TUESDAY, 29 OCTOBER 2019

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LOCAL NEWS

SA retirement funds are ahead of the pack with ESG investing

While it is not a legal requirement, regulations encourage the consideration of environmental, social and governance criteria

Worldwide, retirement funds are warming up to the idea of environmental, social and governance (ESG) investing. However, most funds have yet to move from appreciating the rationale for ESG investing to actually making such investments.

The reason is regulation that, with a few exceptions — notably SA — is not particularly ESG friendly. SA retirement fund regulation goes much further in encouraging ESG investing than jurisdictions such as the US, making the country worth watching — as we saw at the recent Impact Investing Legal Working Group annual conference at New York University's Grunin Centre for Law and Social Entrepreneurship. The regulatory position of SA retirement funds on ESG investing attracted great interest at this conference, which highlighted the contrast in how ESG "fits" into the regulatory framework for retirement funds in SA compared to the US.

The US regulatory regime governing private retirement plans makes no direct mention of ESG investment. Theoretically, the US federal pension regulator does allow funds to consider ESG investments, provided they produce financial returns comparable to non-ESG investments.

In other words, US funds must approach investments from a purely financial perspective that emphasises maximum returns. As one US commentator noted, that means they can take ESG factors into account if they believe it will maximise returns, but they cannot select investments based on social considerations — meaning ESG investing has to be done as a financial metric. Not surprisingly, while an increasing number of individual plan participants and investors in the US might say they want to integrate ESG factors into their retirement portfolios, the numbers remain low.

SA regulation is ESG friendly by comparison. ESG investments are specifically mentioned in the Pension Funds Act, regulation 28 of which states that "prudent investing should give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund's assets, including factors of an ESG nature".

While regulation 28 does not compel ESG investing, it does oblige funds to consider ESG criteria when making investments. This requirement recently gained further substance when the SA Financial Sector Conduct Authority (FSCA) issued a guidance note on what retirement funds should be saying about ESG in their investment policy statements. Significantly, the FSCA said funds holding assets that "limit" the application of ESG factors should explain how this limitation is to the advantage of the fund and its members.

Alternatively, the fund should spell out what it intends doing to correct the situation and, if no remedial action is planned, the reasons for this. Another difference is that unlike in the US, where retirement fund decisions must be strictly financially based, SA regulation does not insist on maximising financial returns at all costs. In SA the standard is not expressed as maximum financial return but as "adequate risk-adjusted returns" suitable for a fund's member profile, liquidity needs and liabilities, according to regulation 28 of the Pension Funds Act. ***Full Report: https://www.businesslive.co.za/bd/opinion/2019-10-23-sa-retirement-funds-are-ahead-of-the-pack-with-esg-investing/***

Business Day | 23 October 2019

Massive rise in complaints about pension funds

It's a record for the ombud and a blight on the retirement fund sector: 11399 new complaints received, 10289 resolved, with 88% resolved in favour of the complainant. According to its annual report released last week, the office of the Pension Funds Adjudicator (PFA) finalised 10289 complaints in the 2018/19 financial year - a surge of almost 17% on tFinance Minister Tito Mboweni, in the foreword to the report, says pension funds and administrators must fall in line with the rules and adhere to good governance.

"From the complaints disposed of by the PFA, it is clear that market conduct remains a burning issue as funds and administrators continue to grapple with such issues as non-payment of contributions, late payment, and non-payment of benefits," Mboweni says.

Financial Sector Conduct Authority (FSCA) commissioner Abel Sithole calls this unprecedented increase in complaints a concern, which requires their "undivided attention". "There has been an increased engagement with funds, fund administrators and the regulator to find ways of collaborating to address existing challenges, sometimes in the form of early warnings, while, in some instances, the PFA reports on trends that must be monitored.

“Some of these challenges have been persistently prevalent in the past few years; namely, non-compliance with section 13A of the Pension Funds Act on payment of contributions and section 37C on death benefit lump-sum payments, delays in the payments of benefits to beneficiaries, lack of adequate documentation and records management and poor quality/delayed responses by funds to the PFA.

“All these challenges, especially in the current economic conditions, have a direct impact on pension fund members’ welfare, and at times, right to human dignity.”

Brazen abuse

It’s an untenable situation, but the big administrators do as they please, says the adjudicator, Muvhango Lukhaimane, who views the sector as deliberately seeking to circumvent the law.
he previous year. “These numbers show you the level of non-compliance in the industry,” she says.

Most of the complaints have to do with non-compliance with section 13A of the Act, which requires that employers pay contributions by the seventh of the month, that they provide a fund with member schedules in terms of contribution payments, and that interest is paid on late contributions - and delays in payment of benefits. “Pension funds and administrators don’t comply with the most basic requirements,” she says. “Members often don’t even know which fund they belong to - they just see the contributions going off their payslips. When we make enquiries on behalf of complainants, the information we get is completely different.”

Along with the failure to provide benefit statements to members, the report notes “levels of non-compliance in these large funds put to question the policy considerations to consolidate funds, as it is apparent that the more removed a fund and its administrators are from the ordinary member and employer, the less compliance there is to basic regulatory requirements”.

Lukhaimane says employers are failing to pay contributions deducted from members’ salaries to their retirement funds. Some go so far as splitting contributions to make it seem as if they are making contributions towards a pension fund. “For example, you see R500 has been taken off a worker’s salary for pension, but that R500 is split, with half reflecting as their own contribution and the other half appearing to come from the employer.” The worst offenders are the biggest schemes and municipalities: labelled in the report as “serial offenders”.

Lukhaimane says commercial umbrella funds, which house a number of employers within a single scheme, often don’t enforce their own membership rules and need to monitor more closely employers reporting on when employees join the fund. And municipalities are denounced for taking money earmarked for personnel benefits and allocating it towards other costs.

These are regulatory and compliance matters for the FSCA. The report notes that, for an industry that prides itself as world-class, with relative maturity, "this is a grave indictment on our commitment to act in the best interest of members and acting in the spirit of Treating Customers Fairly".

It also cited a number of municipalities in the Free State and North West as being unable to pay contributions to funds, putting members' benefits at risk for long periods. The adjudicator has been granted attachment orders to service such debts. Lukhaimane says while it's criminal not to pay over contributions, individuals aren't being held to account.

"I have yet to see anybody being taken to task. The funds will just write out computer-generated letters. They don't follow processes, so you don't know who to hold to account."
She says the industry only changes because it's forced to. "They don't back off because it's the right thing to do - they do so because new laws come into play."
Personal Finance | 28 October 2019,

Just but the tip of the iceberg

In the years ahead, as legislative changes impact on the industry, it is expected that consumer protection will strengthen, and consumer confidence will increase. Insurers already appear to be paying more attention to servicing their policyholders and their complaints.

According to the Pension Funds Adjudicator's 2018/19 Annual Report, complaints increased steadily to a record number.

New complaints received
Of the complaints, 11 399 new complaints were received, which is16.38% more than last year. Most disturbing is the fact that the bulk of the complaints have to do with non-compliance with section 13A of the Act and delay in payment of benefits. "For an industry that prides itself as world class, with relative maturity, this is a grave indictment on our commitment to act in the best interest of members and acting in the spirit of Treating Customers Fairly (TCF)," said Ms Muvhango Lukhaimane, Pension Funds Adjudicator.

In many respects, non-compliance was concentrated in the large funds, i.e. umbrella funds, sectoral determination funds and industry funds. The non-compliance had to do with failure to collect the necessary contributions and failure to attempt to implement any enforcement measures against a non-compliant employer or responsible persons. Along with the failure to provide basic information to members e.g. benefit statements, the levels of non-compliance in these large funds put to question the policy considerations to

consolidate funds as it is apparent that the more removed a fund and its administrators are from the ordinary member and employer, the less compliance there is to basic regulatory requirements.

Total complaints finalized

Gauteng continues to lead with the number of complaints. Apart from being the economic hub, the number of walk-in complaints underscore this statistic. KwaZulu-Natal remains second, with Limpopo and Mpumalanga tying third. The least number of complaints were received from the Northern Cape.

A total of 10 289 complaints were finalised, 16.81% more than the previous year. 8 234 complaints were finalised through the case management process and 2 055 were finalised at assessment stage by the New Complaints Unit.

5 319 complaints were determined, 20.75% up from last year; 1 932 were deemed out of jurisdiction, down 24.85% from last year; 2 405 complaints were settled, up 64.5% from last year; whilst 633 complaints were closed for other reasons, up 72.5% from last year.

Treating customers fairly

Funds and administrators are not faring well on TCF outcomes. According to Lukhaimane, compliance with the outcomes is proving to be a major problem for the pension funds industry.

73.83% of complaints received, relate to TCF outcome three. Complainants are often not provided with information relating to benefits, etc; sometimes they are provided with insufficient or incorrect information. 12.04% of complaints relate to TCF outcome 5a where complainants are dissatisfied with the performance of their products. This indicates that complainants are slowly becoming aware of the gap between expected/ promised performance and actual performance.

"Funds do not comply with minimum governance requirements, especially the provision of information to members. Members often do not get benefit statements and have no idea what they are entitled to, in terms of benefits. The situation is quite concerning. We do not have an enforcement mandate, and therefore, to a large extent look upon the FSCA to act on some of the issues that we report as pointing to systemic issues," said Lukhaimane.

"The concerns that you see on s13A are just but the tip of the iceberg – if you consider that commercial umbrella funds will not even bother to go through the entire process of recovering outstanding contributions in instances where the boards are selected by the sponsoring company with only one independent – they just liquidate the participation of a defaulting employer after sending out computer generated notices. It leaves a lot of work for the conduct authority to deal with," continued Lukhaimane.

The key role-player

Regulatory compliance is a very wide-reaching challenge that insurers, advisory practices, and brokers need to comply with. The nature of the relationship between all role players in the industry needs to fundamentally change so that the objectives of TCF are adhered to. Ultimately, this will result in a better relationship between insurers and policyholders.

FA News | 28 October 2019

Where technology meets real people – the trustees' dilemma

Retirement funds' topmost purpose and intention is to ensure that their members' needs are met during retirement.

This is akin to summiting Mount Everest, the world's highest and toughest peak. Given the ever-changing nature of the workforce, fund consultants must find innovate ways to offer fund members suitable advice to help them reach their retirement objectives. This advice must be adaptable to the needs of the evolving behaviours, trends and decision-making habits of the various generations that make up the current workforce.

According to research we conducted in our Group, millennials currently make up 52% of the workforce. Over time, this number will grow. Generation Z is also entering the South African work environment and expected to make up 24% of the workforce by 2020. When we look at the benefits offered to fund members, we need to apply this generational filter to understand the different dynamics that exist within each generation.

Our research has shown that today's employees' life stages are unique and not as linear as before. As an industry, we need to immerse ourselves in these ever-evolving client journeys to understand how different generations view retirement, death and disability.

Few South African employers have adapted to the millennial-dominated landscape, with many still offering the same benefits to employees today, as they did five years ago. In order to get to the top, climbers of Mount Everest must find innovative ways to steer clear of crevices and avalanches that might disrupt their journey to the summit. In the same way, funds need to find progressive ways to deal with the evolution of technology and the shifted mindsets that are shaping the future of employee benefits.

Personal Finance | 27 October 2019

INTERNATIONAL NEWS

Save money and the planet: how to ‘green’ your pension pot and more savings advice

What you can do to make sure your retirement funds are in line with your ethics

Between Extinction Rebellion’s continuing protests over the past two weeks, and the Government’s commitment to bring the UK’s carbon emissions down to a net zero level by 2050, the fight against the impact of climate change has dominated recent headlines.
Beyond recycling and relying less on fossil fuels, savers can also reduce their carbon footprint by ‘greening’ their investments, whether by avoiding oil and gas companies, or by prioritising firms that make positive contributions to the world.

And with £87bn per year paid into Britain’s pension schemes – a figure that is expected to increase sixfold in the next 20 years – there is a significant amount of money flowing into retirement funds that could also make a positive impact. This has a double benefit: not only are responsible companies backed with cash, but your pension savings are likely to be safer in the long-term if invested in firms that are prepared for climate change and similar risks. But before savers can do that, they need to know who is managing their pensions. Though personal pension holders may know who is managing their assets, workplace schemes are often harder to unravel.

What's your money up to?

A survey from financial services firm Investec found that 47 per cent of people surveyed do not know where their workplace pension is being invested. While 85 per cent said they are concerned about the environment, only 22 per cent have their money – whether in pensions, savings or otherwise – invested in funds or pension schemes that prioritise companies that have good social, environmental and governance (ESG) practices.

The introduction of the pensions dashboard may help solve part of this problem: it should allow savers to see where all of their pensions are at the same time, and will eventually allow you to compare different pension providers, both in terms of the returns they offer and any criteria they use to invest their holdings. But plans for the dashboard are still at an early stage, and it is unclear when it will be rolled out beyond a trial phase.

And the problems do not end once you know who looks after your pension. That same Investec poll found that a third of those with private pensions, and a quarter of those with workplace pensions, are investing in oil and gas companies thanks to how funds are allocated by managers.

Green investments

Another problem is that fossil fuel firms, for example, have been a source of good returns for pension funds holding them in recent years. The world's top three asset managers – Vanguard, BlackRock and State Street – oversee $300bn (£230bn) in fossil fuel investments, a stake that has grown since the Paris climate agreement. As Adrian Lowcock, head of personal investing at Willis Owen, points out, your pension still needs to deliver good returns so that your life can continue comfortably into retirement. He adds: "When you are looking at your pension for ethical or environmental investing you need to combine this with the fact that you want a decent pot to retire – so performance matters as much as ethics."

A good starting point can be to consider splitting off part of your fund into areas in which you're most interested – companies that help electrify vehicles, for example. Tom Nelson, head of natural resources at Investec Asset Management, says that backing companies that will make a positive difference – rather than excluding those that have a negative impact – can be just as important as these firms could be the "industrial giants of the future".

Caroline Hopper, a senior writer and workshop leader

"I first started thinking about my pension when I read an article about responsible investment. "When I delved into my pension, I discovered – with difficulty – that it was invested in British American Tobacco, Shell, BP and weapons makers – things I didn't want my money in, but had been funding every month. After some digging, we also found that the 'ethical' fund option was invested in companies that didn't seem so ethical to me.

"I asked my colleagues to check too, and they were shocked to see the same. We told our co-founders that we wanted there to be better places for us to put our money. "They found a financial adviser who helped each employee find a pension that was good for us individually, based on our risk appetite and aims, as well as our views on things like the environment, how companies are run, and the impact they have.

"It made me angry that people don't know where their money is invested. The industry makes it so opaque, people who care about a particular cause may be taking action in their day-to-day lives but could be undermining all their efforts with their pension. "I think everyone – no matter how much they know about their money – could be doing something."

INews UK | 26 October 2019 | Laurie Havelock

Trustees continue fighting over assessor's pension in Maine Township

In-fighting among members of the Maine Township Board continued this week as elected officials resumed their dispute over the assessor's interest in receiving a municipal pension.

The voting members of the board — consisting of four trustees and the township supervisor — argued with and shouted at each other during a lengthy meeting Tuesday Oct. 22 that included time spent in closed session to discuss legal matters with attorney Mary Dickson. Even then, shouting among the elected officials in the glass-encased room was clearly audible.

At the heart of Tuesday's disagreement was a desire by three of the five elected officials to appeal the latest determination by the Illinois Municipal Retirement Fund Board that Township Assessor Susan Moylan Krey is pension-eligible. That decision was made on Sept. 16, Dickson said.

Dickson told the town board they have the option of appealing the decision directly to IMRF or through the circuit court system. The board eventually voted 3-2 on a motion to pursue a legal appeal in DuPage County Circuit Court, where IMRF's suburban office is based.

Krey, who is also a licensed real estate broker, said taxpayers will have to cover the cost of the continued legal proceedings.

"At this point, giving their attorney carte blanche is part of the trustees' political agenda," she said Thursday. Supervisor Laura Morask and Trustee Kim Jones were opposed to pursuing the appeal. Morask, frequently switching topics mid-statement, spoke of the expense of the appeal and alleged that the township had spent about $40,000 in legal fees related to the pension fight so far. Dickson said pursuing an appeal could cost an additional $15,000, but also said it was "very hard to predict cost."

The matter over Krey's pension as a township elected official goes back to 2017. In August of that year, the town board voted 3-2 against certifying the assessor's position as pension eligible, as Trustees David Carrabotta, Claire McKenzie and Susan Sweeney did not feel it required the minimum 1,000 hours of work annually. However, a now-retired general counsel to the IMRF reinstated Krey in the fund after she filed an appeal and Morask spoke on her behalf, according to documents from the IMRF board.

Earlier this year, the IMRF board upheld the Maine Township Board's vote against re-certification, but, during the same meeting, changed the process for certification from a majority vote of the local governing body to a signature by an IMRF "designated agent."

In June, Trustees Carrabotta, McKenzie and Sweeney voted to name McKenzie as the board's new IMRF designated agent after Morask named herself the designated agent — an action that angered the three trustees.

McKenzie said she then informed the IMRF board that she did not believe Morask had the authority to declare herself the agent, which opened an investigation by IMRF and the decision that was reached Sept. 16 declaring Krey pension-eligible. Krey, meanwhile, filed a lawsuit in Cook County Circuit Court in June in an effort to get back into the IMRF pension program. According her lawsuit, she was a contributor to the pension plan since 2014.

During Tuesday's board meeting, Morask and Jones accused Dickson of leaving them out of certain correspondence and working only for Carrabotta, McKenzie and Sweeney, even though she was hired as the attorney for the entire board. "That's not really a representation of the board," Jones said. "That's a representation of these trustees, which isn't fair and is a little unethical."

Dickson denied the accusation.

"I would ask you to be very careful about making that kind of allegation," she told Jones.
Carrabotta countered that "certain board members, with the assessor" had gone behind the backs of the majority of the board to get Krey's pension reinstated in 2017. The discussion then turned to an argument over legal bills, even though the motion on the table involved going into closed session for a discussion on legal strategies related to the latest IMRF Board decision.

"Either pipe down or I will have to remove you," Morask told Carrabotta at one point.
Later, when the board members emerged from their closed-door meeting, arguments resumed, with Jones again accusing Dickson of working against her and Morask. She referred to conversations Dickson had with McKenzie and a resolution she drafted to make McKenzie the IMRF authorized agent after the board voted 3-2 to approve McKenzie in this role.

"I have done the best I can to communicate to the board," Dickson replied. "There have been circumstances where I have communicated with the authorized agent; that is proper." Dickson added that in situations where a board is divided, she takes direction from the majority. In this case, the majority consists of Carrabotta, McKenzie and Sweeney. Morask spoke of employee pay raises she said the board had rejected and told Carrabotta she would no longer call on him to speak after he attempted to interrupt her.
"You can say whatever the hell you want, but not repetitively. You can't grandstand," Morask told him. Sweeney accused Morask of wanting to keep the trustees "silent." "We are elected officials. We made a decision and it was honored, it was taken away," she said, referring to Morask's attempts to reinstate Krey's

pension program participation. “If we allow this to continue, what does our vote mean? We have to see this through.”

Verbal disputes, shouting and instances of multiple officials talking over each other at the same time have become commonplace on the largely Republican Maine Township Board over the last two years since the election of Carrabotta, McKenzie and Sweeney, who had not previously served on the board. Since that time, the board has been sharply divided, with the three trustees taking one side of many issues and Morask and Jones, along with Krey, Township Clerk Peter Gialamas and Highway Commissioner Walter Kazmierczak, banding together in opposition.

McKenzie is the only Democrat serving on the board.

Last year, tensions on the board intensified when Jones accused Carrabotta of inappropriately touching her during two group photos and an investigation was launched. Citing a lack of evidence and independent witnesses, attorneys conducting the investigation said they were unable to conclude that any wrongdoing had occurred.

Carrabotta denied Jones’ allegations and his wife, Diane, suggested the claims were politically motivated. Comments about political differences on the board came up during interviews with elected officials and township employees during the probe, with one employee referring to the township government as a “family” until Carrabotta, McKenzie and Sweeney were elected.

Chicago Tribune News | 26 October 2019 | Jennifer Johnson

OUT OF INTEREST NEWS

Achieve your this-time-next-year dream with a savings account

Money invested wisely into a savings account will not only give you peace of mind but also help you achieve goals you never thought possible according to Neil Thompson, Head of Product and Customer Value Proposition at African Bank. Thompson said, Anyone can open a savings account and start saving money to achieve a goal – in fact, you can start right now, it is that simple".

Thompson advises setting a goal first. This should be followed by deciding by when you want to achieve the goal. It is important to be realistic. Saying you want to drive a luxury car in six months' time is not achievable, but saying you want to pay off your car in a year is.

With the right savings account, such as a fixed deposit account, and by having scrutinised the bank's savings interest calculator to ensure you are getting the best possible rate, you will be pleasantly surprised at what an initially small lump sum can grow to within a year, "said Thompson.

Even delaying to save money by five years can have a great impact on the final result of your efforts, but this should not deter anyone who has neglected providing for their future. There are fundamentals to investing and saving – no matter your age or how much you have to invest- and they are easy to follow, Thompson says.

African Bank recommends these 5 simple savings strategies:

1. Save as you earn: It is obvious that the earlier you start saving the more you will have in the bank at retirement, for example. The longer you put money away the more compound interest you earn, so the golden rule for a financially sound retirement is to start saving the day you start earning money.
2. Think about emergencies: Life happens and we are often unprepared financially for things like medical emergencies or car repairs. You should put money away specifically to cover such costs on a more short-term basis. Remember that saving for something specific over a short period of time requires the same amount of commitment as long-term saving.
3. Create a stop order: Saving requires discipline. Take the stress off by running a monthly stop order or debit order from your salary into your investment or savings account.
4. Choose wisely: A tax free savings account or tax free investment account are good ways to grow you money faster, so investigate these when shopping for the best way to build wealth.
5. Take good advice: It is never too early or too late to start planning for your future or achieving a dream. Research the best ways to save, heed tips from experts and put these into practice.

People should not get caught up in believing investing money and things like a savings interest calculator are complex financial systems, Thompson reiterates.

"Setting up the right accounts will ensure that in years from now you have savings and investments to fall back on. This peace of mind will make you happy that you took control of your financial future when you did," concluded Thompson.

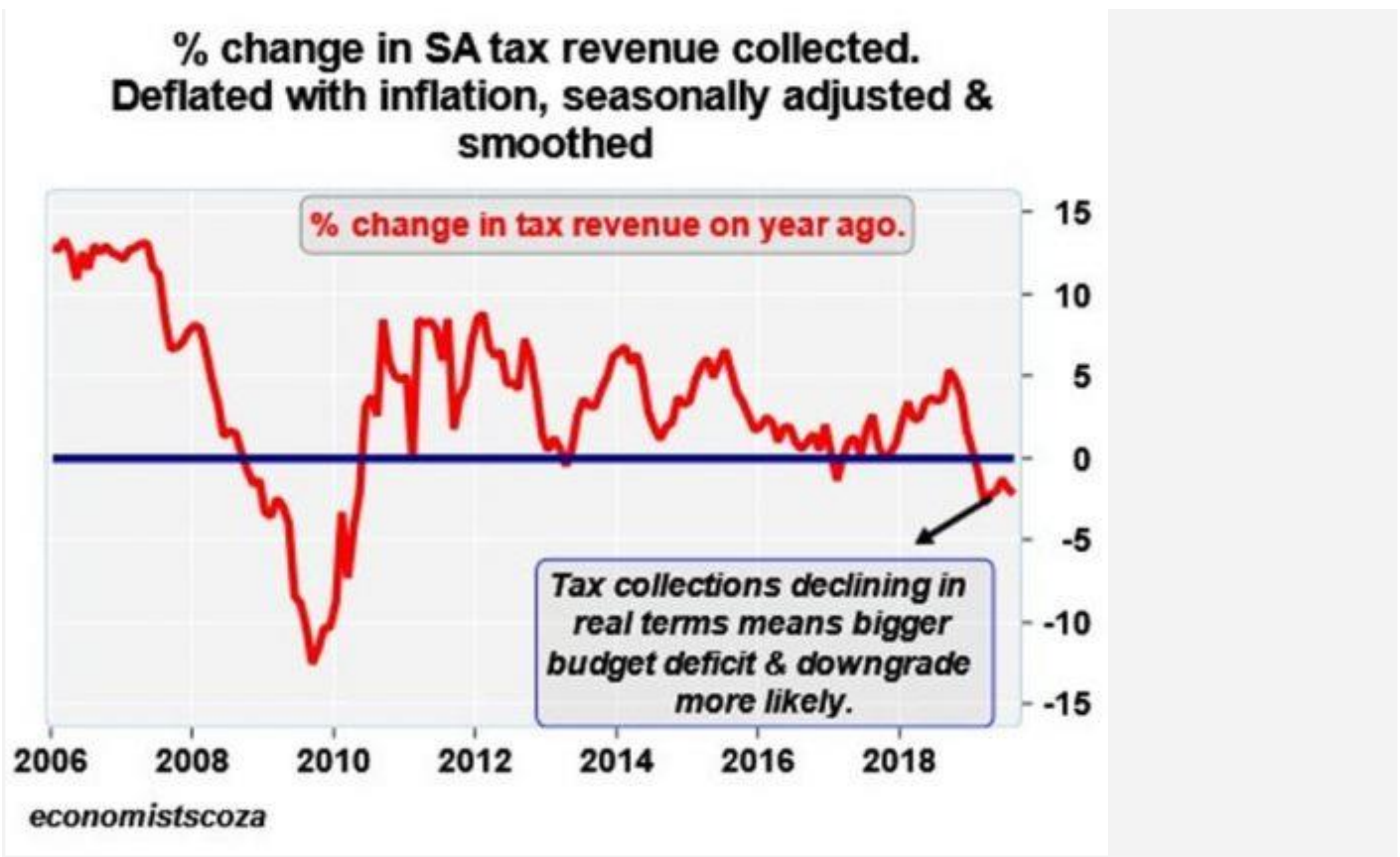
Personal Finance News | 27 October 2019 | Neil Thompson

South Africa's tax vulnerability

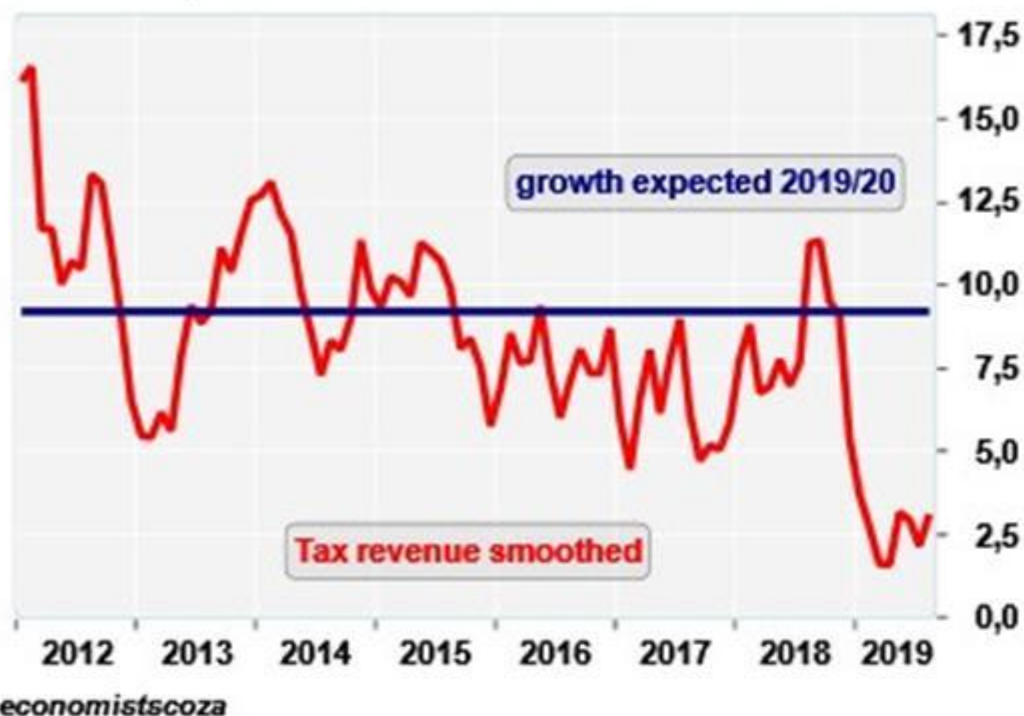
Losing just a few thousand wealthy people could have a huge impact on government revenues. Given the unsteady state of South Africa's public finances, meeting tax collection targets is vital. The country has to keep its budget deficit at a reasonable level by ensuring that it brings in enough revenue.

However, figures from the South African Revenue Service (Sars) to the end of August have shown that tax collections have been below where they should be. By this point last year, Sars had collected 39% of its target. For the 2019/2020 year, it had only reached 37%.

As the graph below from Economists.co.za's Mike Schüssler illustrates, there has been a notable decline in revenue collection relative to previous years. As Schüssler notes, this is despite a higher Vat rate, and personal income tax brackets not being adjusted for inflation, which sees people paying tax at higher rates.



This has also resulted in a severe drop in taxes collected relative to National Treasury's own expectations:



Counting on individuals

Personal income tax collections are of particular concern because South Africa relies heavily on these revenues. Of the R1.422 trillion that the government has budgeted to take in during the current tax year, R553 billion, or just under 40%, is expected from this source. The country's 7.5 million registered taxpayers carry an extremely important burden. Even more specifically, those who earn more than R1.5 million per year are budgeted to contribute R160 billion in tax this year. That is 11.2% of the total expected revenue.

This is reflected in the table below from the 2019 budget review:

Estimates of individual taxpayers and taxable income, 2019/20

Taxable bracket	Registered individuals		Taxable income		Income tax payable before relief		Income tax relief after proposals		Income tax from medical tax credits		Income tax payable after proposals	
R thousand	Number	%	R billion	%	R billion	%	R billion	%	R billion	%	R billion	%
R0 - R70[1]	6 369 806	–	183.4	–	–	–	–	–	–	–	–	–
R70 - R150	2 385 046	31.2	254.0	10.0	10.3	1.9	-0.34	28.5	0.05	5.0	10.1	1.8
R150 - R250	1 949 150	25.5	387.4	15.2	36.4	6.6	-0.32	26.9	0.20	23.1	36.2	6.5
R250 - R350	1 169 590	15.3	349.9	13.7	49.6	9.0	-0.19	15.8	0.21	22.1	49.7	9.0
R350 - R500	984 790	12.9	408.5	16.0	75.9	13.7	-0.16	13.2	0.23	21.9	76.0	13.7
R500 - R750	610 331	8.0	367.1	14.4	89.1	16.1	-0.10	8.2	0.15	14.3	89.2	16.1
R750 - R1 000	261 631	3.4	224.7	8.8	66.1	12.0	-0.04	3.5	0.07	6.1	66.2	12.0
R1 000 - R1 500	161 868	2.1	193.9	7.6	65.8	11.9	-0.03	2.2	0.05	4.4	65.8	11.9
R1 500 +	120 751	1.6	362.7	14.2	159.8	28.9	-0.02	1.6	0.04	3.2	159.8	28.9
Total	**7 643 157**	**100.0**	**2 548.1**	**100.0**	**553.0**	**100.0**	**-1.18**	**100.0**	**1.00**	**100.0**	**552.9**	**100.0**
Grand total	**14 012 963**		**2 731.5**		**553.0**		**-1.18**		**1.00**		**552.9**	

1. Registered individuals with taxable income below the income-tax threshold

Source: National Treasury

While this illustrates South Africa's progressive tax system, which requires higher earners to pay proportionally more, it also highlights a vulnerability. More than a 10th of the country's entire revenue is budgeted to come from just 120 751 individuals – 0.2% of the population.
It has been noted before how placing more and more demands on this small group could increase the risk that they move either themselves or their assets elsewhere. This is, after all, a highly mobile demographic. If they feel their taxes are not being properly spent and the opportunities for them in other countries with lower tax rates are more attractive, they have the option of leaving.

To put this into perspective: R16 billion is significantly more than the revenue National Treasury projected to take in this year from the 2.4 million taxpayers earning less than R150 000 per year.

Signs of trouble

Worryingly, an analysis of the tax collection figures to August suggests that revenues from this group may indeed be slipping. Many of the highest income earners in South Africa would be registered as provisional taxpayers. In other words, they earn income other than just from a single salary, and are required to submit returns twice a year.

Comparing the revenue received from provisional taxpayers in the 2018/2019 tax year to how much has been recovered from them so far this year reveals a concerning picture. Despite National Treasury's expectation that both the number of high income earners and the amount of tax they pay would go up, the figure taken in from provisional tax has actually fallen.

Provisional tax, assessment payments and penalties collected to August						
2019/20			**2018/19**			
Budget estimate	YTD	%	Preliminary outcome	YTD	%	**Change**
R53 713 812	R14 592 059	27%	R49 432 083	R17 796 236	36%	**-9%**

While, on aggregate, provisional taxpayers will always pay more in the second half of the tax year, the drop in collections both in nominal terms and relative to the total amount expected is noteworthy. It suggests that there may be a gap developing in this segment of the tax base.

This also aligns with figures showing that more wealthy South Africans are looking to emigrate. LIO Global recently noted that applications from South Africa for the USA's EB-5 Investor Green Card Programme, which opens up US citizenship for those able to invest at least R7.6 million into the country, have more than tripled. As Sacks notes, this has potentially serious implications for the country. Not just because of the impact on revenue collection, but for the economy more broadly.

“Those mobile people would also be big spenders in the economy,” he points out. “So when they leave, your Vat goes down as well. They could potentially be moving their businesses abroad, so your company tax could go down. Your employment could go down. “You are not just losing a bit of personal income tax – there is a ripple effect right through the economy.”

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