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flash Alert

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South Africa – Personal Tax Rate, Fringe Benefit Changes in Budget 2015
by KPMG, South Africa (a KPMG International member firm)

For coverage of last year's budget, see *Flash International Executive Alert* 2014-048, 29 April 2014

South Africa's Budget for 2015 confirms changes to the tax treatment of employer contributions made to any local "approved" retirement fund. It also includes changes to the tax treatment of accommodation provided to the employee either free of charge or for a consideration which is less than the "rental value." In addition, high income earning individuals will be hit with an increase in income tax.

South Africa's Finance Minister Nhlanhla Nene delivered the Budget Speech[1] on 25 February 2015.

Why This Matters

Employers with international assignee populations should evaluate the impact of the tax rate increase as well as other measures affecting the taxable income of assignees. In many cases, the increase in the progressive tax rate table means an increase in the tax burden for individuals, thus potentially increasing employment costs for the employer. This is particularly relevant in respect of international assignees in South Africa whose employers are liable to settle the home and host country tax liabilities (i.e., tax equalized assignees).

Where appropriate, adjustments by payroll administrators to withholdings should be made.

Employers should take note of and prepare for forthcoming changes to fringe benefits.

We highlight below some of the important measures affecting individuals and their employers.

Increased Personal Income Tax Rates

Unlike previous budgets that mostly simply adjusted the income tax brackets for fiscal drag, taxpayers earning more than ZAR 181,900 per annum will be subject to a 1-percent increase in their marginal tax rate. In this Budget, relief for fiscal drag has been limited to the bottom end of the rate scale. "The net effect," said the minister, "is that there will be tax relief below about R 450 000 a year, while those with higher incomes will pay more in tax." The increase applies to the 2016 South African tax year and came into operation on 1 March 2015.

See the table below/on the following page for the new tax rates and thresholds.

Tax Rates and Thresholds: Individuals and Trusts

TAXABLE INCOME		RATE OF TAX		
ZAR	ZAR	ZAR		ZAR
0	181,900		18% of each	1
181,901	284,100	32,742 +	26% of the amount above	181,900
284,101	393,200	59,314 +	31% of the amount above	284,100
393,201	550,100	93,135 +	36% of the amount above	393,200
550,101	701,300	149,619 +	39% of the amount above	550,100
701,301	and above	208,587 +	41% of the amount above	701,300

ZAR 1 = EUR 0.076 | ZAR 1 = USD 0.0853 | ZAR 1 = GBP 0.055 | ZAR 1 = INR 5.41

Tax Thresholds and Rebates

The taxable income below these thresholds results in nil taxes being due as the taxes payable will be offset against the appropriate income tax rebate.

AGE	TAXABLE INCOME THRESHOLD (ZAR)	TAX REBATES (ZAR)
Below age 65	73,650	13,257
Age 65 to below 75	114,800	7,407
Age 75 and over	128,500	2,446

KPMG Note

The change in the tax rates will impact employment costs for employers, in particular in respect of their employees who are sent to South Africa on international assignment, and the employer is liable to settle the home and host country tax liabilities (i.e., tax equalized assignees).

Based on the top marginal rate of 40 percent, the gross-up percentage was 66.67 percent. The increase in the top marginal rate to 41 percent will increase the tax gross-up percentage by approximately 2.82 percent. An illustration of the increase in the tax gross-up percentages applicable to the progressive tax rates in the 2015 and 2016 tax years is shown in the table below/on the following page. In the case of a tax equalized employee in the top marginal bracket, whose employer elects not to make hypothetical tax adjustments, there is potentially an increase in the tax burden by approximately 2.82 percentage points.

2015	2016	2015	2016	
Progressive tax rates (%)	Progressive tax rates (%)	Gross-up %	Gross-up %	Percentage increase in tax gross up
25	26	33.33	35.14	1.80
30	31	42.86	44.93	2.07
35	36	53.85	56.25	2.40
38	39	61.29	63.93	2.64
40	41	66.67	69.49	2.82

KPMG Note (cont'd)

Equally, outbound tax equalized employees that remain liable to South African taxation are also likely to be impacted as a result of the increased tax burden.

From an assignment planning perspective, employers will need to determine that the hypothetical tax calculations are adjusted to account for the increased home country tax burden and that these changes to the net take home pay are communicated to the respective individuals. The individuals could potentially see a reduced net take home pay as a result. Overall, the international assignment cost projections will need to be revised appropriately to account for the impact of the increased tax burden.

Employer-Provided Residential Accommodation

A taxable fringe benefit arises where an employer provides an employee with residential accommodation either free of charge, or for a consideration which is less than the "rental value." The rental value of the residential accommodation is determined as the greater of an amount determined in accordance with a formula provided for in the legislation or the actual expenditure incurred by the employer for such accommodation. However, employers could apply for a tax directive from the South African Revenue Service (SARS) to apply the lower value, where the formula value is higher than the actual rental value paid by the employer. Absent a directive from SARS, the employer was obliged to apply the higher value thereby suffering a higher tax cost (especially where the employer is liable for the tax). This was also an administratively burdensome process.

With effect from 1 March 2015, a welcome relief is provided in the following new rules: where an employer is renting accommodation from an unconnected third party, the taxable fringe benefit value will be determined as the lower of the formula or the cost to the employer in providing the accommodation (i.e., the rental cost).

Harmonization of Retirement Reform from 1 March 2016

With effect from 1 March 2016 (postponed from 1 March 2015), employer contributions made to any local "approved" retirement fund, for example, a pension, provident, or retirement annuity fund, will be regarded as a taxable fringe benefit in the hands of the employee. A tax deduction equal to the higher of 27.5 percent of the employee's remuneration or taxable income will be allowed in respect of both the employer and employee contributions. The allowable deduction is capped at ZAR 350,000 for the tax year. Any non-deductible portion will be carried forward to the following year of assessment for deduction and is eligible to be paid out free from income tax upon pay-out.

The tax regime applicable to contributions made to foreign retirement funds in the case of foreign nationals depends on the nature of the particular fund. In short, in certain instances, the contribution made by the employer will result in taxable income, without an accompanying deduction. However, subject to specific requirements, some Double Taxation Agreements (DTAs) specifically provide for a deduction of the contributions made to a foreign retirement fund.

KPMG Note

Due to the fact that the tax burden for the assignee is likely to increase where he or she is not tax equalized, it is recommended that employers with relevant arrangements seek advice.

Other Measures and Proposals

- Where there are withdrawals from a retirement annuity fund for non-tax residents prior to retirement age (55), a proposal has been made to align the legislation applicable to South African nationals and foreign nationals so that, upon repatriation (instead of immigration), foreign nationals may withdraw from a retirement annuity fund prior to retirement.
- It is proposed that a self-assessment system be introduced for income tax purposes.
- Share scheme legislation is to be amended to remove anomalies with regard to specific taxation aspects.
- Employer and employee contributions to the Unemployment Insurance Contribution Fund (UIF) are to be reduced from an amount of ZAR 148.72 per month to an amount of ZAR 10 per month for the tax year 1 March 2015 – 29 February 2016. To summarize, the employer and the employee will each contribute a maximum of ZAR 10 in UIF. Presently inbound foreign nationals who are contractually obliged to repatriate to their home location after the secondment to South Africa are exempt from making contributions.

Next Steps

Following on from the budget speech is a consultation process led by the National Treasury that concludes in a *draft* amendment bill. The draft bill is published for comment and further consultation follows, including discussions with the relevant parliamentary committees, which then results in an amendment bill. The amendment bill is reviewed for constitutionality, and is put through the parliamentary processes. The process is finalized when the President signs or assents to the amendment bill which is then promulgated through its publication in the Government Gazette.

The consultation process is currently in progress and the draft amendment bill is likely to be issued in July 2015 for comment.

Footnote:

1 For the budget speech and related documents, see: http://www.treasury.gov.za/documents/national%20budget/2015/ .

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If you require additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm in South Africa:

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