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irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

TABLE OF CONTENT

Local News

International News

Out of Interest News

LOCAL NEWS

South Africa: Budget Speech 2022 - Retirement funds

National Treasury's proposal last year to tax emigrants on their retirement interests even if they remained members of such retirement funds, set the cat amongst the pigeons. The proposal was intended to address the scenario where a double tax agreement (DTA) resulted in South Africa losing the taxing rights in respect of retirement funds. Although the proposal was withdrawn, there was concern that the proposal could resurface at some stage. The good news is that it now appears that the perceived tax leakage will be addressed by renegotiating the relevant DTAs, and not by amending domestic tax legislation.

A December 2021 discussion paper invited comments to a set of proposed reforms to enable pre-retirement access to a portion of a member's retirement funds, while preserving the balance for retirement (referred to as the 'two-pot retirement system'). Legislative amendments will only follow once public workshops have been held. Members of a retirement annuity fund are currently permitted to transfer from one fund to another, but only if the total interest in the transferor fund is transferred. The rules will be amended to allow these members to transfer one or more contracts in a particular retirement annuity fund.

A number of amendments are proposed to clarify or fix certain anomalies in the context of retirement funds, such as:

• Amendments in the context of the compulsory annuitisation requirement to ensure that certain vested rights are not forfeited if a transfer is made from a provident fund or provident preservation
fund to a public-sector fund;

• Addressing an anomaly that results in a retirement fund lump sum being taxed as a withdrawal benefit, where a provident fund member who is younger than 55 retires due to ill health; and

• Fixing an anomaly which could result in contributions made prior to 1 March 2021 not being included in tax-free transfers from a pension to a provident fund.

FA News | 24 February 2022

Pension funds may now invest up to 45% of their capital offshore

‘Two-pot’ retirement legislation expected to be drafted later this year.

During his budget address to parliament, Finance Minister Enoch Godongwana said amendments to Regulation 28 would be published in March. Regulation 28 sets out the criteria and maximum limits of where and in which asset classes retirement funds may invest. The Budget Review document announced that local pension and savings funds may invest up to 45% of their capital offshore. This is inclusive of the 10% allowance for investments into other African countries. Previously, funds could only invest 30% of their portfolio outside Africa, and the amendment means they can now invest up to a maximum of 45%. The proposed amendments have been through two rounds of public consultations and are seen as an attempt to force or prescribe investments into infrastructure projects. The minister initiated the process to amend the regulation to enable greater infrastructure investment by retirement funds and improve data reporting on such investment by the funds.

‘Two-pot’ system

National Treasury will publish draft legislation regarding its long-awaited ‘two-pot’ retirement structuring later this year, which aims to give people in financial distress part of their pensions before they retire. The department will also publish amendments to Regulation 28 next month, allowing retirement funds to invest in infrastructure projects.

Two-pot system

Godongwana said the government is busy with a fundamental restructuring of the retirement system, which includes allowing individuals to allow for greater preservation and partial access to funds through a “two-pot” system. He emphasised that he does not have the authority to allow people to access funds at their discretion. “I will create an environment where people can do so, but it will be dependent on the approval of the trustees of each fund, and the trustees will have the final say.” Godongwana said the consultation process is ongoing after having released a discussion paper last year, and he foresees that draft legislation will be published for comment around June. The proposed restructuring would allow people to access a third of their savings for emergencies. At retirement, you will be able to take one-third of the total amount as a cash lump sum. However, if the individual has made a withdrawal before retirement, the amount would be deducted from the lump sum payment. The paper also proposes that two-thirds of retirement savings must be retained in a compulsory retirement fund, from which no withdrawal before retirement can be made.

Moneyweb | 23 February 2022

Five money lessons we can learn from the Tinder Swindler

The Tinder Swindler, a Netflix true-crime documentary that currently has both the online and offline world ablaze, details the story of an internet conman who constructs a tightly wound web of lies around him, with the aim of swindling his romantic interests out of hundreds of thousands of dollars. While the storyline touches on many poignant issues (such as relationship gaslighting, as well as the legal gaps and grey areas that exist when it comes to policing online activity), there are a number of very important financial lessons it draws into sharp focus, and that we should all heed, says Litha Maqungo, social media and communication lead at Metropolitan GetUp. Maqungo shares five money lessons we can learn from the Tinder Swindler.

Don't take on debt for anyone else (and think twice before taking it on for yourself)
A big red flag that the documentary raises is the danger of taking on debt for someone else. "There are very few circumstances that would justify taking out a loan, especially one that runs into thousands of rand, in order to assist someone else," says Maqungo. While you may want to help someone in financial need, there are various other avenues that you can point them to, which are far preferable to you sinking into debt you may not be able to afford.

"They could consider consulting a financial adviser, who will help them draw up a plan to tackle their money issues or achieve their objectives. And don't be swayed by promises of prompt repayment – if that is the case, they should have no issue taking out their own loan and keeping to the repayment schedule! The same goes for signing surety for someone else's loan. Simply don't do it, says Maqungo. "If, for any reason, they cannot repay the loan, it will become your responsibility.

Defaults on repayments may also impact your credit record and it can take years to clear your name." Apply these same rules to your own life, and learn the difference between good and bad debt, suggests Maqungo. 'Good debt' is something that helps you increase wealth or better your financial situation over time – like a study loan – while bad debt involves borrowing money for consumption purposes or to purchase assets that will soon decrease in value. "You want to avoid the bad kind," advises Maqungo.

Keep your finances separate in the early stages of a relationship
Relationships are complicated, and money adds another layer of complexity. "When entering a new relationship, it is advisable that you keep your finances separate until you share a long-term commitment with someone, and then you can reconsider, she says. "Retain your own

bank account and keep a close eye on your income and expenses, encouraging your partner to do the same. That is not to say that you can't treat them to dinner or enjoy a luxurious bottle of perfume or cologne which they gifted you, but relationships become far more complicated when two people's finances intertwine."

If and when you do decide to marry, many couples still prefer to keep their finances separate, says Maqungo. "There is no one-size-fits-all approach; it's important to have regular and open conversations with each other about money and do what works best for you. Don't lose touch with managing your money, you should always be in the know and happy to take on the leading role in your own financial life."

Have a rainy day fund

Sometimes, regardless of our best intentions and planning, we encounter a financial setback. "At times like these, it is important to have a buffer to tide you over and to mitigate the worst of the financial blow," she says. Maqungo suggests putting away a little into a rainy day fund every month. "Plus, you will benefit from the power of compound interest; which is when you earn interest on top of your interest," she explains.

Do not make big financial decisions under pressure

Don't let anyone pressure you into making a financial decision that makes you uncomfortable, or before you're ready, says Maqungo. In the documentary, we saw the con artist's victims uncomfortable with being asked to lend him money, but forged ahead anyway when placed under pressure. "Trust your intuition, says Maqungo. "Rather take a little longer and do the due diligence that will make you feel comfortable and assured, before making a costly financial decision that you may regret down the line."

Take responsibility for your money and get into the driving seat of your finances

Finally, if you slip up, take ownership of your mistakes and course-correct. We saw how the Tinder Swindler's victims set out to tackle the debt they had incurred on his behalf, instead of simply bemoaning their fate and potentially sinking into deeper financial trouble. "While the scammer is certainly not absolved of blame, I found it admirable how his victims, for the most part, realised that they could only rely on themselves to fix their financial situations, and set out to do just that.

"Ultimately, we are human and likely to make errors in judgment as we learn more about ourselves and our finances. Through becoming active participants in our own lives and getting into the driving seat of our finances, we have far better control of a positive outcome."

FA News | 25 February 2022

Retirement planning and the impact of your death on your beneficiaries and estate

It is important to understand the effect that retirement fund beneficiary nominations will have, and the impact of certain elections on your estate saving for retirement is something that most people know they should do, but which many often postpone. Thus, by the time many people start saving, they have sadly lost valuable time – and the powerful benefit of compound interest that comes with it. Statistics show that only a small percentage of the working population in South Africa will be financially independent when they retire. Of this small percentage of financially independent retirees, the majority are unlikely to have achieved this exclusively through contributions to an occupational retirement fund (such as their employer's pension or provident fund).

Additional investments are often required to ensure a comfortable retirement.
Supplementing retirement savings – what to consider Retirement annuities (RAs) are a popular choice to supplement retirement savings since contributions are tax deductible, like those of occupational retirement funds. Unlike occupational retirement funds, however, RAs are completely independent of your employer, meaning you have greater freedom of choice in terms of the funds you can invest in (subject to retirement fund regulations).

It is also important to understand the effect that retirement fund beneficiary nominations will have, and the impact of certain elections on your estate. Your deceased estate comes into existence when you pass away and your estate will be administered either in terms of your will, or (in the absence of a valid will) the Intestate Succession Act. A further factor to consider is that certain assets will not be administered as part of your estate.

The power of the trustee
If a member of a retirement fund dies before reaching retirement age, the death benefit will be paid to dependants as determined by the trustees of the retirement fund in accordance with Section 37C of the Pension Funds Act. While you may have nominated beneficiaries to your retirement fund, the trustees of the fund are not legally bound to follow your wishes. They will take your nominated beneficiaries into account, but there are other factors they need to consider. They will also take into consideration anyone who is a dependant – including people you have not nominated as beneficiaries.

This can be quite a lengthy process, as trustees have a period of 12 months from the date of death in which to make their determination, so you need to consider the financial stress that this delay can cause for dependants. In light of this, a key consideration is the effect of possible maintenance obligations from previous marriages (and other financial dependants) on the distribution of your retirement fund benefit at death. When providing for the maintenance of your family in your estate plan, be sure to take this into consideration to avoid unintended consequences that can cause your family unnecessary financial stress. To err on the side of caution, adequate provision needs to be made in your estate plan.

The impact of beneficiary election

Once the trustees have made the election, dependants must decide how they wish to receive the benefit. There are three choices available:
1. They can choose to take the entire benefit as a cash lump sum (in which case the payment will be taxed according to the retirement tax tables applicable to the deceased).
2. They can purchase a compulsory annuity (in which case no tax will be paid on the benefit, but tax will be payable on the income received from the compulsory annuity, as per the income tax tables).
3. They can choose a combination of these two options, i.e. they can elect to receive part of the funds as a lump-sum cash payment and purchase a compulsory annuity with the balance.

In 2008, the maximum age at which members could contribute to their retirement annuities was removed and, at the same time, retirement fund benefits were excluded from estate duty. This created a loophole where clients could contribute large, tax-free lump sums to their retirement annuities. However, this loophole was closed, and any lump sums taken by the beneficiaries up to the value of the non-deductible contributions will now be included as property in the estate for estate duty purposes. This needs to be considered in your estate plan, as this inclusion can affect estate liquidity.

Single life annuities and living annuities

When selecting an appropriate annuity, you need to be aware of the differences between single life annuities and living annuities. Single life annuities are designed to provide a guaranteed monthly income until the death of the annuitant, and therefore come to an end on the death of the annuitant, leaving no capital payable into the deceased’s estate. A living annuity, by contrast, is an investment held in the name of the annuitant.

The annuitant accepts all the risk, and income is not guaranteed until death. A living annuity does not fall within the ambit of Section 37C of the Pension Funds Act and the capital will be paid to the nominated beneficiaries elected on the death of the annuitant. It is important to note that if no beneficiaries are nominated, the proceeds will be paid into the deceased estate.

Conclusion

Navigating the world of retirement funds and the effect of beneficiary nominations can become very complex and needs to be carefully considered to avoid unintended consequences. A qualified financial planner can help you navigate this maze to ensure that you understand the impacts of your decisions and make adequate provision in your estate plan, ultimately giving you the peace of mind that your loved ones will be provided for in the event of your death.

FA News | 21 February 2022

Hedge Funds opt for agility in a market filled with interruption and disruption

Peregrine Capital, South Africa's longest-running hedge fund manager, hosted their first investor day on 16 February 2022 to share insights and learnings from two decades at the coalface of investing. Peregrine Capital has created exceptional wealth for its clients since 1998. The company currently manages around R12 billions of investor assets through its two local flagship hedge funds which are open to institutional and retail clients. They also offer a long-only offshore equity fund which launched in 2019. Their High Growth Fund is the first fund in South Africa to achieve 100X an investor's initial investment, so a million rand invested in the fund in February 2000 is worth more than R100 million now.

Their Pure Hedge Fund has never had a negative year since its inception in July 1998. At the event, Peregrine Capital's Portfolio Managers David Fraser (Founder and Executive Chairman), Jacques Conradie (CEO) and Justin Cousins (Executive Director) discussed the year in review, the importance of having hedge fund exposure in a portfolio and they delved into what could impact the funds as they continue to chase superior risk-adjusted returns for their investors. Initially, the panel focused on the juxtaposition of the polar opposite economic environments of 2020 and 2021, which Conradie admitted were challenging for Peregrine Capital.

"In 2020, you got rewarded for being cautious and utilising hedging tools for downside protection, and investing in high quality stocks that were net beneficiaries of the pandemic. In 2021 you had to do almost the exact opposite. You had to maximise your long positions with no hedges, and pivot your growth exposure back into real-world businesses that would benefit from economies opening up." "Hedge funds aspire to deliver consistent market-beating returns while also protecting investor capital. For example, in March 2020, when Covid hit, Peregrine Capital's Pure Hedge Fund was actually up in a market that was down 15%, showing you how the funds managed risks and protected investors against downturns." Conradie added that caution, coupled with a high level of flexibility allows hedge funds to not only protect their capital from investments that do not turn out as planned but also move into more attractive opportunities. “As a hedge fund manager, you always want to have some hedges in place as you cannot perfectly predict what a year's outcome is going to be upfront. If we look at some of the positions we had last year in the portfolio, we had some exposure to high-performing Chinese technology companies, which dragged our performance in 2021 lower than we would have liked due to unexpected Chinese regulations.

We had the flexibility to pivot some of the portfolio back into South Africa, and it was especially pleasing how well our stock picking worked.” “The property sector offered especially interesting pair trading opportunities. When COVID struck, all property companies were treated equally in a brutal and undiscerning market selloff in 2020. All companies in this sector sold off in unison, regardless of the quality of the underlying assets, the sectoral exposure or the strength of the balance sheets. Buying well capitalised retail focused REITs at the same discount to NAV as poorly capitalised office focused REITs proved to be a fantastic trade when it became apparent that the shape of the recovery would differ materially for those two sectors.

That was a fantastic pair trade and shows you how an idea can generate outperformance without taking market risk.” Some of the strategies employed by Peregrine Capital to deliver superior returns rely on the ability to invest across multiple asset classes and strategies. “Being a hedge fund, we typically have a lot more tools in our box to drive higher returns” added Cousins, “in order to take advantage of opportunities and volatility that typical investors in a long-only fund can’t. We look to exploit very different and unique market opportunities; be it in the equity market or in the fixed income space, where we can short shares and take advantage of pair trading opportunities within sectors we know well.”

While the diverse options available to a hedge fund are useful in navigating short-term market fluctuations, the overarching investment process of the funds is vital to delivering these returns through full market cycles over the longer term – because there is certain to be another disruption around the corner. “It is worthwhile reflecting that every year there will be new and unfamiliar events that you will have to navigate” says Peregrine founder, David Fraser. “Two decades in this business tells us that this is normal for markets. You want to choose a manager that has seen various cycles and various events and successfully navigated through them.

If you look at the history of our funds it has been a fairly smooth journey of exceptional growth over 23 years, even though we had to handle our share of massive local and global financial and political events. It is certainly pleasing that our values as an organisation and our investment process have stood the test of time”. While the pandemic-induced market interruption which has dominated the world view over the last two years appears to be subsiding, it leaves behind a new operating landscape where disruption through technological innovation is the new norm. “Technological changes will only accelerate” says Conradie. “The advancements in machine learning, in artificial intelligence, and in other areas of technology will just continue as the large tech companies and smaller start-ups invest massively in R&D to drive this forward. We are keeping a close eye on the rapid development and innovation happening in Web3.0 and the crypto space. It is very early and difficult to call, but it feels a bit like the internet in 1995, where the world was not quite sure how it would end up.

It pays to keep a close eye on these sorts of trends as there is potential for this to disrupt some of the larger tech companies and/or other parts of the economy, which can either be a threat or an opportunity for Hedge Funds”. While it’s difficult to predict the timing, scale and effect of any future disruptions, having the agility to alter investment strategies as these future events unfold certainly make hedge funds an ideal investment vehicle to create wealth from the uncertainty that is sure to always exist.

FA News | 21 February 2022

INTERNATIONAL NEWS

China moves a step closer to national pension system

NEW DELHI: China has taken another step toward setting up a national pension system, beginning the ‘balancing’ of its main retirement fund to help regions with older populations continue to make payouts. National balancing was started on January 1 for the corporate employees pension fund to “allow shortfalls to be compensated by surpluses nationwide,” deputy finance minister Yu Weiping said at a briefing Tuesday. The central government has been slowly working to link the various provincial pension plans into a national one, so that money from richer areas can be used to support pensions in poorer areas that are struggling to pay for aging populations.

An adjustment fund for the corporate employees’ pension fund was set up in 2018 to allow the central government to redistribute some money to address those shortfalls, and this new policy aims to take that further. “The central adjustment fund moderately balanced the pension fund burden between provinces. It was the first step toward national balancing,” Qi Tao, an official with the ministry of human resources and social security, said at a separate press conference Tuesday. More than 600 billion yuan ($95 billion) has already been redistributed between provinces by the adjustment fund through the end of 2021, according to Qi. The national balancing system “will resolve structural problem with the pension fund and provide more guarantees for payouts in regions with difficulties.” China’s population is aging rapidly, with births falling and elderly people making up a growing proportion of the nation’s 1.4 billion people. People aged 65 and above were almost 20% of the working-age population at the end of last year, nearly double the proportion two decades ago. The rust-belt provinces in the country’s northeast and the remote, poor regions in the northwest such as Gansu and Qinghai were among the places with the biggest pension payout pressures, according to a report published in 2018 by the Chinese Academy of Social Sciences, a top government think tank.

The Times of India | 23 February 2022

OUT OF INTEREST NEWS

Economic growth forecast at 2.1% this year

Government says the outlook reflects a slowdown in recovery compared to 2021
National Treasury expects real GDP growth of 2.1% this year, but that this growth will drop to 1.6% in 2023 and 1.7% in 2024.
Treasury further revised down its economic growth estimate for last year, which was initially at 5.1%, to 4.8%.

In his budget speech on Wednesday, Finance Minister Enoch Godongwana said the downward revision comes on the back of a changing global environment as well as the country’s own unique challenges, such as the events around the July unrest – which took place in parts of Gauteng and KwaZulu-Natal in 2021 – that saw over 300 people killed and resulted more than R50 billion in damage. “Commodity prices, which have supported our economic recovery, slowed in the second half of 2021,” Godongwana says. “Also, violent unrest in July, and restrictions imposed to manage the third wave of Covid-19 further eroded the gains we made in the first half of the year.”

“Industrial action in the manufacturing sector, and the re-emergence of load shedding also slowed the pace of the recovery,” he adds. Treasury forecasts consumer price index (CPI) inflation to increase to 4.8% for 2022, up from the 2021 estimate of 4.5%. Thereafter, inflation is expected to slightly decrease to 4.4% and then rise to 4.5% for the respective 2023 and 2024 financial years. In the document, Treasury noted that the country’s economy had begun the process of recovering from the effects of pandemic lockdowns but this recovery weakened in the second half of 2021.

"The economy is expected to reach pre-pandemic levels of GDP this year. Reforms to boost investment, GDP growth and employment are underway. Faster implementation of these reforms will bolster confidence and economic recovery," National Treasury's director-general Dondo Mogajane says in the document. However, according to Treasury, the emergence of new Covid-19 variants in light of a low vaccination rate, rising global inflation and unreliable electricity supply, continue to pose significant risks to this growth.

Fiscal outlook

The budget deficit for 2022/23 is projected at 6% of GDP; this is expected to narrow to 4.8% in 2023/24 and 4.2% in 2024/25. This comes as the state anticipates realising a primary budget surplus by 2023/24 – a year earlier than projected in the medium-term budget. State debt is expected to stabilise at 75.1% of GDP in the 2024/25 financial year. Treasury revised down its estimated budget deficit for 2021/22 to 5.7%, from the 7.8% that was estimated in the medium-term budget. "The fiscal outlook has improved somewhat over the past year, as a result of higher than expected revenue collection," the Budget Review document noted.

"This revenue will be used to fund pressing policy priorities, and to narrow the deficit and reduce the borrowing requirement." Mogajane says despite improvements, the significant risks to the country's economic and fiscal plans remain. "The global recovery remains unstable, and inflation is a growing concern. New variants of the coronavirus could lead to new waves of infection," he says. "We also face large spending pressures, including the risk of higher than budgeted public service wages, demands for additional funding from financially distressed state-owned companies, and calls for permanent increases in spending that exceed available resources."

Moneyweb | 23 February 2022

Some breathing space for battle fatigued taxpayers

No increase in tax rates and inflationary relief for bracket creep.

Ordinary South Africans can breathe a sigh of relief knowing that individual tax rates will not be increased and for the first time since 1990 there is no increase in the general fuel levy or the Road Accident Fund levy. The expansion of the employment tax incentive and the decision not to increase the fuel levy amounts to a loss of R5.2 billion to the fiscus. Taxpayers' burden would have increased by R13.5 billion had it not been for the increase in tax brackets and rebates.

Finance Minister Enoch Godongwana announced in his 2022 Budget Review that revenue from tax collections is expected to exceed the 2021 target by R181.9 billion. This follows a shortfall of R176 billion when compared to the 2020 Budget forecasts. Government has also increased the employment tax incentive by 50% amounting to R2.2 billion. Godongwana says youth unemployment remains "stubbornly" high at more than 56% for 20- to 29-year-olds (third quarter of 2021). The incentive will increase from a maximum of R1 000 per month to R1 500 per month in the first 12 months and from R500 to R750 in the second 12 months.

Economic recovery

Godongwana says the characteristics of the economic recovery from the pandemic have been "markedly" different from previous shocks such as the global financial crisis. "Tax resiliency in this recovery has been far stronger, potentially due to the artificial nature of the downturn through lockdowns and enforced restrictions on activity, rather than damage inflicted by a recession." Revenue from personal income tax is expected to be 13.7% higher than the 2021 budget estimate at R553.5 billion, corporate income tax is expected to be 57.5% higher at R313.4 billion and value added tax almost 16% higher at R383.7 billion.

Revenue from the fuel levy increased by 19%, mainly because of the opening of the economy. Gross tax revenue is 23.8% higher than estimated at R1.55 trillion. The revenue performance is largely attributable to elevated commodity prices. However, the prices of several key commodities are expected to decline over the next two years, reducing expected revenue from mining. The downward trend in commodity prices started in November last year, but the positive performance of the finance and manufacturing sectors indicates a wider revenue recovery. Excise duties on alcohol and tobacco have, as expected increased this year, albeit at a lower rate than previous years.

The South African Revenue Service (Sars) is expected to collect an additional R400 million from the increase in the excise duties on alcohol and R100 million from the increase in duties on tobacco compared to R1.1 billion and R700 million respectively in the 2021 tax year.

Table 4.7 Changes in specific excise duties, 2022/23

Product	Current excise duty rate	Proposed excise duty rate	Percentage change	
			Nominal	Real
Malt beer	R115.08 / litre of absolute alcohol (195,64c / average 340ml can)	R121.41 / litre of absolute alcohol (206,40c / average 340ml can)	5.5	1.0
Traditional African beer	7,82c / litre	7,82c / litre	–	-4.5
Traditional African beer	34,70c / kg	34,70c / kg	–	-4.5
Unfortified wine	R4.74 / litre	R4.96 / litre	4.5	–
Fortified wine	R7.92 / litre	R8.36 / litre	5.5	1.0
Sparkling wine	R15.51 / litre	R16.52 / litre	6.5	2.0
Ciders and alcoholic fruit beverages	R115.08 / litre of absolute alcohol (195,64c / average 340ml can)	R121.41 / litre of absolute alcohol (206,40c / average 340ml can)	5.5	1.0
Spirits	R230.18 / litre of absolute alcohol (R74.23 / 750ml bottle)	R245.15 / litre of absolute alcohol (R79.06 / 750ml bottle)	6.5	2.0
Cigarettes	R18.79 / 20 cigarettes	R19.82 / 20 cigarettes	5.5	1.0
HTPs sticks	R14.09 / 20 sticks	R14.87 / 20 sticks	5.5	1.0
Cigarette tobacco	R21.12 / 50g	R22.28 / 50g	5.5	1.0
Pipe tobacco	R6.26 / 25g	R6.63 / 25g	6.0	1.5
Cigars	R104.16 / 23g	R110.93 / 23g	6.5	2.0

Source: National Treasury

Tax base broadening

Godongwana says government has been focusing on broadening the tax base over the past two years. It has been improving administration and is attempting to lower rather than raising tax rates. A broader tax base, where more companies register and grow and more people earn income from stable jobs, would allow for lower headline tax rates. “Recent experience suggests caution in projecting revenue gains from tax rate hikes,” he says. The number of tax increases since 2015-16 and 2018-19 failed to generate the revenue expected.

“The reasons for this included recessionary conditions and the damage inflicted on Sars as a result of state capture,” he admits. “Most importantly, however as tax increases multiply, they dampen economic growth, reduce investment, slow employment growth and negatively affect revenue-raising from other tax instruments by narrowing the tax base.” He adds that taxes inevitably distort economic activity as taxpayers change their behaviour. The 2022 Budget Review notes that the increase of the top marginal rate from 41% to 45% for top income earners have generated significantly less than the projected R4.4 billion per year.

National Treasury has introduced a new measure to detect non-compliance or fraud through the existence of unexplained wealth. Provisional taxpayers with assets of R50 million will be required to declare specified assets and liabilities at market values in their 2023 tax returns. “The additional information will also help in determining the levels and structure of wealth holdings as recommended by the Davis Tax Committee,” says Treasury.

Table 4.5 Estimates of individuals and taxable income, 2022/23

Taxable bracket	Registered individuals		Taxable income		Income tax payable before relief		Income tax relief after proposals		Income tax payable after proposals	
R thousand	Number	%	R billion	%	R billion	%	R billion	%	R billion	%
R0 - R91[1]	7 700 135	–	272.9	–						
R91 - R150	1 973 185	26.5	227.5	8.2	15.8	2.6	-1.2	8.7	14.6	2.5
R150 - R250	1 717 760	23.1	338.6	12.2	28.4	4.7	-1.6	12.0	26.8	4.6
R250 - R350	1 231 672	16.5	363.6	13.1	50.2	8.3	-1.9	14.2	48.3	8.2
R350 - R500	1 158 117	15.6	478.2	17.3	86.4	14.4	-2.8	20.5	83.6	14.2
R500 - R750	756 629	10.2	456.7	16.5	107.4	17.9	-2.8	20.5	104.6	17.8
R750 - R1 000	274 963	3.7	237.7	8.6	67.6	11.2	-1.3	9.7	66.3	11.3
R1 000 - R1 500	199 837	2.7	238.1	8.6	76.3	12.7	-1.0	7.3	75.3	12.8
R1 500 +	133 230	1.8	425.0	15.4	169.4	28.2	-1.0	7.1	168.4	28.7
Total	7 445 393	100.0	2 765.3	100.0	601.4	100.0	-13.5	100.0	587.9	100.0
Grand total	15 145 528		3 038.2		601.4		-13.5		587.9	

1. Registered individuals with taxable income below the income-tax threshold
Source: National Treasury

Corporate tax rate

The corporate tax rate will be lowered to 27% for tax years ending on or after March 31, next year. “Changes to corporate income tax have the largest impact on investor behaviour – influencing jobs, wages and prices – and can support economic growth.” Government notes that South Africa’s corporate income tax rate exceeds the Organisation for Economic Co-operation and Development’s average of 23%. Many countries have reduced their rates over the past 15 years. In contrast, South Africa’s rate has remained at 28%. Given that many countries with strong investment and trading ties to SA have significantly lower rates, this provides a strong incentive for tax avoidance, Treasury says.

The lowering of the tax rate will coincide with a restriction to the use of assessed losses to 80% of taxable income. The proposal will not increase companies’ tax liability but ensures tax payments from companies are smoothed over time. The rate reduction will mean a loss of R2.6 billion in revenue from corporate income tax, however the restriction of assessed losses (R1.1 billion) and the limitation on interest deductions (R1.5 billion) will make up for the loss. Smaller companies will be exempt from the proposed changes. Godongwana promises faster progress in implementing structural reforms to ensure a more durable economic recovery and improved revenue collection. Overall, tax revenue projections going forward are higher than the estimates in the November mini-budget by R71 billion in 2023, R86.3 billion in 2024 and R92.4 billion in 2025.

Moneyweb | 23 February 2022