Mazars 2021/22 Budget Speech highlights

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Although there were no big tax changes announced in this year's Budget Speech, there were some tax issues that were raised, although many are still proposals. We look at some of these below.

In the Medium-Term Budget Policy Statement in October last year, the Minister said that a total of R40 billion in extra taxes would need to be collected between now and the 2024 /2025 fiscal year. However, in the Budget Speech this year, this plan to collect the entire amount of R40 billion was subsequently withdrawn. By withdrawing this plan, the Minister is indicating Treasury's faith in the implementation of economic reforms expressed in the State of the Nation Address to grow the economy and employment.

National Health Insurance (NHI)

Despite the impact of COVID, there was still no mention of NHI in this year's, or last year's, Budget Speech.

Corporate tax rate

The Minister announced a reduction in the corporate tax rate – from 28% to 27% - for years of assessment commencing 1 April 2022. However, after-tax profits to shareholders will still be taxed at 20% (dividend tax). The Minister further announced that this reduction would be tax neutral. The two adjustments to ensure this neutrality are negative for companies. The first is to restrict the use of assessed taxed losses. The second adjustment is to limit the deduction of interest expense incurred on local and foreign loans from "connected persons" to 30% of earnings. The presenter is of the view that these two adjustments could result in more corporate tax being collected by SARS.

Tax provisions for travel and working from home

In light of the large-scale migration to working form home over the last year, National Treasury will review current allowances and their efficacy, and we await the release of the special post-COVID Bill.

Tax on withdrawals from retirement funds where an individual ceases to be a tax resident

The issue here is the tax treatment of a retirement interest when an individual ceases to be a South African tax resident but retains his/her investment in a South African retirement fund, and only withdraws from the retirement fund at a later date. The funds which this change will impact are retirement annuity funds, pension preservation and provident preservation funds.

Section 9(2)(i) deems amounts withdrawn to be from a South African source.

Currently, the day before you stop being tax resident, we have a triggering of capital gains tax (CGT) which deems a disposal of all your assets worldwide, except immovable property in South Africa. This is commonly referred to as an exit tax.

Example:

A person stops being resident and has R1.2m in total built up in a retirement annuity (RA) fund. The person ceases being tax resident, goes to live in another country and becomes tax resident in that country. At some stage in the future, the fund will pay out. If the person can show they've not been tax resident for three years, they'll be able to receive the full R1.2m as a lump sum. Or, they may choose to retire from the RA, take one-third as a lump sum and convert the remaining two-thirds into an annuity.

Even though at the time that the payout comes from the fund, the person is living in another country and is tax resident there, there is a section in our Income Tax Act that determines that the source of the lump sum and annuities remains in South Africa. This means that SARS can still tax that lump sum and annuity.

What Treasury has realised is that in most double taxation agreements we have with other countries, the right to tax the lump sums and annuities from funds is taken away from South Africa and given to the foreign country where the fund member is now resident. When a double taxation agreement differs from our Income Tax Act, the double taxation agreement takes precedence.

In light of this, Treasury is proposing the following:

- The individual will be deemed to have withdrawn their full retirement interest from the fund on the day before they cease to be a South African tax resident.
- The tax on the lump sum is in terms of the withdrawal table but payment will be deferred until the fund pays out.
- When the fund pays out in the future, the fund will deduct from the retirement benefit according to the prevailing table and any difference will be a tax credit.

Although this is still a proposal, people considering emigration should not rely on South Africa not being able to tax their retirement funds due to any double taxation agreement.

Strengthening SARS' capacity

An additional spending allocation of R3 billion over the medium term will be provided to SARS to increase its capacity. This includes modernising its technology infrastructure and systems, expanding the use of data analytics and artificial intelligence capabilities, participating meaningfully in global tax compliance initiatives, and simplifying tax administration and improving collections.

The focus will be on closing the tax gap as identified by the Davis Tax Committee. This may result in a renewed focus on high-net worth individuals, cross border transactions, offshore investments and trusts.

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