Budget Review 2024

Introduction

Tax revenue performed better than expected in 2021/22 and 2022/23, largely as a result of higher commodity prices. Government will achieve a primary budget surplus, meaning revenue exceeds non-interest spending.

In line with the 2023 Medium-Term Budget Policy Statement (MTBPS), tax increases are proposed to alleviate immediate fiscal pressures. The proposals include no inflation adjustments for personal income tax tables and medical tax credits, and higher excise duties on alcohol and tobacco products. According to National Treasury, these measures will contribute to a more stable fiscal position with long-term benefits for the economy.

Proposals affecting the retirement fund industry

- **Transfers between retirement annuity funds by members who are 55 years or older**

In 2023, changes were made to the Income Tax Act to allow for tax-neutral involuntary transfers between retirement funds in instances where members of pension or provident funds who have reached the normal retirement age as contained in the rules of the fund, but have not yet elected to retire, for instance where members from an occupational fund are transferred to an umbrella fund. It has come to Government's attention that the law only allows certain tax-free transfers of an involuntary nature but excludes transfers from one retirement annuity fund to another for members who are 55 years or older. It is proposed that the law be amended to allow involuntary transfers of this nature.

Comment: *It is unclear why the proposed changes are limited to involuntary transfers between retirement annuity funds, and it should include voluntary transfers between retirement annuity funds. Simeka will comment on the proposed amendments via industry bodies.*

- **Two-pot retirement system**

The two-pot retirement system will be implemented through amendments contained in the Revenue Laws Amendment Bill and the Pension Funds Amendment Bill, both currently in the process of being finalised. This will enable changes to the rules of retirement funds.

It was stated that an estimated R5 billion is likely to be raised in 2024/25 due to tax collected as fund members access once-off withdrawals due to the two-pot retirement system. The two-pot retirement system is proposed to come into effect on 1 September 2024. National Treasury aims to finalise the legislative process rapidly in the next few months to ensure that the retirement funds, industry, and regulators can prepare for implementation.

Comment: *In our view it will not be possible to submit rule amendments to the FSCA until such time as the Pension Funds Amendment Bill has been enacted. It is a concern that this bill is still being consulted on and it may be some time still before it is enacted.*

It is unclear what the estimate of R5 billion of collected tax is based on.

- **Auto-enrolment**

National Treasury is still in the process of considering policy proposals on how to expand the participation and coverage of all formal and informal workers in a retirement fund without excessively burdening their disposable income. These proposals build on National Treasury's December 2021 paper entitled *Encouraging South African Households to Save More for Retirement*. Policy research and engagement continues on the outstanding auto-enrolment, mandatory enrolment, and consolidation of retirement reforms.

- **Unclaimed assets**

At the end of 2022, the FSCA published a discussion paper entitled *A Framework for Unclaimed Financial Assets in South Africa*, with recommendations to address high levels of unclaimed assets – assets for which the owner is unknown or cannot be contacted – in the financial system. The FSCA has considered stakeholder feedback on the discussion paper and will release a comprehensive response in early 2024. This feedback will inform the development of a framework for the identification, monitoring, management, and reporting of unclaimed assets, including tracing of beneficial owners.

- **Retirement fund tax tables**

The prescribed tax table for retirement/death/retrenchment lumps sum benefits remains unchanged:

Taxable Income (R)	Rates of tax
R0 - R550 000	0% of taxable income
R550 001 - R770 000	18% of taxable income above R550 000
R770 001 - R1 155 000	R39 600 + 27% of taxable income over R770 000
R1 155 001 and above	R143 550 + 36% of taxable income above R1 155 000

The prescribed tax table for resignation benefits remains unchanged:

Taxable Income (R)	Rates of tax
R0 - R27 500	0% of taxable income
R27 501 - R726 000	18% of taxable income above R27 500
R726 001 - R1 089 000	R125 730 + 27% of taxable income over R726 000
R1 089 001 and above	R223 740 + 36% of taxable income above R1 089 000

***Comment:** The maximum annual tax-deductible retirement fund contribution has been R350 000 since 2016, despite National Treasury committing previously to reconsider the limit from time to time. The review of the limit is long overdue.*

Other matters of interest

- **Combating financial crimes and illicit activities**

In February 2023, the international Financial Action Task Force (FATF) put South Africa on its “grey list” due to the deficiencies in technical compliance and effectiveness of the country’s system to combat money laundering and the financing of terrorism.

In response Government developed a strategy to build a financial system that is less vulnerable to abuse and where abuses are effectively prosecuted. This involves both legislative and regulatory changes, as well as improvements in the implementation and application of these laws and regulations.

Addressing all the remaining actions and demonstrating that improvements are sustainable by February 2025 to be removed from the “grey list” will require a significant effort from all the relevant South African authorities.

***Comment:** The efforts to improve South Africa’s “grey list” status are bound to lead to additional administrative and compliance burdens being placed on the wider financial services industry.*

- **Measures to boost long-term investment**

Government has proposed the relaxation and modernisation of certain exchange controls as a measure to promote long-term investment and foster business growth.

Personal income tax

- **Income tax brackets**

The personal income tax tables are reviewed annually to ensure that inflation does not automatically push personal income taxpayers into higher tax brackets.

This year no adjustment will be made, resulting in an increase in tax revenue. The annual tax-free threshold for a person under the age of 65 will remain at R95 750 from 1 March 2024.

The personal income tax rates remain unchanged as per the table below:

Taxable Income (R)	Rates of tax
R0 - R237 100	18% of each R1
R237 101 - R370 500	R42 678 + 26% of the amount above R237 100
R370 501 - R512 800	R77 362 + 31% of the amount above R370 500
R512 801 - R673 000	R121 475 + 36% of the amount above R512 800
R673 001 – R857 900	R179 147 + 39% of the amount above R673 000
R857 901 - R1 817 000	R251 258 + 41% of the amount above R857 900
R1 817 001 and above	R644 489 + 45% of the amount above R1 817 000

Taxable Income (R)	2022/2023 Rates of tax	Taxable Income (R)	2024/2025 Rates of Tax
Rebates		**Rebates**	
Primary	R17 235	Primary	R17 235
Secondary	R9 444	Secondary	R9 444
Tertiary	R3 145	Tertiary	R3 145

Tax threshold		Tax threshold	
Below age 65	R95 750	Below age 65	R95 750
Age 65 and over	R148 217	Age 65 and over	R148 217
Age 75 and over	R165 689	Age 75 and over	R165 689

Comment: *The unchanged personal income tax table increases the inflationary pressure on households.*

- **Medical tax credits**

Medical tax credits will remain on R364 per month for the first two members, and R246 per month for additional members.

Comment: *Some commentators were anticipating the elimination of medical tax credits to fund National Health Insurance.*

- **Social grants**

The COVID-19 social relief of distress grant will be extended until March 2025.

Provisional allocations for social protection are added to the fiscal framework in 2025/26 and 2026/27, pending a decision on the continuity and funding sources of the grant beyond March 2025.

The old age grant, war veterans grant, disability grant and care dependency grant will all increase by R90 in April 2024 and another R10 in October 2024. The foster care grant will increase by R50 in April 2024, and the child support grant will rise by R20 in April 2024.

The increases are as per the table below:

Average monthly social grant values	2023/2024	2024/2025	Percentage increase
Old age	2 085	2 185	4.8%
Old age, over 75	2 105	2 205	4.8%
War veterans	2 105	2 205	4.8%
Disability	2 085	2 185	4.8%
Foster care	1 125	1 180	4.9%
Care dependency	2 085	2 185	4.8%
Child support	505	530	5.0%
Grant-in-aid	505	530	5.0%

National Treasury as well as the World Bank have reviewed the social grant system. However, the Department of Social Development and National Treasury have not yet reached agreement on the way forward. The fiscal framework makes provision for funding for the COVID-19 social relief of distress grant for 2024/25. Any extension of the grant, or any replacement thereof, needs to be funded by a new revenue source or reprioritisation of other spending items. Government is still discussing options for a replacement grant and the balance between policy options to support higher employment.

Comment: *It is noted that the total budget for grants has been increased by 19% which is significantly more than inflation.*

Budget Speech 2024 by the Minister of Finance

Source: National Treasury