Key proposals that may affect you

Budget 2022

March 2022

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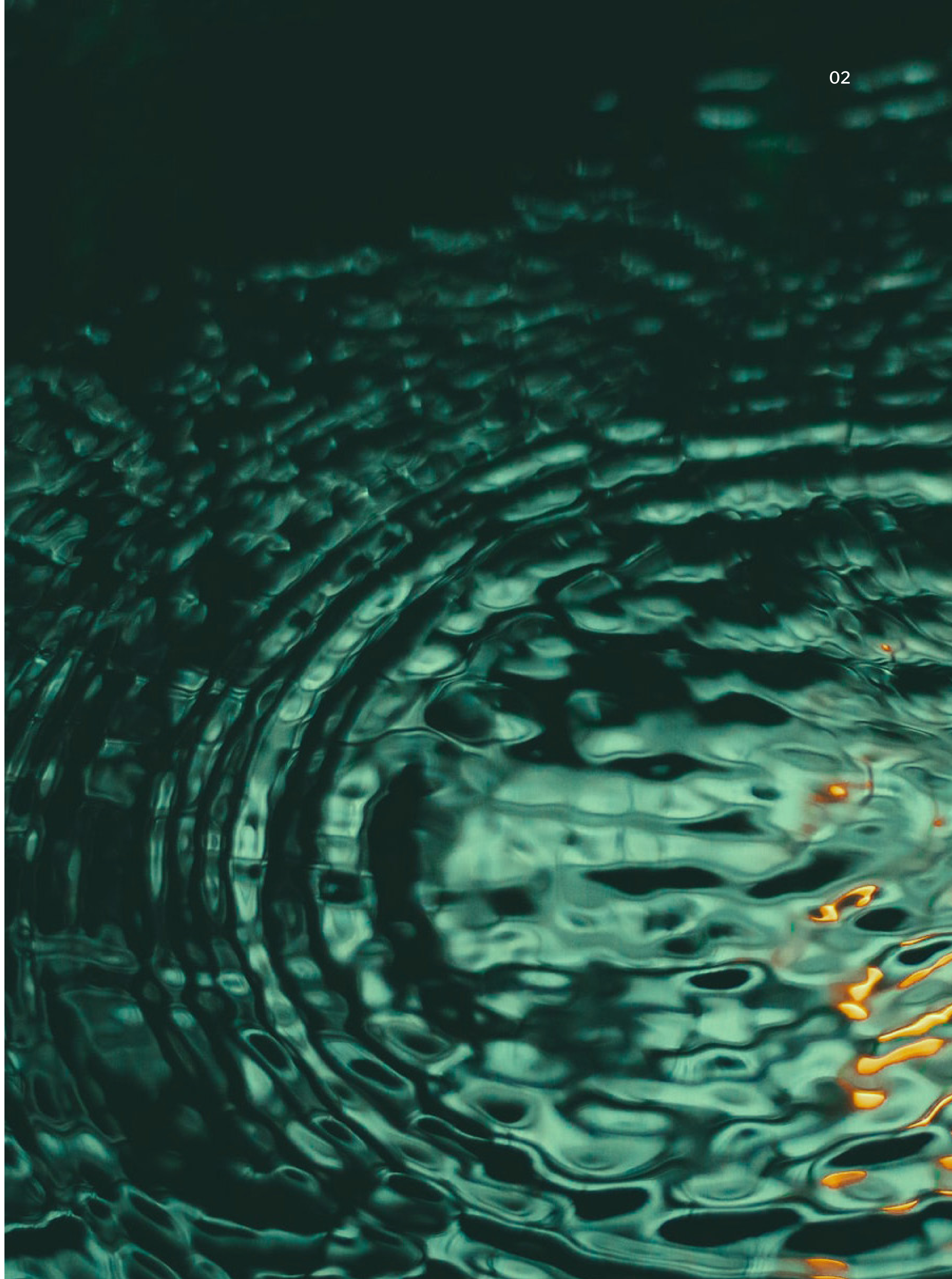
This 2022 Budget summary provides an overview of how South Africa's Budget changes and proposals may affect your everyday finances, your future planning and wealth.

Contents

Key changes and proposals in more detail:



Highlights

VAT
15%
(unchanged)

Personal income tax
Personal income tax brackets and rebates increased by
▲ **4,5%**

Corporate tax
28%
(27% for years of assessment ending on or after 31 March 2023). This will affect capital gains tax (CGT) effective rates for companies too.

Estate duty rate
20%
on dutiable estates up to R30 million (unchanged)

25%
on dutiable estates greater than R30 million (unchanged)

Donations tax rate
20%
on donations up to R30 million (unchanged)

25%
on donations exceeding R30 million (unchanged)

Fuel taxes
General fuel levy (unchanged)
15c/litre

RAF levy (unchanged)
11c/litre

Carbon tax
Petrol
▲ **9c/litre**

Diesel
▲ **10c/litre**
(effective 1 January 2022)

Your everyday finances

Tax on what you earn

Personal income tax

- Personal income tax brackets and rebates increased by **4,5%**
- Maximum personal income tax rate (unchanged): **45%**

Rebates

Primary	Secondary	Tertiary
R16 425	R9 000	R2 997
▲ R711	▲ R387	▲ R126

Tax thresholds

< 65 years	65+ years	75+ years
R91 250	R141 250	R157 900
▲ R3 950	▲ R6 100	▲ R6 800

What you spend

VAT (unchanged): **15%**

Fuel taxes (unchanged)

General fuel levy	RAF levy
15c/litre	11c/litre

Carbon tax (effective 1 January 2022)

Petrol	Diesel
▲ 9c/litre	▲ 10c/litre

Medical tax credits

First two beneficiaries (per person)	Remaining beneficiaries (per person)
▲ R347 (up by R15)	▲ R234 (up by R10)

Your investments

Exemptions and allowances

Interest exemption (unchanged)
(Applicable to South African-sourced income only)
For individuals:

< 65 years	65+ years
R23 800 per year	R34 500 per year

Tax-free savings (unchanged). Annual contribution limit: R36 000

Annual donations relief (unchanged). Exemption of R100 000

Collective investment schemes (CIS)
Treasury are once again looking at the taxation of CIS.
Please refer to the key changes and proposals in more detail.

Persons emigrating
When an individual ceases to be a South African tax resident, their year of assessment is deemed to have ended on the date immediately before the day their tax residency ceased, and next succeeding year of assessment will start on the day on which tax residency is ceased. As a result, the individual has two years of assessment during the 12-month period, which means the individual may be able to double-up on certain exemptions or exclusions that are allowed per year of assessment.
Please refer to the key changes and proposals in more detail.

Exchange control
Proposals are effective from 23 February 2022.
Please refer to the key changes and proposals in more detail.

Tax on your investments

CGT (Company maximum effective rate decreased)

Taxpayer	Inclusion rate	Maximum effective rate
Individuals	40,0%	18,0%
Special trusts	40,0%	18,0%
Companies (Applicable to companies with a financial year-end of 30 March 2023 or before.)	80,0%	22,4%
Companies (Applicable to companies with a financial year-end on or after 31 March 2023.)	80,0%	21,6%
Trusts	80,0%	36,0%

Dividend withholding tax (SA) (unchanged): **20%**

Foreign dividends tax (unchanged): **20%**

Withholding tax on interest (unchanged): **15%**

Your legacy

Donations tax (unchanged)

- Tax rate on donations exceeding R30 million after 1 March 2018: **25%**
- Tax rate on donations up to R30 million after 1 March 2018: **20%**
- Annual donations tax exemption: **R100 000**

Property transfer duty (unchanged)

Trusts tax rate (unchanged): **45%**

Estate duty (unchanged)

- Dutiable estates up to R30 million: **20%**
- Dutiable estates greater than R30 million: **25%**

Your retirement

Limits (unchanged)

- Withdrawal benefit limits from retirement funds
- Limits on retirement fund lump sum benefits and severance benefits

Retirement-related reforms

Please refer to the key changes and proposals in more detail.

Your business

Corporate tax

Companies with year-ends before 31 March 2023 (unchanged): **28%**

Companies with year-ends ending on or after 31 March 2023 (decrease of 1%): **27%**

- Assessed loss to be limited to 80% of taxable income to coincide with rate reduction.
- Interest deduction to be limited to 30% of earnings before interest, tax, depreciation and amortisation (Ebitda) for taxpayers forming part of a multinational group to coincide with rate reduction.

Please refer to the key changes and proposals in more detail.

Income tax changes and proposals

Tax proposals are announced in the Budget and draft legislation to give effect to these tax proposals are generally published in July 2022. Treasury then consider any consultations made or responses received and final changes are then made before legislation is typically introduced towards the end of the year.

Who may be affected?	The proposals and changes
Companies	As initially announced in the *2021 Budget*, the corporate income tax rate will reduce by 1% to 27% for companies, effective for years of assessment ending on or after 31 March 2023 with a view to further reductions over the medium term. This is combined with proposals aimed at protecting and broadening the tax base to limit assessed losses and further limiting the deduction of interest accrued to multinational groups. *For more details please refer to the December 2021 publication.*
Companies making distributions in the form of return of capital	• Companies making distributions in the form of return of capital will have to do this for all shareholders in equal proportions. The discretion currently afforded to companies to distribute return of capital to shareholders who are natural persons while distributing dividends to shareholders who are companies will no longer be allowed. • This proposal was legislated in 2021, effective to distributions made on or after 1 January 2023, however government proposes to review the impact of this amendment during the 2022 legislative cycle as it may lead to unintended consequences. *For more details please refer to the December 2021 publication.*

Income tax changes and proposals (continued)

Who may be affected?	The proposals and changes
Persons emigrating	Apportioning the interest exemption and CGT annual exclusion when an individual ceases to be tax resident: • When an individual ceases to be a South African tax resident, their year of assessment is deemed to have ended on the date immediately before the day their tax residency ceased, and the next succeeding year of assessment will start on the day on which tax residency is ceased. • As a result, the individual has two years of assessment during the 12-month period, which means the individual may be able to double-up on certain exemptions or exclusions that are allowed per year of assessment. • Government proposes that the legislation be amended to apportion the interest exemption and capital gains annual exclusion in such instances. **This anomaly is best explained by the following example:** • Mr Balisk Kotov ceased to be South African resident on 11 June 2021. He held a share portfolio with a deemed capital gain of R250 000 on 10 June 2021 and his residential property (primary residence before ceasing to be resident) was placed on the market for sale and was sold on 20 November 2021, resulting in actual capital gain of R2 050 000. • Year of assessment 1 March 2021 to 10 June 2021: Mr Balisk Kotov is entitled to the CGT annual exclusion of R40 000 from the deemed disposal of the share portfolio resulting in a deemed capital gain of R84 000 ((R250 000 – annual exclusion R40 000) x 40% inclusion rate for individuals) that will be include in his taxable income. • Year of assessment 11 June to 28 February 2022: Mr Balisk Kotov is entitled once again to the CGT annual exclusion of R40 000 with respect to the sale of his primary residence. The effect of this is that there will only be a remining capital gain of R4 000 ((R2 050 000 – annual exclusion R40 000 – primary resident exclusion R2 000 000) x 40% inclusion rate for individuals). • However, if Mr Balisk Kotov ceased to be resident after this proposal is legislated , the CGT for the year 11 June to 28 February 2022 would have been R20 000 ((R2 050 000 – R2 000 000 primary residence exclusion only) x 40% inclusion rate for individuals) ie the R40 000 annual exclusion is no longer available as Mr Balisk Kotov has already claimed the annual exclusion in the same 12-month period.

Income tax changes and proposals (continued)

Who may be affected?	The proposals and changes
Collective investment schemes (CIS) unitholders	• Capital vs revenue: tax treatment of amounts received by or accrued to portfolios of CIS: CIS enjoy a statutory CGT exemption on receipts and accruals resulting from the disposal of assets (including financial instruments) that are held on capital account. It is generally understood that 'all' receipts and accrual from assets disposed by the CIS are on capital account irrespective of the holding period. • During the 2018 legislative cycle, National Treasury proposed that distributions from CIS to unitholders resulting from the disposal of financial instruments by CIS in 12 months of their acquisition would be deemed to be income of a revenue nature and will be taxable in the hands of the unitholders if distributed to them (after setting off relevant deductions). This proposal was, however, withdrawn to give enough time for consultation with the industry stakeholders, mainly in the asset management industry. • In this budget, National Treasury proposed that a discussion document dealing with the tax treatment of amounts received by or accrued to CIS be published for public comment before any amendments are proposed to the tax legislation. This discussion is therefore back on the table (so to speak). **Who else may be affected?** • The investment and savings industry using modern investment techniques such as rebalancing portfolio holdings to align with indexes may also be impacted. • The use of section 42 of the Income Tax Act that enables the transferring of shares from an investor's share portfolio into a CIS with the deferral of CGT may also be impacted. • Long-term investment vehicles such as endowment-linked products invested in CIS may be affected.
Anyone working from home or remotely	• A discussion document will be published in 2022 on a personal income tax regime for remote work. • The current deductions are cumbersome and there is a need for an easier and more appropriate deduction regime. • Due to the Covid-19 pandemic, many staff are working from home or remotely. This discussion document will be welcome, as income tax has not kept pace with the digital and telecommunication remote-working environment. Companies employing staff who work remotely will also welcome clarity on this issue.

Rebuilding SARS with a focus on wealthy individuals

Who may be affected?	The proposals and changes
Wealthy individual taxpayers with assets of R50 million or more, or offshore assets	• **Disclosure of wealth:** It is proposed that all provisional taxpayers with business interests and assets of R50 million or more, or offshore assets, be required to declare specified assets and liabilities (at market values) in their 2023 tax returns. National Treasury noted that the additional information will also help in determining the levels and structure of wealth holdings as recommended by the *Davis Tax Committee*. • **Review of domestic legal framework to effect joint audits:** Government proposes that the South African domestic legal framework, particularly the Tax Administration Act (2011), be amended to make provision for the full use of joint audits with other tax administrations to improve the effective exchange of information under international tax agreements. The affected high-net-worth individuals (HNWI) will be negatively affected due to the cost incurred in providing the information and potential audits that could follow. HNWI with offshore assets may be negatively impacted by joint audits by South Africa and other foreign jurisdiction ie United Kingdom or Australia. *For more details please refer to last year's Budget summary.*

Retirement-related reforms

Who may be affected?	The proposals and changes
Anyone planning their retirement	**Proposals about the taxation of retirement benefits to emigrated persons who cease to be South African tax resident.** During the 2021 Budget a deemed tax charge was proposed on retirement interests of emigrating persons ceasing to be South Africa tax resident. After intense industry lobbying (during the legislative cycle) it was withdrawn. The main objection was that emigrating persons would likely suffer double taxation firstly in South Africa and secondly in the new country of tax residency despite there potentially being a Double Tax Agreement (DTA) between South Africa and the new country of residence. In this Budget, government intends to initiate negotiations with foreign countries to ensure South Africa retains taxing rights in terms of any DTAs on payments from local retirement funds to emigrated person who ceased to be South African tax resident. This renegotiation route intended by the South African government is welcomed as the initial proposal of deemed withdrawal posed a real risk of double taxation for emigrating persons with retirement interest. *For more details on the 2021 initial proposal please refer to last year's Budget summary.*
	Proposed review of foreign retirement fund benefits in domestic tax legislation. Currently, where a South African employer contributes to a: • South African registered retirement fund for services rendered by a South African tax resident (eg employee A) outside South Africa; and • 'Foreign retirement' fund not registered in South Africa for services rendered by a South African tax resident (eg employee B), the employer in both instances will be able to deduct the contributions for tax purposes. However, when employees A and B retire, employee A will be subject to South African tax on retirement benefits while employee B will be exempt from South Africa tax on retirement benefits. **Tax research and reviews: A review of the exemption of foreign retirement benefits in domestic tax legislation will be conducted.** It is unclear what the review of the exemption of foreign retirement benefits will entail. Any certainty relating to the taxation of offshore retirement savings vehicles will be welcomed. We will be monitoring developments closely.

Retirement-related reforms (continued)

Who may be affected?	The proposals and changes
Anyone planning their retirement (continued)	**Clarifying the tax treatment relating to transfer of the total interest in a retirement annuity fund to another:** The Income Tax Act allows members of retirement funds to transfer their retirement interest from one retirement fund to another. This provision is subject to certain conditions being met, ie in the case of retirement annuity funds, the condition is that the total interest in the transferor fund must be transferred. This condition results in retirement annuity fund members with more than one contract in a particular fund being restricted from transferring one or more contracts from one retirement annuity fund to another. Government proposes changing the legislation to allow fund members to transfer one or more contracts in a particular retirement annuity fund. The ability to transfer only selected annuity contracts from a particular fund, as opposed to having to transfer all contracts is welcomed. Providing flexibility to fund members will potentially boost overall retirement savings returns and competition.
	Clarifying the compulsory annuitisation and protection of vested rights when transferring to a public sector fund: For members of provident retirement funds who are younger than 55 years before 1 March 2021, all benefits accumulated prior to this date (contributions plus any growth, up to retirement date) are 'vested benefits'. For members who are older than 55 years, before 1 March 2021, all benefits accumulated prior to this plus contributions made to that same fund after 1 March 2021 (plus all growth on the accumulated benefits and contributions up to retirement date) are 'vested benefits'. Any benefits that retirement fund members do not have vested rights in are referred to as 'non-vested benefits'. It has come to government's attention that in terms of the current provisions, a person would forfeit the protection of historical vested rights if a transfer is made into a public sector fund. To address this anomaly, government proposes amending the pension and provident fund definitions to ensure that historical vested rights remain protected even if they are transferred to a public-sector fund. This is important because the vested/unvested rights determine what may be taken as a lump sum (vested rights may) and what must be annuitised (unvested rights). The protection of vested rights transferred to public sector funds is a welcomed proposal for members transferring to public sector funds.

Retirement-related reforms (continued)

Who may be affected?	The proposals and changes
	Clarifying the applicability of tax-neutral transfers from a pension to a provident fund. It has come to government's attention that the current tax provisions create an anomaly whereby contributions made to a pension fund before 1 March 2021 which are subsequently transferred to a provident fund are not tax neutral. Government proposes that contributions to pension funds before 1 March 2021 also receive tax-neutral transfer treatment to provident funds. This is welcomed as it affords members of pension funds the flexibility of a tax-free transfer of their retirement interest into a provident fund.
South African households in distress (help them access savings but also encourage preservation of savings)	**The introduction of a 'two-pot' system.** During the 2021 Medium Term Budget Policy Statement (MTBPS) it was proposed that measures to boost household savings by increasing preservation before retirement and to increase flexibility through partial access to retirement funds be introduced through a 'two-pot' system that effectively splits members' overall benefits into two pots; namely: • one-third contributions plus growth; and • two-thirds contributions plus growth. In terms of this system, individuals would be able to access contributions to the first pot (above) while contributions to the second pot (above) would be saved until for annuitization on retirement. *During 2022, work will continue to be undertaken to propose amendments to the relevant legislation to implement the proposals that include the 'two-pot' system.* The two-pot retirement system will certainly be welcomed by all retirement fund members who could experience financial strain during challenging times, for example the Covid-19 lockdown. The other elements of this overall, proposal ie automatic enrolment and change in retirement fund governance, make this a bittersweet proposal, as it could improve retirement savings on one hand, but could also put a strain on small businesses and the informal sector on the other hand.

Exchange control

Exchange control changes are normally implemented immediately by the issuing of exchange control circulars via the Financial Surveillance Department of the South African Reserve Bank (SARB) to Authorised Dealers and other role players.

The clarification and simplification of exchange controls is generally welcomed as part of the government's commitment to the modernisation of exchange controls regime to a risk-based approach by introducing a new capital flow management (CFM) framework. *Read more about this here.*

Who may be affected?	The proposals and changes
Individuals who have international wealth	**The export of dual-listed domestic securities by private individuals.** Private individuals may export dual- or multi-listed domestic securities to a foreign securities registered in a jurisdiction where those securities are listed using their single discretionary allowance and/or foreign capital allowance, provided the Financial Surveillance Department is duly notified and that all tax, anti-money laundering and reporting requirements are complied with. The export of dual-listed securities to a recognised foreign securities exchange is welcomed. However, as this will trigger a deemed CGT event, even though the investor still holds the share (albeit through offshore securities exchange), this tax cost must be considered. Further considerations relating to the potential CGT cost: • The transfer may be appropriate during certain corporate action events where as an example the issuing of dual listed shares will in any event result in a CGT event for investors. • Investors should also consider that whenever a dual-listed share held through the JSE is disposed, of the rand currency exchange movement is effectively included in the CGT calculation, whereas disposals of dual-listed securities disposed of via a foreign securities exchange are taxed on the hard currency gain only.
	Online foreign exchange trading activities of residents. • These online trading activities generally include one or a combination of options, such as trading global currencies against each other, trading a contract for difference, trading in foreign stocks/shares/securities, trading commodities including crypto currencies and trading foreign indices using the online trading platform of the broker concerned. • South African resident individuals may, effective from 23 February 2022, use their single discretionary allowance and/or foreign capital allowance to participate in online foreign exchange trading activities. The trading in online activities require residents to convert rands to foreign currency and remit funds abroad. The use of a local credit/debit or virtual card is not allowed.

Exchange control (continued)

Who may be affected?	The proposals and changes
Individuals who have international wealth (continued)	**Retention of foreign gifts and other authorised foreign assets abroad.** South African resident individuals may, effective 23 February 2022: • receive and retain abroad monetary and other legitimate gifts and donations received from a non-resident source without having to declare it to an Authorised Dealer and are accordingly exempted from the provisions of Regulations 6 and 7, subject to local tax disclosure and compliance. The repatriation within 30 days of gifts received abroad is not applicable in this instance; • without reference to the Financial Surveillance Department, retain foreign assets inherited from a South African estate and are accordingly exempted from the provisions of Regulations 6 and 7, subject to local tax disclosure and compliance. However, in respect of assets that accrued to residents prior to 23 February 2022 or where the foreign assets inherited were held by the deceased in a manner contrary to the provisions of the Regulations, an application for regularisation of such assets must be submitted via an Authorised Dealer to the Financial Surveillance Department; and • also lend and/or dispose of authorised foreign assets to other South African residents, subject to local tax disclosure and compliance without the specific prior written approval of the Financial Surveillance Department. Note: Any contravention of the above before 23 February 2022 must still be regularised with the Financial Surveillance Department.
	Capital transfers: private individuals transfer in excess of R10 million per year through offshore trusts. The Financial Surveillance Department will consider applications made by tax-compliant South African resident individuals who, with effect from 23 February 2022, want to invest authorised foreign capital in excess of the R10 million foreign capital allowance, per calendar year, via foreign domiciled and registered trusts.
	Remaining cash balances of private individuals who have ceased to be residents for tax purposes. Authorised Dealers may, effective from 23 February 2022, remit abroad, on a once-off basis, the remaining cash balances not exceeding R100 000 in total of private individuals who have ceased to be residents for tax purposes, without reference to the SARS.

Exchange control (continued)

Who may be affected?	The proposals and changes
Companies	**South African institutional investors: prudential limit increase.** The prudential limits of 30% and 40% respectively as well as the African allowance of 10%, effective from 23 February 2022, have been combined into a single limit of 45% of total retail assets under management, applicable to all qualifying institutional investors. The increase of institutional limits from 30% to 45% is welcomed for retirement funds as diversification of retirement fund interests to improve returns and risk is much needed.
	South African institutional investors: foreign currency accounts. • Foreign currency account means a foreign currency account conducted by residents (natural persons and institutional investors only). • Institutional investors may open foreign currency accounts with Authorised Dealers for the purpose of obtaining offshore exposure in terms of the prudential limit. These accounts may be funded by either converting rands to foreign currency through an Authorised Dealer or by accepting foreign currency deposits emanating from the disinvestment proceeds of foreign assets. In this regard, institutional investors that currently have customer foreign currency accounts will have three months to convert same to foreign currency accounts in terms of the above dispensation.
	Foreign direct investment by South African companies. • The foreign direct investment limit for companies investing funds offshore increases from R1 billion to R5 billion, provided the stipulated investment conditions, tax obligations and reporting requirements are met. • Excess income or profits of offshore branches and offices of South African firms may be retained offshore, subject to annual reporting purposes, without reference to SARS.
Investors with crypto assets	• The Intergovernmental Fintech Working Group (IFWG) position paper on crypto assets issued in June 2021 recommended enhancing monitoring and reporting of crypto asset transactions to comply with the Exchange Control Regulations of 1961. • National Treasury noted during this Budget that the process to include crypto assets in the regulations is under way and they are also exploring measures to regulate electricity-intensive crypto mining, which is environmentally harmful. The inclusion of crypto assets within the exchange control regime will be a significant development that investors need to be aware of and comply with. *Read more about the taxation of crypto currencies and how this may affect your estate planning.*

South Africa | United Kingdom | United Arab Emirates | Jersey | Isle of Man

nedbankprivatewealth.co.za

Nedbank head office
135 Rivonia Road Sandown Sandton 2196
PO Box 1007 Johannesburg 2000 South Africa
+27 (0) 11 294 9000