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BUDGET SPEECH 2023/24 TAX YEAR

This note is a summary of the National Budget, 22 February 2023.

1. INDIVIDUALS

The maximum marginal rate for natural persons remains at 45% and is reached when taxable income exceeds R1 817 001 (previously R1 731 600).

The minimum rate of tax remains at 18% on taxable income not exceeding R237 100 (previously R226 000).

The primary rebate for all natural persons has been increased to R17 235 (previously R16 425). The additional rebate for persons aged 65 years and older is increased to R9 444 (previously R9 000). Persons aged 75 and older are granted a further R3 145 (previously R2 997).

The tax-free portion of interest income remains at R23 800 for taxpayers under 65 years, and R34 500 for persons aged 65 years and older. In addition the tax-free savings dispensation for other investments (Tax Free Savings Accounts), including collective investment schemes, remains at R36 000 per tax year.

Local dividends tax remains at a flat 20% rate which was effective 22 February 2017.

Foreign dividends also remain effectively taxed at a flat rate of 20%, but this may be reduced in terms of Double Tax Treaties.

A final withholding tax on interest from a RSA source to a non-resident remains at 15%, subject to Double Tax Treaties.

An individual is exempt from the payment of provisional tax if the individual does not carry on any business and the individual's taxable income –

- Will not exceed the tax threshold (see 4 below) for the tax year, or
- From interest, foreign dividends and rental will be R30 000 or less for the tax year.

The Section 10(1)(o)(ii) exemption for foreign employment income of tax residents remains at R1,25 million, effective 1 March 2020.

<u>Domestic solar PV panels tax rebate</u>

A tax rebate (that is a deduction from actual tax payable) is allowed to individuals of 25% of the cost of new or unused panels purchased and installed at a private residence from 1 March 2023. (This however excludes the cost of invertors and batteries). This rebate is capped at R15 000 per individual.

RETIREMENT FUNDS

The minister of finance confirmed that, after further consultations, government intends to publish revised draft legislation on the Two-Pot retirement system, to be implemented with effect from 1 March 2024. This will be a significant step towards compulsory preservation of the one "pot", and potentially expanding investment opportunities into more illiquid investments with a liquidity premium.

This means that after 1 March 2024, contributions towards retirement funding will be allocated to two pots, with one third going into a "savings pot" and two-thirds into a "preservation pot". Annually, members will be able to access a savings withdrawal benefit from the savings pot, but the contributions to the preservation pot must be preserved until the fund member retires. The draft legislation will include details on the amount that will be immediately available when the system is implemented from 1 March 2024.

Also, as indicated in section 9, the lump sum Second Schedule tax table will be adjusted upwards by 10% so lump sum benefits paid on retirement and withdrawal will receive a lower tax bill e.g. R550 000 will be tax free on retirement, which is up from the current R500 000.

2. COMPANIES AND CLOSE CORPORATIONS

The rate of normal tax is 27%. (This was reduced from 28% to 27% for tax years commencing 1 April 2022, or put another way, ending on or after 31 March 2023.

The final withholding dividends tax remains at a flat rate of 20%.

Tax-exempt bodies (e.g. Retirement Funds) will suffer no withholding tax upon production of a tax-exemption certificate.

3. TRUSTS

The flat rate remains at 45%, although distributions in the same tax year are taxed in the beneficiaries' hands.

4. INDIVIDUAL TAX THRESHOLDS

Liability for tax is as follows:

Under 65 years:	R95 750	(previously R 91 250)
65 to 74 years:	R148 217	(previously R141 250)
75 years and older:	R165 689	(previously R157 900)

INCOME TAX: INDIVIDUALS AND SPECIAL TRUSTS

Taxable income (R)		Rates of tax	
0 –	237 100	18% of taxable income	
237 101 –	370 500	R42 678 + 26% of taxable income above R	237 100
370 501 –	512 800	R77 362 + 31% of taxable income above R	370 500
512 801 –	673 000	R121 475 + 36% of taxable income above R	512 800
673 001 –	857 900	R179 147 + 39% of taxable income above R	673 000
857 901 – 1	817 000	R251 258 + 41% of taxable income above R	857 900
1 817 001 and above		R644 489 + 45% of taxable income above R11 817 001 and	

TRUSTS OTHER THAN SPECIAL TRUSTS – RATE OF TAX – 45%

TAX REBATES:

PRIMARY	R17 235	(previously R16 425)
SECONDARY (AGE 65 AND OVER)	R9 444	(previously R9 000)
PLUS AGE 75 AND OVER	R3 145	(previously R2 997)

5. ESTATE DUTY AND DONATIONS TAX

The rate of estate duty and donations tax remains at 20% for dutiable estate amounts of R30 million or less and increases to 25% for dutiable estate amounts over R30 million.

The estate duty abatement (exempt threshold) remains at R3,5 million per person and a surviving spouse may also benefit automatically from any unused deduction in the first-dying spouse's estate. i.e. The abatement remains a combined maximum R7 million for the second-dying spouse.

There is a similar treatment of Donations Tax namely 20% for donations of R30 million or less, which increases to 25% for donations over R30 million, being the cumulative value of all donations on or after 1 March 2018.

The first R100 000 of amounts donated in each tax year by a natural person remains exempt from donations tax. Donations between spouses are fully exempt.

6. CAPITAL GAINS TAX (CGT)

- The annual capital gain exclusion for individuals remains at R40 000.
- The primary residence exclusion from capital gains tax remains at R2 million.
- The capital gain exclusion at death remains at R300 000.
- The effective rate of CGT is the range of 7.2% to 18% for individuals, 21,6% for companies and 36% for Trusts, although correctly structured Trusts can result in the lower individual rate being applicable.

7. TRANSFER DUTY

The rates are revised, i.e. property costing less than R1,100 000 will attract no duty. A 3 percent rate applies between R1,100 001 and R1,512,500, 6 per cent between R1,512 501 and R2,117,500, 8 percent between R2,117,501 and R2,722,500, 11 percent between R2,722,501 and R12,1 million and 13 percent thereafter.

8. RETIREMENT FUNDS

(The revised tables are as below) Retirement Fund Lump Sum Withdrawal Benefits

Taxable Income	**Rates of Tax**
0 – 27 500	0% of taxable income
27 501 – 726 000	18% of taxable income above 27 500
726 001 – 1 089 000	125 730 + 27% of taxable income above 726 000
1 089 001 and above	223 740 + 36% of taxable income above 1 089 000

Retirement Fund Lump Sum Retirement Benefits or Severance benefits

Taxable Income	Rates of Tax
0 – 550 000	0% of taxable income
550 001 – 770 000	18% of taxable income above 550 000
770 001 – 1 155 000	39 600 + 27% of taxable income above 770 000
1 155 001 and above	143 550 + 36% of taxable income above 1 155 000

- **<u>Tax Harmonisation of Retirement Fund Contributions</u>**

As from 1 March 2016 all retirement funds (pension, provident and retirement annuity funds) are treated similarly for tax contribution purposes.

The tax deduction formula of 27,5% per annum (with a cap of R350 000) of the greater of taxable income and remuneration applies to members of all retirement funds, including provident funds.

- **<u>Annuitisation</u>**

Pension and Retirement Annuity (RA) Funds require a compulsory annuity purchase upon retirement with two-thirds of such Fund benefits value while Provident Fund benefits value as at 1 March 2021, may be commuted in full, after which the annuitisation principle also applies to such subsequent contributions and growth thereon. The threshold below which a full fund benefit from a Pension, Provident or RA is allowed to be commuted is R247 500.

9. MEDICAL EXPENSES

- Taxpayers may in determining tax payable deduct monthly contributions to medical schemes (a tax rebate to be known as a medical scheme fees tax credit) up to R364 for each of the taxpayer and the first dependant on the medical scheme and R246 for each additional dependant.
- An individual who is 65 and older, or if that person, his or her spouse or child is a person with a disability, 33.3% of qualifying medical expenses paid and borne by the individual and an amount by which medical scheme contributions paid by the individual exceed 3 times the medical scheme fees tax credits for the tax year.
- Any other individual, 25% of an amount equal to qualifying medical expenses paid and borne by the individual and an amount by which medical scheme contributions paid by the individual exceed 4 times the medical scheme fees tax credits for the tax year, limited to the amount which exceeds 7.5% of taxable income (excluding retirement fund lump sums and severance benefits).

10. VAT

The rate remains at 15%. The compulsory VAT registration threshold remains at R1 million turnover per twelve month period.

11. FOREIGN EXCHANGE

The offshore investment allowance remains at R10 million per adult person per calendar year. In addition, the R1 million individual single discretionary allowance remains.

12. VOLUNTARY DISCLOSURE PROGRAM

Taxpayers who have undisclosed income whether local or foreign, may avail themselves of the permanent normal SARS Voluntary Disclosure Program (VDP) contained in the Tax Administration Act, in order to mitigate penalties.

As regards unauthorised foreign assets, a person may approach the SA Reserve Bank (SARB) for post SVDP regularisation and each case is considered on its own merits.

Should you have any questions regarding the above, please contact your consultant to assist you.