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March 2017

YOU AND BUDGET 2017: TAX INCREASES ARE NOW THE ORDER OF THE DAY

This budget is one of the most anticipated for many years with many questions still needing answers:

- How will the expected tax increases pan out?
- Will the Minister of Finance and his deputy keep their jobs?
- Will the budget incorporate “radical economic transformation”

which has become the President's mantra in the past few months?

- How will the ratings agencies view the budget and do we now face a ratings downgrade?

The tax increases

The Minister needed to raise R28 billion in additional revenue which will come from:

- Increasing the marginal income tax rate from 41% to 45%. The maximum threshold will be reached when your taxable income exceeds R1.5 million. This will affect just over 100,000 taxpayers and is expected to add R4.4 billion to tax collections

- Bracket creep will add R12.1 billion to tax revenue. "Bracket creep" means increasing marginal tax bands by less than inflation, thus giving the Treasury additional revenue and costing taxpayers more

- Increasing dividend tax from 15% to 20% - adding R6.8 billion tax revenue

- Increase in "sin" taxes and fuel levies - another R5.1 billion

- "Sugar tax" will be introduced sometime in 2017 depending on when the legislation is passed by Parliament. The proposed rate of tax has been reduced from 20% to approximately 11%

- Carbon tax has been on the cards for a while but looks unlikely to become effective until 2018.

In addition, the Voluntary Disclosure Program runs to 31 August. So far almost R4 billion in offshore assets has been disclosed and this will bring R600 million to the fiscus.

These increases should bring in more than R28 billion but Treasury is now nervous about the ability of SARS to continue to deliver increased revenue as it has done for years. In 2016/17 revenue collections are estimated to fall R27 billion short of target. Some ascribe this to the ructions in SARS which has seen the bulk of senior management departing but it is not possible to indefinitely increase revenue targets, particularly when the news is filled with stories about corruption. At some stage reality kicks in and that is happening now.

Treasury will now carefully need to rethink tax policy and that taxes like a VAT increase cannot be deferred much longer. Already consideration is being given to adding VAT to the fuel price (it is currently zero-rated)

The good news…

- Transfer duty will now only apply to property sales of R900,001 or more (previously R750,001). This will give R400,000 back to taxpayers and will hopefully stimulate property sales to first-time and buy-to-let buyers.

- R20 billion will be cut from government expenditure. No specifics were given but expenditure targets have generally been met.

- R3.9 billion will be allocated to small business.

- The tax free savings allowance has been raised from R30,000 to R33,000.

- The Treasury and business cooperation has worked well so far and helped to avert a ratings downgrade. Business plans to offer one million apprenticeships to the youth over the next three years. In addition, R1.5 billion has been paid into a fund to assist small businesses.

  This cooperation with business (add to this labour with the agreement on the minimum wage) does add a new dynamic into the economy. Minister Gordhan often spoke of a new social cohesion to help economic growth and this is evidence that this is beginning to show positive results.

- Inflation will fall from 6.6% now to 5.7%.

- GDP will grow 1.3% this year versus 0.4% last year.

- The budget deficit will come in at 3.1% of GDP versus 3.2% this year.

- An additional R5 billion has been set aside for student fees.

There are still perils out there

The sovereign debt of the country has risen over the past 8 years and now stands at 50.7% of GDP. If you add in the State entities (Eskom, SAA, Transnet etc) this rises to more than 60%. This translates to R169 billion interest being paid by the state – interest is the fastest growing expense in expenditure.

Perhaps more significantly, economic growth has stagnated. As can be seen above it is becoming more difficult to increase taxes and thus the way out of a growing budget stalemate is economic growth. Structural reforms are needed to kick start the economy but there seems to be little political will to do this.

The downgrade potential

Ratings agencies want to see financial discipline (which Minister Gordhan has again delivered), less political instability and a path to revive economic growth. Time will tell how the country can tackle the latter two problems.

The Budget is redistributive

62% of income tax will be paid by those with taxable incomes greater than R500,000. No one doubts the fairness of the wealthy paying more tax but the wealthy are being hammered – consider also dividend and capital gains taxes also rising. Tax revenues are starting to fall and there is every chance the wealthy will start looking at legitimate ways to reduce future tax liabilities.

"Radical economic transformation"

The Minister spoke of transformation more than fifty times. "Radical economic transformation" is the new policy the president has adopted. For this to reflect in the 2017/2018 numbers, it requires a complete shift in the way Treasury compiles the budget. As it came late in the year, Treasury did not have the time to respond to this paradigm shift. Thus, whilst the Minister spoke of "radical economic transformation" in reality the budget was a continuation of previous budgets.

Nevertheless he did deliver one or two home truths such as ""We need to transform in order to grow; we need to grow in order to transform. Without transformation, growth will reinforce inequality; without growth, transformation will be distorted by patronage".

Minister Gordhan has again delivered a credible Budget. Clearly, also the time has come to take the necessary steps to grow the economy.

YOU AND BUDGET 2017 PART 2: THE NEW TABLES

For ease of reference please find below -

- The new tax tables for individuals and trusts other than special trusts
- The new tax tables for Small Business Corporations
- The new transfer duty rates

NEW TAX TABLES 2017/18 (INDIVIDUALS AND TRUSTS OTHER THAN SPECIAL TRUSTS)	
Taxable Income	**Tax**
R0 - R189,880	18% of taxable income
R189,881 - R296,540	R34,178 + 26% of the amount above R189,880
R296,541 - R410,460	R61,910 + 31% of the amount above R296,540
R410,461 - R555,600	R97,255 + 36% of the amount above R410,460
R555,601 - R708,310	R149,475 + 39% of the amount above R555,600
R708,311 - R1,500,000	R209,032 + 41% of the amount above R708,310
R1,500,001 and above	R533,625 + 45% of the amount above R1,500,000
Trusts other than Special Trusts	**45%**

NOTES TO THE NEW TAX TABLES		
	2017/18	**CHANGES FROM LAST YEAR**
Rebates		
Persons under 65	R13,635	Increased by R135
Secondary (Persons 65 and older)	R21,114	Increased by R207
Tertiary (Persons 75 and older)	R23,607	Increased by R234
Tax Thresholds		

Persons under 65	R75,750	Increased by R750
Secondary (Persons 65 and older)	R117,300	Increased by R1,150
Tertiary (Persons 75 and older)	R131,150	Increased by R1,300
Interest Exemption		
Persons under 65	R23,800	No change
Persons 65 and older	R34,500	No change
Dividends		
Dividends Tax	20%	5% increase
Medical Aid Tax Credits per beneficiary		
First two beneficiaries	R303 p.m. each	Increased R17
Third and more	R204 p.m. each	Increased R12
Business Travel - Tax free		
Up to 12,000 kilometres per annum	R3.55 per km	Increased by 26 cents per km and distance raised by 4,000 kilometres
Travel Allowance		
Travel allowance still taxable at 80%	No change	No change
(Logbook compulsory)		
Other Taxes		
Capital Gains Tax - Individuals/Special Trusts*	18.00%	Increase of 1.6%
Capital Gains Tax - Companies	22.4%	No change
Capital Gains Tax - Trusts*	36.00%	Increase of 3.2%
Fuel Levy from 5 April 2017		Increases by 30 cents a litre
Cigarettes		Increases by R1.06 per packet of 20
Wine (Unfortified)		Increases by 23 cents a 750 ml bottle
Spirits		Increases by R4.43 a 750 ml bottle
Beer		Increases by 12 cents per 340 ml
Road Accident Fund from 5 April 2017		Increases by 9 cents a litre

**Represents the maximum effective rate of Capital Gains Tax*

SMALL BUSINESS CORPORATIONS - NEW TAX TABLE 2017/18

Taxable Income	New SBC Tax Rates	Change vs Prior Year
R0 - R75,750	Nil	Band raised by R750
R75,751 - R365,000	7% of taxable income over R75,750	Small tax decrease
R365,001 - R550,000	R20,248 + 21% over R365,000	Small tax decrease
Over R550,001	R59,098 + 28% over R550,000	Small tax decrease

Note 1: Benefits to taxpayers are marginal
Rates apply 1 April 2017 to 31 March 2018

TRANSFER DUTY RATE ADJUSTMENTS

Property Value	2016 / 2017 Rates of tax	Property Value	2017 / 2018 Rates of tax
R0 - R750,000	0% of property value R0	R0 - R900,000	0% of property value
R750,001 - R1,250,000	3% of property value above R750,000	R900,001 - R1,250,000	3% of property value above R900,000
	R15,000 + 6% of property value		R10,500 + 6% of property value

R1,250,000 - R1,750,000	R15,000 + 6% of property value above R1,250 000	R1,250 001 - R1,750,000	R10,500 + 6% of property value above R1,250,000
R1,750,001 - R2,250,000	R45,000 + 8% of property value above R1,750,000	R1,750,001 - R2,250,000	R40,500 + 8% of property value above R1,750,000
R2,250,001 - R10,000,000	R85,000 + 11% of property value above R2,250,000	R2,250,001 - R10,000,000	R80,500 + 11% of property value above R2,250,000
R10,000,001 and above	R937,500 + 13% of property value above R10,000,000	R10,000,001 and above	R933,000 + 13% of property value above R10,000,000

Source: *National Treasury*

CONSUMERS: THE CONSUMER PROTECTION OMBUD'S POWER TO HELP YOU

In 2015 the Consumer Goods and Services (CGS) Code of Conduct took effect. It sets out minimum standards for the CGS industry to observe when dealing with consumers. Failure to comply with the Code contravenes the Consumer Protection Act.

Thus, CGS businesses that were not already subject to regulation (such as the motor industry and financial services) fall under the ambit of the Code.

In addition, the Code accredited the Consumer Goods and Services Ombud as the official Ombud to enforce the Code by dealing with consumer goods complaints by consumers, and to investigate alleged contraventions by CGS businesses. These affected organisations are also obliged to register with the Ombud and to pay participation fees depending on turnover (nil if your turnover is under R1 million but rising to R250,000 for businesses with turnover exceeding R3 billion).

What does the Ombud do?

The Ombud steps in when disputes between consumers and suppliers of consumer goods and services cannot be settled by the parties. The Ombud provides mediation services to help resolve disputes using alternative dispute resolution (ADR) techniques. The service is free for consumers.

In the 2015/2016 year the Ombud took on 3,495 cases of which 2,192 were resolved or closed out (i.e. outside of the Ombud's jurisdiction or the case was withdrawn etc) and 1,303 were still ongoing. It takes an average of 57 days to resolve a dispute.

In addition the Ombud can refer matters for investigation to the National Consumer Council where it finds trends that appear to be at odds with the principles of the Consumer Protection Act. Some examples of referrals for further investigation are:

- Speculative financial software. This covers suppliers who promise consumers high returns if they trade on the stock exchange using the software
- Orthopaedic pillows and mattresses which supposedly do not deliver the claimed results
- A loan tracking service which is supposed to help people find loans but instead apparently signs up consumers for other products and services and charges them a fee.

The Ombud is providing a valuable service to consumers and is becoming better funded. Tell your staff about this free service if they get "taken" by an unscrupulous business. Also check you are paying your subscription if you are a business that falls within the ambit of the Ombud.

YOUR TAX DEADLINES FOR MARCH

There are only run-of-the-mill deadlines for March.

This is the season of finalising employee tax - Employee Tax IRP5 Certificates and your EMP501 Employer Reconciliation Declarations. This is quite a process – so start early.

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