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April 29, 2014
2014-048

flash International Executive Alert

A Publication for Global Mobility and Tax Professionals by KPMG's International Executive Services Practice

South Africa – In Budget 2014, Changes Planned for Savings and Retirement
by KPMG, South Africa (a KPMG International member firm)

In This Issue:

South Africa's budget contained, in addition to the standard changes to the personal income tax thresholds, rebates, and credits, amendments to the retirement lump sum tax tables. Further, proposals have been made relating to the creation of a tax-preferred savings accounts, the tax treatment of life and insurance disability premiums, "key-person" insurance policies, the timing of the accrual of retirement fund benefits, company car benefits, employer-provided residential accommodation, and additional information on the Employment Tax Incentive.

Why This Matters

The modifications upwards in thresholds and rebate and credit amounts largely keep pace with the rate of inflation. The specific measures aimed at savers could mitigate a taxpayer's liability.

International assignment cost projections and budgeting for assignments to South Africa and for assignees outside South Africa still subject to South African taxation should reflect the changes in the Budget. Where appropriate, adjustments by payroll administrators to withholdings should also be made.

Furthermore, depending on a taxpayer's tax affairs and the company's policies, the resultant tax differential in respect of the changes for 2014 versus the changes in 2013 may impact tax equalizations.

Employers should in particular take note of and prepare for forthcoming changes to benefits. It is important to note that the introduction of the first phase of the Retirement Savings Reform, effective as from 1 March 2015, may have a significant impact on tax effect of contributions made to foreign retirement plans. A topical *Flash International Executive Alert* will be issued on this matter as developments occur.

South Africa's Finance Minister Pravin Gordhan delivered his 2014 Budget Speech on 26 February 2014[1], announcing a number of measures impacting individuals – including those on international assignment – and their employers. The Minister also announced a review of cross-border retirement savings situations and a number of other developments in the pipeline. We highlight some of the important measures affecting individuals below. (For coverage of last year's budget, see *Flash International Executive Alert* 2013-076, 9 May 2013.)

Personal Tax Rebates

It is proposed that with effect from 1 March 2014, the following rebates will apply to individuals' tax liabilities: Primary rebate ZAR 12,726 (previously: ZAR 12,080); secondary rebate ZAR 7,110 (previously: ZAR 6,750) per individual 65 and over; tertiary rebate ZAR 2,367 (previously: ZAR 2,250) per individual 75 and over.

Tax Table

The tax table below will apply to natural persons for the 2014/15 tax year (year beginning 1 March 2014).

Taxable Income ZAR	Tax Due ZAR		
0 – 174,550	0	+	18% of every ZAR 1
174,551 – 272,700	31,410	+	25% of the amount above ZAR 174,550
272,701 – 377,450	55,960	+	30% of the amount above ZAR 272,700
377,451 – 528,000	87,370	+	35% of the amount above ZAR 377,450
528,001 – 673,100	140,045	+	38% of the amount above ZAR 528,000
673,101 and above	195,183	+	40% of the amount above ZAR 673,100

Theshold: It is proposed that with effect from 1 March 2014, income below which individuals are not subject to income tax will be: ZAR 70,700 (previously: ZAR 67,111) per individual under 65; ZAR 110,200 (previously: ZAR 104,611) per individual 65 to 74; ZAR 123,350 (previously: ZAR 117,111) per individual 75 and over.

40% Marginal Rate of Tax**:** The marginal rate will apply to individuals with annual income of ZAR 673,101 (previously: ZAR 638,600) and above.

Medical Tax Credits

It is proposed that from 1 March 2014, medical credits will be increased from ZAR 242 to ZAR 257 for the first two beneficiaries and from ZAR 162 to ZAR 172 for each additional beneficiary.

Tax-Preferred Savings Accounts/Plans

Banks, asset managers, life insurers, and brokerages will be able to offer individual savers a Tax-Preferred Saving Account, intended to encourage household savings. An initial annual contribution limit of ZAR 30,000 will apply, which will be increased annually in line with inflation, with a current maximum lifetime contribution limit of ZAR 500,000. A detailed discussion document on the matter was published on <www.treasury.gov.za> on 14 March 2014.

Retirement Lump Sum Taxation

The retirement fund lump sum tables generally have not been updated annually for inflation. Due to the pre-retirement lump sum tax table containing a "disincentive" element, the tax-free amount has only been adjusted upwards by ZAR 2,500, from ZAR 22,500 to ZAR 25,000. However, in order to assist lower-income workers, who may be required to pay tax on their lump-sum even though they did not benefit from a deduction, the tax-free threshold in respect of the retirement lump sum tax table has been increased to ZAR 500,000 from ZAR 315,000.

Company Car Fringe Benefit

It is proposed that to align the treatment of company car fringe benefits for all employees (whether or not they work for a vehicle manufacturer), the actual retail market value shall be used in all cases.

This reform will be phased in over four years. A more reasonable treatment of fuel, maintenance, insurance, and license costs that are borne by those employees with company cars will also be introduced.

Personal Insurance Policies

Legislation is already in effect stipulating that from 1 March 2015, the premiums for life and disability insurance will not be tax-deductible to the policy-holder, but the concomitant proceeds on these policies are to be treated as tax-free. The legislation, however, will be clarified to ensure that the tax treatment will apply to all personal insurance policies.

Residential Accommodation Fringe Benefit

The fringe benefit for residential accommodation provided by an employer is determined using a formula incorporating variables such as the employee's remuneration and the period of use. Frequently, the actual cost to the employer of providing the accommodation is less than the value calculated by the formula. It is proposed that where an employer leases residential accommodation from an unconnected third-party, the taxable benefit to the employee should be the cost incurred by the employer in providing the residential accommodation.

Furthermore, currently if a number of employees share the same residential accommodation, there is no apportionment on the taxable benefit of the residential accommodation. Each employee is taxed as if he/she were the only employee occupying the residential accommodation. It is proposed that a form of apportionment should be considered. It is lastly proposed that the valuation of the fringe benefit resulting from employer-provided accommodation be reviewed.

For Businesses

Employment Tax Incentive: The government introduced the employment tax incentive on 1 January 2014. In the fourth quarter of 2014, SARS will introduce a mechanism for reimbursement of companies in cases where the employment tax incentive exceeds the PAYE liability.

"Key-Person" Insurance Policies in Businesses**:** Under currently reformed legislation, the taxpayer can either elect to deduct premiums on key-person policies taken out on key employees in the business, or the default will apply with the premiums rendered non-deductible and any consequent proceeds paid on such policies being treated as non-taxable. To be able to elect to deduct premiums, the policy must insure the employer against the loss of the key person due to death, disablement, or severe illness (and not to protect the employer against a contingent liability such as the repayment of a loan). The legislation will be clarified to confirm the policy position.

In the Pipeline

Cross-Border Retirement Savings: South African residents working abroad and foreign residents working in South Africa often contribute to local and foreign pension funds. In light of the overall retirement reform, these situations have to be re-considered. It is proposed that the review will take place over the next two years with extensive consultation.

Retirement Savings Reforms**:** With effect from 1 March 2015 – as we noted earlier – employer contributions to retirement funds will be deemed to be fringe benefits in the hands of the employees. The contributions will be tax-deductible by individuals (up to a certain limit). A paper summarizing changes to date and future anticipated reforms was published on <www.treasury.gov.za> on 14 March 2014. Further, the timing of the accrual of retirement fund benefits will be reviewed to provide certainty and ease practical application. (For prior coverage, see *Flash International Executive Alert* 2013-156, 26 November 2013.)

Next Steps

Further consultation and technical discussion papers are expected in relation to a number of the proposals.

A Draft Taxation Laws Amendment Bill is expected to be released in July 2014 containing further detail of these proposals. Final Amendment Acts will be introduced and passed by Parliament later in the year.

Footnote:

1 For the text of the budget speech and related documentation, see the Web site for the South African National Treasury at: http://www.treasury.gov.za/ .

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ZAR 1 = USD 0.094

ZAR 1 = EUR 0.06795

ZAR 1 = GBP 0.056

For a complete analysis of the Budget, see the Web page devoted to the South African budget featured by the KPMG International member firm in South Africa at: http://www.kpmg.com/ZA/en/Topics/2014-Tax-Budget/Pages/default.aspx .

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