South Africa's National Budget 2023

March 2023

Finance Minister Enoch Godongwana delivered his Budget Speech to Parliament on 22 February 2023.

Government's plans remain to reduce the budget deficit and stabilise debt, and to grow the economy by directing resources to infrastructure. This year, the focus is on the stabilisation of the electricity supply, improving transport and logistics, and strengthening the criminal justice system. The Budget again avoids explicit tax increases, to avoid a negative impact on economic activity.

Growth projections are not encouraging due to persistently high inflation, crippling electricity disruptions, and transport and logistics problems. Growth is expected to decrease from 2.5% in 2022 to 0.9% in 2023, and recover slowly to 1.8% in 2025 – arguably not enough to create meaningful employment growth necessary to alleviate poverty.

Nonetheless, the fiscal position has improved! Tax collections exceeded estimates, again driven mainly by temporarily high commodity prices. For the first time since 2008/9 there is projected to be a small primary surplus (revenue less non-interest expenditure), and the budget deficit is expected to narrow in coming years. Debt servicing costs however, remain a concern – this is the second highest spending category, with 18c out of every R1 of tax revenue being spent on debt repayment.

The main proposals are:

- **Substantial debt relief for Eskom**, as well as incentives to encourage off grid power generation for businesses and to a lesser extent for households. The long-term role of Eskom will be mainly in grid management rather than in primary energy supply – or this is Treasury's vision at any rate!
- More resources for **infrastructure projects**, specifically ports and rail. Public-private partnerships are envisaged. The rollout of water and sanitation projects is also under way. An indication was given that such projects need to be investable (i.e. make "investment sense") for potential funders such as retirement funds – it is comforting that Treasury understands this.
- An increase in funding for **public sector salaries**, to carry through the 2022/23 wage agreement, and to help fill critical posts in health, education, and safety and security (following the last few years of budget cuts and staff freezes).
- **Inflationary adjustments** to the income tax brackets, no increase in the fuel levy, an extension of the fuel levy refund to cover diesel used in food manufacturing, and an extension of the COVID income grant for another year.

We have largely limited our summary and commentary to retirement fund related matters in this note.

Extension of COVID grant / Basic Income Grant / NHI

The R350 per month COVID-19 social relief of distress grant (introduced in 2020) will be extended again, to 1 March 2024 at a cost of R36 billion. Government is supposedly still investigating the possibility of a permanent Basic Income Grant, but affordability is a major constraint. Undoubtedly the extension of the COVID grant buys some time (with an election fast approaching).

National Health Insurance was not mentioned in the Minister's speech.

Retirement reform

"Two pots" proposals

Following extensive public consultation, the first phase of legislation is planned to come into effect on 1 March 2024. (We remain somewhat sceptical that this will be achieved. Treasury has apparently indicated that the legislation will be finalised by the time of the Medium-Term Budget Policy Statement, i.e. in October – financial sector trade body, the Association for Savings and Investment South Africa (ASISA), is already arguing that this will leave far too little time for implementation by next March.)

Agreement has been reached on the following aspects:

- Retirement fund contributions will remain tax deductible up to the lower of R350,000 or 27.5% of yearly taxable income.
- Any permitted withdrawal of retirement savings accumulated from contributions prior to 1 March 2024 will be taxed on the current tax tables (which were in fact made more favourable, in this year's Budget).
- By contrast, "any time" withdrawals from the so-called savings pot (accumulated from one-third of contributions made **after** 1 March 2024) will be taxed as income.

The most complex items remain unresolved, and will be addressed in "forthcoming" draft legislation – these include:

- **Seed capital** – How much of the already accumulated savings on 1 March 2024 should be available for immediate withdrawal, or for "seeding" the savings pot.
- **Defined benefit funds** (including the GEPF) – how should these be brought into the new framework in an equitable manner.

The question of access to the "savings pot" on retrenchment will be dealt with in phase 2 of implementation.

Revised draft legislation is clearly needed urgently, to enable funds and administrators to make system changes as well as to communicate with members.

Auto-Enrolment

Treasury intends to finalize policy proposals to expand participation in the retirement fund system to all formal and informal workers during 2023.

Governance

Legislative amendments to improve the governance of retirement funds (specifically umbrella funds) should be published during 2023.

Other retirement fund matters

The tax tables applicable to lump sum payments on death, retirement, or withdrawal have been amended (and made more generous) – this is dealt with below.

Several proposals made last year have been implemented:

- So-called "vested rights" (arising from past service in a provident fund) retain their vested status on transfer to a subsequent fund – this is now confirmed.
- Transfers from a pension fund to a provident fund are confirmed to be tax neutral, with no tax payable at the time of transfer.
- Transfers of individual contracts between retirement annuity funds are permitted.
- An outdated provision specifying that benefits of individuals retiring from a provident fund who were younger than 55 would be treated as withdrawal benefits and not retirement benefits was removed.
- The definition of pension preservation fund explicitly permits transfers to a provident preservation fund.

This year's proposals focus on fairly minor clarifications and corrections, as follows:

Limiting the retirement fund contribution deductions when an individual ceases to be a tax resident – In terms of changes made to the Income Tax Act (ITA) in 2022, the annual interest exemption and the capital gains annual exclusion are limited, for individuals who cease to be residents of South Africa during a tax year. To ensure consistency, the permissible deduction of retirement fund contributions (as well as the amount of tax-free investment contributions) will also be apportioned.

Tax treatment of employer contributions to a retirement fund, in the hands of the employee/ member – The ITA deems an employer contribution as a contribution made by an employee (for employees' tax purposes). Apparently, there is however no provision for this amount to be included in the definition of gross income. Since an item must be included in gross income prior to being deductible, this will be corrected.

Transfers between retirement funds for members who are 55 years or older – The 2022 ITA amendments allow for tax-neutral transfers of retirement savings for members who have reached Normal Retirement Age but not yet retired from the Fund (but only to preservation funds or retirement annuity funds). There are instances where such members are subject to involuntary transfers to another pension or provident fund, in which case the transfer value will apparently be taxed. As we understand it, it is proposed that such transfers should be allowed without an immediate tax liability – but after such a transfer, the option of taking a withdrawal benefit will fall away.

Financial sector regulation

The inter-governmental Financial Action Task Force ("FATF") found significant weaknesses in South Africa's **anti-money-laundering and counter-financing of terrorism** systems in their 2021 report. These had to be addressed by October 2022 to avoid South Africa being "grey listed" as a jurisdiction under increased monitoring by the FATF. Legislation was enacted late last year to address many of the deficiencies identified by the FATF.

Nonetheless, at the FATF plenary on 24 February 2023, South Africa was indeed grey listed - while our banking institutions are in good shape, our poor record in investigation and successful prosecution of financial crimes worked against us. This outcome was largely expected by the investment markets and had little impact on the exchange rate. The grey listing may result in reduced foreign direct investment, higher bond yields and other indirect effects, possibly including more severe compliance requirements by foreign investment managers doing business with SA retirement funds and other local investors.

Unclaimed benefits – in 2020, legislation to "centralise" unclaimed benefits with a view to "mobilise" the investments backing these benefits for infrastructure funding was proposed. In September 2022, the Financial Sector Conduct Authority (FSCA) published a discussion paper on the R90 billion of unclaimed benefits across the financial sector. One option proposed was to establish a new fund into which these should be transferred. Another was to transfer these into the National Revenue Fund with the same purpose. Further consultation will take place during 2023, and it is expected that a final paper will be published in 2024.

The **Conduct of Financial Institutions ("COFI") Bill** was first published for consultation in 2018. Treasury has been "engaging stakeholders" on comments received on the second draft of the COFI Bill, tabled in 2020, and has revised the bill, which is expected to be tabled in Parliament in early 2023. This bill will set out a new legal framework for the licensing, regulation and supervision of financial institutions including retirement funds – it will also make quite significant changes to the Pension Funds Act.

In 2020 National Treasury published a draft policy paper, "**An inclusive financial sector for all**" for public comment. Workshops were held during 2021 to discuss the comments made. The FSCA published its draft transformation strategy for the financial sector in 2022. Phase one includes engagement with the financial industry on the current legal landscape governing transformation. Phase two envisages specific licensing and regulatory requirements for financial institutions, in line with legislation. The FSCA promises a proportionate approach that will not unduly burden smaller businesses (or, hopefully, smaller retirement funds). The final strategy will be published in March 2023.

National Treasury will in 2023 publish a consumer **financial education policy** document for public comment, to address consumer protection in the financial sector in the context of financial inclusion and transformation.

The FSCA and the Prudential Authority will "soon" finalise a Joint Standard aimed at ensuring better IT governance and risk management by financial institutions (including retirement funds), to mitigate **IT and cybersecurity risks**. (Comments on the latest draft Joint Standard were due by 28 February.)

The Reserve Bank is looking at a system of "indicators" to help it "understand and measure climate-related transition and physical risks to the financial sector", while the FSCA will shortly publish a "draft sustainable finance and investment roadmap." Clarity will no doubt be provided in due course.

Other matters

As indicated by the Minister, Government is taking "urgent measures" to reduce load-shedding in the short term and is also looking to undertake market reforms to achieve long-term energy security. The 2023 Budget proposes R254 billion in debt relief to Eskom, subject to "strict conditions". Government also supports restructuring the electricity market to help South Africa as it transitions to a "clean" energy future. The scale of Eskom debt relief increases government borrowing, with public debt now set to stabilise at 73.6 per cent of GDP in 2025/26 and expected to decline thereafter.

Tax proposals

The main proposals are as follows:

- "Inflationary" increases (around 5%) in personal income tax brackets and rebates, including a 4.9% increase in medical tax credits. This increase reflects core inflation (excluding food and energy prices) - headline inflation has recently been running closer to 7% p.a.
- Inflationary (4.9%) increases in other social grants.
- **A 10% increase to the brackets in the tax tables for retirement fund lump sums on retirement, death or withdrawal. The life-time tax free allowance at retirement is now R550,000 and on withdrawal R27,500.** The last time these were updated was in 2014, so this is a welcome adjustment!
- No changes to the tax-free interest allowance or the tax-deductible retirement fund contribution cap of R350 000 per annum. No changes to the minimum value for paid-up retirement annuities which can be commuted for cash. No change in the tax-free savings contribution amount of R36 000 per annum, and no change to the aggregate contribution limit of R500 000.
- No increase in VAT.
- No increase in the general fuel levy or the Road Accident Fund levy (no increases were also applied last year) to alleviate the pressure from increased fuel prices. The refund on the Road Accident Fund levy for diesel used in manufacturing process is extended to food manufacturers with effect from 1 April 2023 for two years, to ease the pressure caused by loadshedding on food prices.
- An increase of 10% in the carbon tax rate effective 1 January 2023, with an increase in the carbon fuel levy (by 1c to 10c per litre for petrol and 11c for diesel), from 5 April 2023.
- Taxes on alcohol and tobacco increase by 4.9%. An increase of the Health Promotion Levy on beverages to 2.3 cents per gram of sugar is delayed until 1 April 2025, due to impact of flooding and social unrest on the sugar industry.
- No changes to dividend withholding tax, capital gains tax, estate duty tax, donations tax or corporate tax. Transfer duty brackets will increase by 10%, so no transfer duty will be payable on properties below R1.1 million.

Future tax proposals include the following:

- Third party data and personal income tax administration reform – the intention is to enable automatic tax assessment without need to file returns.
- Review of VAT administrative framework to simplify and modernise the current system.
- Broadening the personal income tax base – National Treasury and the South African Revenue Service have committed to a multi-year review of allowances given the move to a work-from-home business model – a discussion document is expected to be released later this year.
- A preliminary framework promoting reforms and for managing bailouts to state-owned companies to reduce fiscal risk will be published in March 2023 and then submitted to Cabinet.

Tax summary with effect from 1 March 2023

Personal income tax

Taxable Income p.a.	Applicable rate of tax
(Income brackets will increase by 4.9%)	
R0 – R237 100	18% of taxable income
R237 101 – R370 500	R42 678 + 26% of taxable income above R237 100
R370 501 – R512 800	R77 362 + 31% of taxable income above R370 500
R512 801 – R673 000	R121 475 + 36% of taxable income above R512 800
R673 001 – R857 900	R179 147 + 39% of taxable income above R673 000
R857 901 – R1 817 000	R251 258 + 41% of taxable income above R857 900
R1 817 000 and above	R644 489 + 45% of the amount above R1 817 000
Primary rebate	R17 235 (was R16 425)
Secondary rebate (persons 65 and older)	R9 444 (was R9 000)
Tertiary rebate (persons 75 and older)	R3 145 (was R2 997)
Interest exemption (under 65)	R23 800 (unchanged)
Interest exemption (over 65)	R34 500 (unchanged)
Annual tax-free savings allowance	R36 000 (unchanged)
Tax threshold below age 65	R95 750 (was R91 250)
Tax threshold for ages 65 to below 75	R148 217 (was R141 250)
Tax threshold 75 and over	R165 689 (was R157 900)
Medical tax credit per month:	
Main member and first dependent	R364 each (was R347)
Subsequent dependents (per dependent)	R246 each (was R234)

Social grants

Social grants	Per month
State Old Age Pension (under 75)	R2 090* (was R1 990)
State Old Age Pension (over 75)	R2 110* (was R2 010)
Disability grant / care dependency grant	R2 090* (was R1 990)
Foster care grant	R1 130 in October (was R1 070)
Child support grant	R510 in October (was R480)
COVID-19 social relief grant	R350 (unchanged), extended until March 2024 only (again)

*The Minister stated that "For the 2023/24 fiscal year, the old age, war veterans, disability and care dependency grants will increase by R90 in April and a further R10 in October."

Taxation of retirement fund benefits

Lump sum on retirement or death (Brackets will increase by 10%)	Applicable rate of tax (unchanged)
R0 to R550 000	0%
R550 001 to R770 000	18% of the amount exceeding R550 000
R770 001 to R1 155 000	R39 600 plus 27% of the amount exceeding R770 000
R1 155 001 and above	R143 550 plus 36% of the amount exceeding R1 155 000

Lump sum on withdrawal (Brackets will increase by 10%)	Applicable rate of tax (unchanged)
R0 to R27 500	0%
R27 501 to R726 000	18% of the amount exceeding R27 500
R726 001 to R1 089 000	R125 730 plus 27% of the amount exceeding R726 000
R1 089 001 and above	R223 740 plus 36% of the amount exceeding R1 089 000

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