GO Benefits

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Budget Speech 2019: Implications for retirement funds

South Africa's Finance Minister Tito Mboweni delivered the National Budget speech on 20 February 2019. This publication summarises matters from this speech which directly impact on retirement funds.
The publication also discusses Government's intended financial sector reform and provides a summary of key budget items which directly affect individuals.

A. Retirement Fund Reform

The first draft of the comprehensive social security paper is being finalised through NEDLAC ("National Economic Development and Labour Council"). The Finance Minister has stated that the process should be concluded in 2019, after which the paper will be revised and released for public consultation.

Furthermore, it has been stated that NEDLAC is engaging on retirement reform issues related to provident fund annuitisation, which has been postponed to 2021, as set out in the Taxation Laws Amendment Act, 2018 (please see your previous publication for more on this Act).

Lastly, the Minister announced that the outstanding conduct standards are being finalised to support the full implementation of retirement fund Default Regulations which come into effect on 1 March 2019.

B. Retirement Fund Taxation that Has Not Changed

- There have been no changes to the lump sum tax tables for retirement, death, compulsory retrenchment and withdrawal benefits
- Fund contribution deduction limits of 27.5% of remuneration or taxable income, capped at R350 000, remain unchanged.

C. Tax Changes Affecting Retirement Funds

Exemption Relating to Annuities From a Provident or Provident Preservation Fund: Effective 1 March 2016

Once a member of a fund retires and receives an annuity, any contributions to their retirement fund that did not qualify for a deduction when determining the member's taxable income are tax-exempt and are taken into account when calculating tax on members' lump sum benefit or annuity payments.

It is proposed that this exemption be extended to provident and provident preservation fund members who receive annuities. This exemption would apply for contributions made after 1 March 2016.

Tax Treatment of Bulk Payments to Former Members of Deregistered Funds

Retirement funds are permitted to make certain extraordinary payments to their members tax free. In 2009, Government Gazette No. 32005 was issued allowing retirement funds to make tax-free payments in respect of "secret profits", surplus payments and unclaimed benefits.

When the Government Gazette notice was issued, some deregistered retirement funds had already paid fund administrators, but the amounts were not yet paid to the affected members and/or beneficiaries. It is proposed that these payments currently held by fund administrators on behalf of deregistered retirement funds qualify as tax-free payments, provided they meet certain criteria. No effective date for this has been proposed.

Reviewing the Tax Treatment of Surviving Spouses' Pensions

Surviving spouses that receive a spouse's pension from a retirement fund as well as income from employment have PAYE deducted in respect of both sources of income. However, on assessment, the combined sources of income may result in the surviving spouse moving up a tax bracket and being liable to pay additional tax, which they had not budgeted for.

The following is proposed (with no effective date):

- Surviving spouses should receive effective communication relating to tax and financial issues
- Monthly spouse's pension should be subject to PAYE withholding at a specified flat rate
- Tax rebates are not to be taken into account for the calculation of spouse's pensions.

D. Financial Sector Reform

Enhancing the Twin Peaks Regulatory Model

With the establishment of the Financial Sector Conduct Authority (FSCA) and the Prudential Authority in April 2018, South Africa commenced operating the Twin Peaks regulatory model.

Both Regulators are working to build capacity to achieve their comprehensive mandates, which involve a broad scope of jurisdiction over all South African financial institutions. Other priorities include:

- Strengthening the regulation and supervision of banking institutions
- Implementing regulation and supervision of financial conglomerates
- Establishing a framework for significant owners (people who control or materially influence a financial institution)
- Mechanisms to ensure that the failure of a major financial institution is handled in a way that minimises its impact on the economy
- Encouraging development and establishing a financial technology (fintech) policy paper.

A Stronger Legal Framework for Treating Customers Fairly

Conduct of Financial Institutions Bill

Financial market conduct legislation is undergoing significant reform. The Conduct of Financial Institutions Bill published by the National Treasury in December 2018, proposes to create a single comprehensive law for the financial sector and repeal numerous laws now in place.

The Bill regulates how financial institutions treat their customers, in line with the Treating Customers Fairly principles. It also sets out the specific intention of the law, rather than setting rules for compliance.

The Pension Funds Act will govern the structure and prudential requirements of retirement funds. The Bill will govern the market conduct of retirement funds.

The FSCA will be empowered to conduct standards with details on how the principles must be attained, which will be binding. Regulators will test institutions on the delivery of the outcomes. However, the institutions can decide what processes and actions are required to meet the outcomes. Decision-makers of an institution will be held accountable for compliance with the Bill and can be held personally liable for weak governance.

The Bill applies to retirement funds and whilst trustees do not need to be licensed, standards may be issued that regulate trustees and sponsors of funds. Furthermore, the FSCA may impose requirements on supervised entities which are involved in retirement fund activities, even where those entities are not licensed under the Bill.

The Bill will be subject to extensive consultation and engagement to ensure it is appropriate and effective once enacted. Comments to the Bill are due by 1 April 2019.

Conduct Standards for Retail Banks

The Minister has announced that the FSCA will consult on a conduct standard for retail banks, which have historically been subject to limited regulation of customer interactions. It will require banks to treat customers fairly, ensure that appropriate processes govern product design and sales, and manage customer complaints properly.

Protecting Customers and Maintaining Financial Stability: A Comprehensive Resolution Framework

The Minister has announced that a Financial Sector Laws Amendment Bill will be tabled in Parliament during 2019. Once enacted, it will ensure financial stability and protect customer funds in the event that banks or any other systemically important financial institutions fail. The Reserve Bank will be the designated Resolution Authority and will have the responsibility of taking over the management of a bank if it fails.

This bill will also introduce South Africa's first comprehensive Deposit Insurance Fund.

Lastly, during 2019, South Africa will undergo a Financial Stability Board Peer Review, which will evaluate the country on its approach to the resolution of banks, systemically important non-bank financial institutions and deposit insurance.

Diversifying the Financial Sector

The Financial Matters Amendment Bill, tabled in Parliament in January 2019, will allow for the establishment of state-owned banks. Under this legislation, qualifying state-owned companies will be able to register as banks in terms of the Banks Act once they have met all requirements. Currently, the Banks Act only allows for the registration of public companies as banks.

Only qualifying state-owned companies that are financially sound will be able to apply for authorisation to establish a bank in terms of the Banks Act.

Maintaining the Integrity of South Africa's Financial System

South Africa does not have a formal mechanism in place to conduct coordinated assessments of money laundering and terrorist financing risks. To address this shortcoming, an interdepartmental committee will be established to coordinate the identification and assessment of such risks at a national level.

Financial Inclusion

During 2019, the National Treasury will publish a financial inclusion policy paper that proposes establishing two bodies to support policy implementation.

An intra-government financial inclusion taskforce, chaired by the National Treasury, will oversee implementation of agreed policies and interventions.

A financial inclusion forum will allow industry and other non-governmental stakeholders to engage policymakers and regulators on strategic priorities.

A national financial inclusion strategy will be developed from discussion arising from these two bodies.

E. High Level Budget Highlights

VAT

VAT remains unchanged at 15%. However, an additional three items being white bread flour, cake flour and sanitary pads will be zero-rated for VAT purposes, from 1 April 2019.

Grants and Social Security Limits (Increases Effective From 1 April 2019)

	2018/19 (Per Month)	2019/20 (Per Month)
State old age grant	R1 695	R1 780
State old age grant for people over 75	R1 715	R1 800
Disability grant	R1 695	R1 780
Child support grant	R405	R425
Foster care grant	R960	R1 000
Care dependency grant	R1 695	R1 780
War veterans grant	R1 715	R1 800

Tax Rebates

	2018/19	2019/20
Primary Rebate	R14 067	R14 220
Secondary Rebate (for taxpayers 65 and older)	R7 713	R7 794
Tertiary Rebate (for taxpayers 75 and older)	R2 574	R2 601

Taxable Threshold (Below Which Tax Is Not Payable)

	2018/19	2019/20
Taxpayers under 65	R78 150	R79 000
Taxpayers between 65 and 74	R121 000	R122 300
Taxpayers 75 and older	R135 300	R136 750

Monthly Medical Tax Credits

There have been no increases in medical tax credits this year and these remain as follows:

	2019/20
Member	R310
First beneficiary	R310
Additional beneficiaries	R209

Personal Tax Tables (Natural Persons)

Personal tax tables have not been adjusted for inflation this year. Individuals with an inflationary increase in their taxable income will face a larger tax burden. These tables remain as follows:

2019/20	
Taxable income	**Tax rates**
0 – R195 850	18% of taxable income
R195 851 – R305 850	R35 253 + 26% of taxable income above R195 850
R305 851 – R423 300	R63 853 + 31% of taxable income above R305 850
R423 301 – R555 600	R100 263 + 36% of taxable income above R423 300
R555 601 – R708 310	R147 891 + 39% of taxable income above R555 600
R708 311 – R1 500 000	R207 448 + 41% of taxable income above R708 310
R1 500 001 and above	R532 041 + 45% of taxable income above R1 500 000