Attorneys & Tax Advisors Financial Services - FSP 45621

OLEMERA

Budget Summary 2012

February 2012

Personal Income Tax

The Minister proposed sections but restrained personal income tax relief. The table below illustrates the adjusted tax rates applicable to individual taxpayers for the 2012/2013 tax year:

Tax rates for natural persons and special trusts – 2012/2013 tax year

Taxable income	Rate of tax
R0 – R140 000	18% of taxable income
R140 001 – R221 000	R25 200 + 25% of taxable income above R140 000
R221 001 – R300 000	R45 450 + 28% of taxable income above R221 000
R300 001 – R400 000	R67 010 + 30% of taxable income above R300 000
R400 001 – R627 000	R97 010 + 32% of taxable income above R400 000
R627 001	R170 240 + 40% of taxable income above R627 000

Tax rebate	2011/2012 Tax year	2012/2013 Tax year
Primary Rebate	R 10 755	R 11 440
Secondary Rebate (additional rebate for taxpayers aged 65 and older)	R 6 012	R 6 390
Tertiary Rebate (additional rebate only to taxpayers 75 and older)	R 2 000	R 2 130

Tax Thresholds	
Below age 65	R 68 750
Age 65 and older	R 95 150
Age 75 and older	R 106 261

This means that a taxpayer younger than 65 and earning a taxable income of R63 556 or less per annum, or a taxpayer older than 65 but younger than 75 and earning a taxable income of R95 556 or less per annum, or a taxpayer of 75 years and older earning a taxable income of R110 889 or less per annum, will not pay any income tax in the 2012/2013 tax year. The examples to the right illustrate the tax payable for individuals (younger than 65) in terms of the proposed changes:

Taxable income (R)	2011/2012 Tax Payable (R)	2012/2013 Tax Payable (R)	Difference Tax Payable (R)	Tax Payable Increase (%)
150 000	12 245	15 960	+891	+6,2
200 000	23 195	26 910	+1 782	+7,7
250 000	41 280	45 360	+2 970	+7,2
300 000	56 595	54 360	-2 135	-3,7
400 000	85 765	87 960	-2 135	-2,5
500 000	122 455	123 510	+792	+0,6
750 000	220 495	222 750	+4 755	+2,1
1 000 000	325 495	329 550	+6 755	+2,1

Interest and Foreign Dividend Exemption

The interest and foreign dividend exemption threshold has not been revised. The domestic interest income and foreign dividend exemptions for the tax year 2012/2013 will remain unchanged at:

- R23 800 per annum for taxpayers under the age of 65;
- R33 000 per annum for taxpayers between 65 years and older;
- R3 700 per annum of which is in respect of foreign dividends.

The current exemptions for interest will possibly be phased out.

To encourage greater savings, tax preferred savings and investment accounts are proposed to be introduced by 1 March 2012. The proposed tax-free annual limit for interest income could as above. This will encourage a new generation of savings products.

Whilst returns generated within these savings and investment vehicles (including interest, capital gains and dividends) will be exempt from tax, the amount of tax-free income that can be earned will be capped earned in other investment vehicles, given the review of the above mentioned tax free interest income cap.

It is proposed that a cap of R30 000 per year (with a lifetime limit of R500 000) per taxpayer be placed on contributions to these tax preferred savings and investment vehicles. National Treasury and the South African Revenue Service (SARS) and costs of these savings and investment vehicles may be regulated to help lower income earners to participate.

Taxation of Small and Micro Businesses

The tax rate applicable to small business corporations (annual turnover under R14 million). This table will be effective for years of assessment ending on or after 1 April 2012 are as follows:

Taxable Income (R)	Rate of Tax (R)
0 – R63 556	0%
R63 557 – R300 000	7% of the amount above R63 556 but less than R300 000
R300 001 and above	R20 051 + 28% of the amount above R300 000

Dividend Withholding Tax

With effect from 1 April 2012, the Secondary Tax on Companies (STC) regime is to be replaced by a Dividends Withholding Tax (DWT) regime. In anticipation of this, the STC rate was lowered from 12.5% to 10%. Although the implementation of the DWT was postponed from 1 April 2012, the 2012 budget unexpectedly proceeded to introduce dividends tax at 15%. Section 64F of the Income Tax Act provides for a rate of 10% and it is likely that legislation to amend this rate would be passed by April 2012.

Foreign dividends are also taxed at the maximum DWT rate, subject to applicable exemptions or reductions.

The introduction of DWT is likely to see an increased administrative burden on companies and shareholders. Companies will need to be put into place a system to deduct and pay dividends tax to the relevant tax authorities.

Non-resident shareholders and South African corporates are retirement funds are exempt from DWT.

The corporate tax rate in South Africa is now finally simplified at a maximum of 28%.

Medical Aid contributions and expenses

For taxpayers under the age of 65, the medical tax credit regime remains the same. The medical contribution deduction will be effective as from 1 March 2012.

The new tax credit system will bring about greater equity across income groups. The medical tax credit will be phased out. This tax credit system will only apply to taxpayers under the age of 65. Taxpayers who are 65 years and older will, for the time being, continue to be able to claim the full value of their medical tax credits.

As it stands, the tax credit the taxpayer and the first dependant is **R230** and **R 154** for each additional dependant. The way in which this tax credit is calculated, is that it is based on the taxpayer's liability in the same way in which the tax rebates are treated.

In addition:

- taxpayers under the age of 65 may deduct their out of pocket medical expenses plus the amount of medical scheme contributions that exceed four times the medical tax credit to the extent that, in aggregate, exceed 7.5% of the taxpayers' taxable income.
- taxpayers with disabilities (including their spouses or children with disabilities) may deduct their full out of pocket expenses as well as the amount of their medical scheme contributions that exceed four times the medical tax credits to which they are due.

Social Security

In an effort to ensure that poverty reduction continues, social grants have been increased to keep up with inflation. The new grants are as follows:

	2011/2012	2012/2013
Disability and Old Age Grants (Means Test)	R1 140	R1 200
Old Age Grants (Over 75)	R1 140	R1 220
Child support Grant	R 265	R 280

"Sin Taxes" and Fuel Levies

The following increases are proposed:

- Tax on a packet of 20 cigarettes increases 58c
- Tax on a 340ml can of beer increases by 3c
- Tax on a bottle of wine increases by 17.5c
- Tax on a bottle of spirits increases by R6

Government proposes to increase the general fuel levy by 20cl on both petrol and diesel effective from 4 April 2012. The Road Accident Fund levy will be increased by 8p/l.

Capital Gains Tax (CGT)

Government proposes an increase to the capital gains tax inclusion rates amounts as follows, with effect from 1 March 2012:

	2011/2012	2012/2013
For Individuals and Special Trusts	25%	33.3%
For Other Persons (Companies and Other Entities)	50%	66.6%

The effect of these above amendments are that the highest effective capital gains tax rate applicable to:

- Individuals and Special Trusts are increased from 10% to 13.32%
- Companies are increased from 14% to 18.65%.

Government proposes an increase to the capital gains tax exclusion amounts as follows, with effect from 1 March 2012:

- For individuals and special trusts the annual exclusion is increased from R20 000 to R30 000
- On death, during the year of assessment, the annual exclusion increases from R200 000 to R300 000
- The primary residence exclusion on capital gains increases from R1.5 Million to R2 Million
- On the disposal of a small business the exclusion on capital gains increases from R900 000 to R1.8 Million. Government proposes that the sale of a small business be extended to include the sale of goodwill, other intangibles, superannuation or shares. The minimum business asset value has been increased from R5 million to R10 million, and the asset must have been held for a continuous period of 5 years.

Employer owned policies

A new taxation regime owned policies will take effect from 1 March 2012
The new taxation regime provides for:

- The fringe benefit taxation (in the hands of the relevant employees covered) of all employer paid premiums in respect of policies which will benefit either the employee or their surviving spouse or dependants.
- Employer paid premiums in respect of these policies are then deductible if the premium was fringe benefit taxed.
- Unapproved group life policies: Fringe benefit tax on the employer paid premium and proceeds are tax free.
- Unapproved group disability income policies: Fringe benefit tax on the employer paid premium but a recipient deduction for the employee which can be processed on their monthly payroll so as to produce a tax-neutral effect for the employee. The income protection benefits produced by these policies are then taxable at the marginal rate of the recipient.
- Employer owned key man policies: The introduction of an elective deduction regime for these policies.
  - For existing policies, the employer policyholder needs to advise the insurer whether or not they want the premiums to be deductible after the 1st of March 2012. If the policyholder does not advise the insurer, the premiums will be deemed prior to the 1st of March 2012.
  - Tax-free proceeds issued after the 1st March 2012 must indicate that the employer policyholder wishes to claim a deduction for the premiums paid.

Proposed amendments:

Retirement funds

The following changes have been proposed:

- Employee contributions to retirement funds to be fringe benefit taxed. *(Proposed effective date: 1 March 2014)*
- Individual transfer taxpayer deductions for pension, provident and retirement annuity funds are to be consolidated with the following caps: Contribution deductions will be capped at 22.5% of taxable income, with a fixed cap of R250 000 per annum (Pension Fund Contributions, Pension Fund Arrear Arrangements and 27.5 per cent with a maximum amount of R300 000 for Retirement Annuity Fund Contributions, Retirement Annuity Fund Arrear Arrangements cap consistent of the contributions. Any employer contributions that have been fringe benefit taxed will be included in these caps. *(Proposed effective date: 1 March 2014)*
- Minimum monetary threshold: Low income earners will be entitled to deduct R20 000 even in years in which they have no taxable income. This provision will be capped at R1 800 for example where a taxpayer's taxable income is R80 000, in the normal course of events the taxpayer would be entitled to a total deduction of R18 000 (R80 000 x 22.5%). The minimum monetary threshold of R20 000 would increase the taxpayer's deduction to R20 000 (R18 000 + R2 000 tribute an amount of R20 000 to retirement funds in total. *(Proposed effective date: 1 March 2014)*
- Contributions not deducted: Where a contribution is not deductible (i.e. over 22.5%) in any year of assessment but remains the carried over in all retirement funds for later use (e.g. at retirement against the lump sum or against the annuity income). Previously disallowed contributions will be deemed to be contributed to a retirement fund in the following tax year. This will only in the case of retirement annuity funds. *(Proposed effective date: 1 March 2014)*
- Uniform approach to retirement fund withdrawals: Currently lump sum withdrawals upon retirement from pension and retirement annuity funds are restricted to a maximum of one third of accumulated savings, whereas this restriction does not apply to provident funds. Consultations will be held with the National Treasury and the industry on the proposed uniform withdrawals, taking into account the legacy issues pertaining to provident funds in particular.

Additional Tax Proposals

Gambling

- The 2011 Budget proposed a withholding tax on gambling winnings above R25 000. After broader consultation, a national gambling tax based on the gross gaming revenue, in lieu of income tax, effective from 1 April 2013, will take the form of an additional 1% national levy on a uniform provincial gambling tax base. A similar tax base will be used to tax the national lottery.

Future Developments

The Tax Work approved applicable to long term insurers, will be revised in 2013. A short paper on long term insurers will be circulated for comment in mid-2012.

- Retirement reform: The proposal is to establish a mandatory statutory fund to provide pension, life insurance and disability benefits. In this regard there will be consultations with trade unions and other industry parties during 2012.
- National Health Insurance: It is intended that this will be phased in over a period of 14 years. The Minister of Finance has made speculation over the funding of this initiative. The minister indicated that over the medium term, general taxes will be the main source of funding. Other options for funding include levies and fund-raising options (could include a per cent levy, a higher value added tax (VAT) rate or a surcharge on taxable income or some combination of these.

Conclusion

The Budget Speech 2012, highlighted:
Government's continued commitment to:

- **Accelerate growth and job creation through the launch of a huge infrastructure campaign**
- **Alleviate poverty**
- **Eliminate inequality**

"Growing inequalities in income and wealth have undermined economic growth and social wellbeing. The Government's commitment to eliminate poverty and reduce inequality remains unwavering. Our, disengaged capitalism is clearly in crisis." *Trevor Manuel, Budget Speech of 2012*

PLEASE NOTE THAT THE INFORMATION PROVIDED IN THIS CIRCULAR IS BASED ON PROPOSALS MADE IN THE NATIONAL BUDGET SPEECH DELIVERED ON THE 22ND OF FEBRUARY 2012 IN PARLIAMENT. UNTIL THE PROPOSALS HAVE FORMALLY BEEN PROMULGATED IN LEGISLATION IT WILL ONLY BE VIEWED AS PROPOSALS.

Compiled by: MUFHUMI MR Legal
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Questions or comments? E-mail us at info@olemera.com or call 011 483 2794

Contact Us

Tel: 011 27741 011 483 2136

Fax: 086 110 5296

E-mail: info@olemera.com

PO Box 3052,
North Riding, 2162

42 Shepard Avenue,
Bryanston East 2, 2194