distress grant	R350	R350	0.0%

* R2 080 with effect from 1 April 2023 and R2 090 with effect from 1 October 2023

** R2 100 with effect from 1 April 2023 and R2 110 with effect from 1 October 2023

Taxation of retirement benefits

For the first time in almost a decade, there has been an upward revision of the tax rates applicable to lump sum payments from retirement funds on withdrawal, death, retirement or retrenchment. The last change to these rates was implemented with effect from 1 March 2014. The revised rates, which represent an increase of 10% across the board, are as follows with effect from 1 March 2023:

Death, retirement or retrenchment

Value of lump sum	Rate of tax
R0 to R550 000	0%
R550 001 to R770 000	18% of the amount above R550 000
R770 001 to R1 155 000	R39 600 plus 27% of the amount above R770 000
R1 155 001 and above	R143 550 plus 36% of the amount above R1 155 000

Withdrawal (resignation or dismissal)

Value of lump sum	Rate of tax
R0 to R27 500	0%
R27 501 to R726 000	18% of the amount above R27 500
R726 001 to R1 089 000	R125 730 plus 27% of the amount above R726 000
R1 089 001 and above	R223 740 plus 36% of the amount above R1 089 000

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

- the tax determined by the application of the tax table to the aggregate of the ***retirement lump sum benefit*** or ***withdrawal lump sum benefit*** and all *previous lump sum benefits* *(see 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 paid from October 2007;
- all retirement fund lump sum withdrawal benefits paid from March 2009; and
- all other severance benefits paid 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.

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