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Budget Snapshots

Sundry Snippets

Audit / Tax / Advisory / Human Capital

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Retirement Funds

The following rules apply to contributions to Pension, Provident and Retirement Annuity Funds.

- All contributions paid by employers to Pension, Provident and Retirement Annuity Funds are taxable as a fringe benefit in the hands of the employee (including partners in a partnership) and fully tax deductible in the hands of the employer.
- The natural person employee will be deemed to have paid the total contributions to all these funds including both the employee's contributions and those of the employer.
- The deduction is limited to 27,5% of the greater of remuneration for PAYE purposes or taxable income (both excluding retirement fund lump sums and severance benefits). The deduction is further limited to the lower of R350 000 or 27,5% of taxable income, before the inclusion of a taxable capital gain. Any contributions exceeding the limitations are carried forward to the next year of assessment and are deemed to be contributed in that following year. The amounts carried forward are reduced by contributions set off against retirement fund lump sums and against retirement annuities.
- Contributions not deductible (e.g. in excess of the limits) can be deducted off the taxable portion of the proceeds on the withdrawal or retirement from the funds.

Two-Pot Retirement System

The easiest way to explain this proposal is to produce a direct quote from the 2024 Budget Review document tabled by the Minister of Finance at the beginning of his Budget Speech.

> The two-pot retirement reform allows pre-retirement access to a portion of one’s retirement assets. This can assist fund members in times of need while encouraging higher savings rates and ensuring preservation of the remainder of savings to retirement. It will harmonise permissible pre-retirement withdrawals across funds.
>
> From 1 September 2024, conributions to retirement funds will be split, with one-third going into a “savings component” and two-thirds going into a “retirement component”. Contributions remain tax deductible and tax free while growing in the fund. Retirement fund members will be able to withdraw amounts from the savings component before retirement, while the retirement component will remain protected.

Savings accumulated up to the date of implementation will not be affected, except for the initial seed capital amount. This amount will be lower of 10 per cent of the fund value on 31 August 2024 or R30 000, and will be transferred from accumulated retirement savings to the savings component to assist fund members who may prefer an immediate withdrawal due to a financial emergency. This seeding will be a once-off event. If not used, it will still be available in the future.

Pre-retirement withdrawals from the savings component will be taxed at marginal rates, like all other income. However, when taxable income is lower, taxpayers will be taxed at lower rates. Only one withdrawal may take place in a tax year, and the minimum withdrawal amount is R2 000.

The optimal option is still to preserve retirement savings as long as possible, as the amounts grow at compound rates and can attract lower tax rates. Amounts left in the savings component on retirement can be withdrawn and will be taxed according to the retirement lump sum table, which includes a tax-free lump sum of R550 000.

Non-resident Suppliers of Electronic Services to South African Residents

Such suppliers, with no or limited presence in South Africa, are obliged to register as South African VAT vendors although not required to appoint a resident representative vendor or to open a South African bank account. It is proposed that the appointment by a representative vendor will in future be required but such person need not be resident in South Africa. The exemption from opening a South African bank account remains.

Global Minimum Tax Rate

As recommended by the Organisation for Economic Co-operation and Development (OECD), South Africa is going to introduce a global minimum tax rate of 15%. Further details will be made available soon. At this stage, we quote from the 2024 Budget Review document as tabled by the Minister of Finance.

Implementation of the global minimum tax is gathering pace. It aims to limit the race to the bottom of effective corporate tax rates for large multinationals, with countries competing to attract income by offering low tax rates and tax incentives. Implementing the minimum tax in South Africa will bolster the corporate tax base.

South Africa helped develop tax rules to address base erosion and tax challenges arising from the digitalisation of the economy as a member of the Steering Group of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting. These rules are designed to limit the channels that multinationals use to shift profits from high- to low-tax countries.

The 2023 Budget Review outlined the two pillars of this framework, which were endorsed by more than 135 countries in 2021. The first focuses on the digital economy and the coherent tax treatment of multinationals. It will be implemented through a multilateral convention to ensure that the biggest and most profitable multinationals reallocate part of their profit to all countries where they sell their products and provide their services.

The second pillar introduces the global minimum tax. It ensures that any multinational with annual revenue exceeding €750 million will be subject to an effective tax rate of at least 15 per cent, regardless of where its profits are located. Government proposes to introduce two measures to effect this change – an income inclusion rule and a domestic minimum top-up tax – for qualifying multinationals from 1 January 2024.

The income inclusion rule will enable South Africa to apply a top-up tax on profits reported by qualifying South African multinationals operating in other countries with effective tax rates below 15 per cent. The domestic minimum top-up tax will enable SARS to collect a top-up tax for qualifying multinationals paying an effective tax rate of less than 15 per cent in South Africa.

Learnership Tax Incentive Extension

This incentive was scheduled to end on 31 March 2024. The sunset date is extended by 3 years to 31 March 2027.

Research and Development Tax Incentive

The enhanced deduction for certain R&D expenditure was scheduled to end on 31 December 2023. The sunset date is extended by 10 years to 31 December 2033.

Low Interest or Interest Free Loans to Trusts

Where such loans are made by resident taxpayers to non-resident trusts, there is uncertainty as to the computation of the benefit and also the impact of transfer pricing rules and adjustments. It is proposed that amending legislation will be introduced to provide clarity.

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