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GMS Flash Alert

2023-XXX | March 16, 2023

South Africa - 2023/2024 Budget Proposals Delivered

On 22 February 2023, the South African Finance Minister, Minister Enoch Godongwana, delivered the annual Budget Speech.[1]

In many respects, individuals are little impacted by this budget as the changes were few. Personal income tax rates remain the same and no changes either to donations tax or estate duty.

The budget proposals indicate what draft legislation is on the horizon for the South African tax year 1 March 2023 to 29 February 2024.

In this *GMS Flash Alert* we share the proposals relevant to individuals – including those on international assignment – and their employers.

WHY THIS MATTERS

For employers of globally-mobile employees there is always a great deal of interest in budget measures and proposals in respect of future policy as they can have a direct impact on the cost of assignments, payroll withholding, hypothetical tax deductions, etc.

This new budget signals stability and “steady-as-she-goes” in terms of its impact on individual taxpayers – including international assignees subject to South African taxation – and their employers. There appear to be moves around simplification and making the tax system fairer and more logical.

The specific impact of the budget’s measures will depend on each taxpayer’s particular set of circumstances. However, in most instances, we expect that an employee’s South African tax burden should remain relatively stable as a result of these measures. Actions required by employers are likely to become more onerous, however.

It is essential to get in front of the changes described in this newsletter and to communicate quickly and clearly with key stakeholders, so that they can properly plan, budget, and make necessary adjustments.

Taxation of Individuals – Measures Proposed

- **No changes to the marginal tax rates.** The tax rates are still 18 percent to 45 percent. There were adjustments to the tax brackets to account for inflation as well as the tax thresholds and tax rebates.[2]

- **Marginal increases in the medical tax credit**. The medical tax credit is an additional rebate which a taxpayer may claim dependent on the number of dependents on his/her medical aid.

- **No changes to donations tax**. Donations tax is still 20 percent on donations up to ZAR 30 million and 25 percent on donations exceeding ZAR 30 million. Donations tax is only payable by tax residents and is payable by the donor.

- **No changes to Estate Duty.** Estate Duty is still 20 percent on a dutiable estate value up to ZAR 30 million and 25 percent on a dutiable estate value exceeding ZAR 30 million. Estate Duty is only payable by persons who are ordinarily tax resident in South Africa, or on nonresidents who own immovable property located in South Africa.

- **No changes to tax rates for lump-sum withdrawals due to resignation or retirement, but brackets modified**. The brackets of taxable income to which each concessionary tax rate of 18 percent, 27 percent, and 36 percent applies, have increased by 10 percent, thus allowing more taxable income to be taxed at the lower concessionary tax rates.

- **Adjustment upwards of 10 percent for transfer duty tax brackets**. No changes were made to the rates.

- A **"rooftop solar incentive**" is to be introduced, in terms of which individuals will receive a tax rebate equal to 25 percent of the cost of acquiring new and unused solar PV panels, limited to ZAR 15,000 per person, if installed at a private residence during 1 March 2023 up to 29 February 2024, and a certificate of compliance for installation is issued.

  This rebate does not include the cost of installation or any other items associated with the installation of solar panels, e.g., inverters or batteries. To the extent that a landlord pays the cost of such installation at a private residence rented out by him/her, the landlord may claim the rebate – as long as only one person claims the rebate per property.

Other

- **No wealth tax.** Despite Treasury and the South African Revenue Service (SARS) investigating the viability and impact on tax collections of a wealth tax, no such tax has been introduced.

- **Update on retirement reform**. Reform of South Africa's retirement system has been on the agenda since 2012 and every year there have been legislative amendments as relates to South African retirement savings vehicles (retirement annuity funds, pension funds, provident funds and preservation funds). The 2022/2023 budget proposals included the introduction of a "two-pot" retirement system. The intention of the system is to allow pre-retirement access to retirement savings for "rainy days." The system comes into effect 1 March 2024. Permissible withdrawals from funds accrued before 1 March 2024, will be taxed according to the lump-sum tables. Withdrawals from the "savings pot" before retirement will be taxed at marginal rates. On retirement, any remaining amounts in the savings pot will be taxed according to the retirement lump-sum table.

  There is still a lack of clarity regarding the taxation of contributions by employers to foreign retirement plans.

  No further guidance was provided by Treasury or SARS on this during this year's Budget Speech.

Employees' Tax – Measures Proposed

- Currently, nonresident employers who have employees rendering services in South Africa are not required to deduct or withhold South African employees' tax from the remuneration paid to those employees. However, other statutory obligations do apply for nonresident employers (i.e., Unemployment Insurance Fund contributions, Skills Development Levies and Workmen's Compensation (COIDA)).

It has been proposed that the legislation be aligned (which would be a welcome change from employers' perspectives).

- The Fourth Schedule to the Income Tax Act No. 58 of 1962 allows employers to request a variation in employees' tax withholding, taking into account foreign taxes paid in respect of foreign-sourced income, where this income was subject to tax in South Africa. Currently, this application excludes remuneration arising from the vesting of restricted equity instruments (share options, restricted shares, etc.), with the result that employees are only entitled to claim a foreign tax credit when they complete their annual tax returns.

  It is proposed that remuneration arising from the vesting of restricted equity instruments now be included in the directive application – the aforementioned application that needs to be applied for to offset the foreign tax credits through payroll – allowing for the offset of foreign tax credits.

- Continued consultation will take place with employers and representative organisations to allow for the provision of employer and employee data on a monthly basis in a fully automated fashion. Over time, it is foreseen that the need for employer PAYE annual reconciliations will fall away, and the reform will be extended to third-party data providers (which may put a lot of strain on already-stretched resources in employers' payroll teams).

Trusts – Measures Proposed

- The anti-avoidance rules for low-interest or interest-free loans to trusts are to be amended. Currently, rules exist to curb the tax-free transfer of wealth to trusts using low-interest or interest-free loans, advances, or credit. These rules deem any interest foregone in respect of such loans to a trust to be a donation subject to Donations Tax. Exclusions exist when the loan is used to purchase a primary residence for the person advancing it to the trust, company, or spouse of such person. However, the rules do not fully encompass what constitutes a "primary residence" or provide clarity on how foreign currency should be converted.

  National Treasury proposes to address these issues.

- National Treasury is concerned about the discrepancy between the rules on the normal tax treatment of income attributed to beneficiaries of trusts (section 25B of the Income Tax Act) and the rules on the tax treatment of capital gains in relation to beneficiaries (paragraph 80 of the Eighth Schedule of the Income Tax Act). Paragraph 80 does not allow capital gains to be attributed to nonresidents (which results in the trust being liable for the tax). Section 25B makes no such distinction.

  Changes are proposed to align the two provisions and reduce the collection risk for SARS.

KPMG INSIGHTS

Further consultation and technical discussion papers are expected in relation to a number of the proposals. Bracket/threshold adjustments and other measures are anticipated to become effective from 1 March 2023; other changes will be brought in later in the year, and specific implementation dates will be confirmed.

For new assignees inbound to South Africa, pre-departure and/or on-arrival conversations with those who will be subject to South African tax law should include mention of applicable tax rates, thresholds and brackets, exemptions, credits, and allowances and the impact on the assignee.

KPMG INSIGHTS (cont'd)

Employers and employees concerned about the effect of the above-noted changes and how to budget for and otherwise plan the employee's assignment, should contact their qualified tax professional or a member of the Global Mobility Services team with KPMG in South Africa (see the Contacts section).

FOOTNOTES:

1 For the budget speech and related documents, see: https://www.treasury.gov.za/documents/National%20Budget/2023/ .

For in-depth analysis by KPMG in South Africa of Budget 2023, see the dedicated webpage "KPMG Budget 2023: A New Era in Tax" at: https://kpmg.com/za/en/home/insights/2023/01/kpmg-budget-2023.html .

2 For the individual income tax table (brackets and rates) see the SARS tax pocket guide by clicking here.

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ZAR 1 = EUR 0.05
ZAR 1 = USD 0.054
ZAR 1 = GBP 0.045
ZAR 1 = INR 4.49

Source: www.xe.com

Join our KPMG Global Mobility Services team in the United States for a webcast on 28 March where our leaders will discuss the evolving workforce and employee experience; learn how Human Resources and Global Mobility teams can adapt to the changing landscape. Earn 1 CPE credit. Register now!

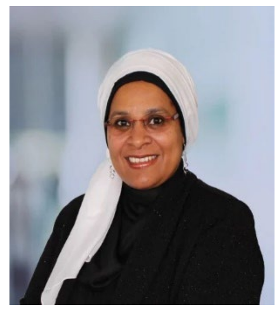
Future focus: The employee experience of tomorrow

28 March 2023 │ 2:00 pm EDT (UTC -5)

To register, click here.

Contact us

For 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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The information contained in this newsletter was submitted by the KPMG International member firm in South Africa.

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