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consultants & actuaries

Budget Summary 2020

How will employee benefits be impacted?

Retirement reform

The following retirement reform proposals were included in the 2020 Budget:

- In terms of the current Income Tax Act, provident fund annuitisation will become effective 1 March 2021. In the 2020 Budget, the Minister of Finance confirmed that government and NEDLAC have agreed to proceed with the harmonisation of all retirement benefits, including the annuitisation of provident funds.
- Annuity products more suitable for the low-income market will be developed.
- A framework will be introduced by government to improve the oversight and governance of commercial umbrella funds.
- Government remains focused on retirement fund consolidation (i.e. converting free-standing funds into umbrella funds) in an attempt to reduce costs.
- There will be a renewed focus on auto-enrolment of retirement fund members.
- Retirement funds are sometimes unable to trace beneficiaries of benefits, resulting in the money remaining unclaimed and usually being transferred to unclaimed benefit funds. The money is then invested in government bonds and other instruments. Government indicated that these investments are being considered for the mobilisation of funding for infrastructure.

  Government will also introduce legislation in 2020 to centralise such unclaimed benefit funds and establish a central registry of all unclaimed benefit members.

Financial sector reform

Third-party cell captive insurance

In December 2019, the Financial Sector Conduct Authority (FSCA) published a position paper to address its concerns about third-party cell captive insurance (i.e. insurance is provided through cells, rather than directly to a client). Government is of the view that improved regulation and supervision of third-party cell captive insurance schemes, will protect consumers by ensuring that a financial adviser can no longer earn commission (in addition to an advice-only fee) and share in the profits of the cell captive arrangement.

Conduct of Financial Institutions Bill (COFI Bill)

The long-awaited draft COFI Bill was published for comments on 11 December 2018. A retirement fund is considered to be a financial institution, which provides a financial product to its financial customers under the COFI Bill and is thus bound by its provisions. Public workshops were held during 2019 on the draft COFI Bill. Over 800 pages of comments were received, including feedback on governance requirements and retirement funds. A revised draft of the COFI Bill will be published for public comments and tabled in Parliament in 2020.

Retail Distribution Review (RDR)

With its RDR processes, the FSCA is aiming to introduce a number of regulatory reforms related to the distribution of financial products and the provision of financial advice. The FSCA is continuing to roll out its RDR reforms and in this regard, the FSCA published an update of its RDR in December 2019. The updated report indicates significant progress in implementation, which establishes requirements for product sales and ongoing support to the consumer, and ends “sign-

on" bonuses for financial advisers when joining another service provider.

Transformation and financial inclusion

The Financial Sector Code prescribes certain transformation requirements to be followed by the financial sector. The Code currently only applies voluntarily to the top 100 retirement funds. The Financial Sector Transformation Council has established eight subcommittees to review the targets in the Financial Sector Code to strengthen transformation of the financial sector. To date, the committees have developed targets for, inter alia, management control and retirement funds. A paper to establish a policy framework for financial inclusion in South Africa will be published for public comment in 2020.

Retirement fund contributions

The Income Tax Act currently makes provision for a deduction of retirement fund contributions that did not qualify for a tax deduction in previous years, i.e. a member is allowed to "roll-over" any excess contributions from year to year until it is actually claimed by the member. The relevant provisions in the Income Tax Act refer to "own contributions", which inadvertently prevents employer contributions on behalf of employees (made on or after 1 March 2016) from qualifying for the tax deduction. It is proposed that the legislation be amended to remove this anomaly which will mean that irrespective of whether it is the member or employer contribution that results in the member exceeding the annual contribution limit for tax purposes, the member will be allowed to roll-over that excess deduction from year to year until it is actually claimed by the member.

Tax-free savings accounts

The annual limit on contributions to tax-free savings accounts will be increased from R33 000 to R36 000 from 1 March 2020.

Exchange control treatment and exemption cap on foreign remuneration of SA tax residents

In the 2018 Budget, it was proposed that from 1 March 2020, South African residents who spend more than 183 days in employment outside South Africa will be subject to South African taxation on any foreign employment income that exceeds R1 million. Due to these new tax provisions, some tax adviserers have recommended to their clients the concept of emigration, as recognised by the SARB, as a way to break South African tax residency. Government however wants to encourage all South Africans working abroad to maintain their ties to the country and consequently, this concept of emigration will be phased out by 1 March 2021. The exchange control treatment for such South African tax residents will be removed by allowing them more flexibility, provided that funds are legitimately sourced and the individual is in good standing with the SARS. Tax residency for individuals will continue to be determined by the ordinarily resident and physically present tests as set out in the Income Tax Act. Individuals who transfer more than R10 million offshore will be subjected to a more stringent verification process.

Government will also increase the cap on the exemption of foreign remuneration earned by South African tax residents to R1.25 million per year from 1 March 2020.

Members are currently able to withdraw funds from their pension preservation fund, provident preservation fund and retirement annuity fund upon emigrating for exchange control purposes. As a result of the above exchange control announcements resulting in the concept of emigration as recognised by SARB being phased out, it is proposed that the trigger for members to withdraw these funds be reviewed. Any resulting amendments will come into effect on 1 March 2021.

Social grants

The 2020 Budget continues to increase social grants in line with inflation as follows:

- old age, disability and care dependency grants will increase from R1 780 to R1 860; and
- child support grants will increase from R420 to R445.
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Medical tax credits

Medical credits were introduced in 2012/13 to replace income tax deductions for medical scheme contributions. Government proposes an increase in the value of medical tax credits in 2020/21 from R310 per month for the principal member and the first dependant to R319 per month, and from R209

per month for any additional dependants to R215 per month.

This will increase the value of the tax credit by 2.8% and is in line with the announcement in the 2018 Budget that the medical tax credit would be adjusted by less than inflation to help fund the rollout of the National Health Insurance.

Pay-as-you-earn (PAYE) and personal income tax administration reform

The legal framework and administration of PAYE will be reviewed with a view to implementing a more modern, automated process for employers that is easy to understand, access and maintain. The reform is intended to promote accurate and timely withholding from employees and payments to SARS. It is expected to reduce the administrative burden for employers, payroll administrators and SARS. In addition, employees will be able to monitor their tax obligations during the course of the year, and the annual return process for employers will be simplified. Over time, this reform is likely to mean that most individual salaried taxpayers will not have to file personal tax returns.

Reimbursing employees for business travel

If an employee spends a night away from home for business purposes, an employer may reimburse the employee for meals and incidental costs. This reimbursement is not taxed, provided the amount does not exceed the amount published by SARS. If an employee is away from the office on a day trip, advances or reimbursements are not taxed if the employee can prove that he/she incurred these expenses on the instruction of the employer, in the furtherance of the employer's trade.

An anomaly however arises when an employee purchases meals and incurs incidental costs during a day trip for work, but the employer has not explicitly instructed the employee to do so. To address this anomaly, it is proposed that the Income Tax Act be amended to exclude reimbursement expenses incurred by an employee for meals and incidental costs during a business day trip, provided the employer's policy allows for such reimbursement.

Taxation of employer-provided bursaries

A number of employer bursary schemes seek to reclassify ordinary remuneration as a tax-exempt bursary granted to the dependants of an employee. Government proposes to close this loophole by introducing tax amendments, which will take effect on 1 March 2020.

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