Budget 2022 positive for investors

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On 23 February 2022, Minister Enoch Godongwana delivered a mostly benevolent Budget Speech. It showed sympathy with the plight of the poor in the form of more social grants and an understanding that South African taxpayers are unlikely to shoulder further tax hikes without another blow to economic growth in the wake of ever decreasing disposable income.

Individuals will have more after-tax money left

Minister Godongwana announced that the Treasury would be adjusting the income tax brackets and rebates by 4.5%, in line with inflation. This means that individuals should see a net increase in their take-home pay, which leaves more money available to invest. People under 65 years of age earning up to R91 250 will not be liable for income tax. For those between 65 and 75, that figure is R141 250, and for over-75s, this tax threshold is R157 900.

Medical tax credits are also increasing from R332 per month to R347 per month for the first two members of a medical scheme and from R224 to R234 per month for remaining members. Those in the top income tax bracket – earning more than R1 731 600 of taxable income per year – continue to be taxed at 45% but will also see an uptick in their after-tax earnings. View the SARS income tax tables here.

No increase in the main taxes on investments

The two taxes that hit investors the hardest are dividend withholding tax and capital gains tax (CGT). In 2016 the CGT inclusion rate was increased from 33.3% to 40%, meaning that a taxpayer can owe SARS as much as 18% of her capital growth. For long-term investors with many years to compound growth, this future tax liability can grow into a substantial tax bill; fortunately, the rate was not raised this year.

Dividend withholding tax was also kept constant at 20%. This tax is paid to SARS before the net of tax dividend enters the investor account. The returns published for unit trusts and exchange-traded funds are after dividends tax has been withheld, and investors needn't make provision for paying this tax to SARS as part of the annual tax filing process. Still, it reduces the net return in an investor’s pocket.

Retirement fund tax relief and limits remain unchanged

No changes were announced to the annual tax relief granted via retirement fund contributions. In addition to tax relief for contributions up to 27.5% of total income (capped at an annual contribution of R350 000), all the income and gains in a retirement fund are tax-free until retirement age. And on retirement date, the first R500 000 of the lump sum withdrawal is taxed at the 0% rate.

Retirement funds might soon hold more offshore assets

Despite the handsome tax benefits of retirement funds, they are often criticised as being too prescriptive regarding where and how the portfolio may invest. Currently, only 30% (it used to be 25%) of a retirement portfolio may be invested globally and an additional 10% in Africa. It was announced that proposals to raise the 30% to 35% are on the table. The African allocation would remain unchanged. In addition, Treasury is working on developing a “two-pot system” where investors in these funds will have access to a portion of their retirement portfolio before retirement age, in case of emergency. These regulations are in draft format and could take some time to implement.

VAT stays at 15%

Alongside ‘sin tax’, value-added tax (VAT) is another tax used by the government to steer its citizens towards less consumption and more saving. Even though South Africa’s VAT rate of 15% is low by international standards, the government did not increase it this year.

SA tax rates are high, keeping tax-efficient accounts attractive

South Africans pay high tax rates compared to countries with a similar income profile, and investors are paying more tax on dividends and capital gains than ten years ago. Our infographic with the history of South African tax since 1971 shows the taxes and allowances most relevant to investors and the upward trajectory in tax over the past few decades. On the other hand, investors now have more scope to use tax-free and tax-efficient products. The tax relief potential of retirement funds has been raised - with qualifying contributions at 27.5% of income compared to the limit of 15% six years ago. And in 2015 Treasury also launched tax-free savings accounts to stimulate savings in this country. For now, Treasury has pressed ‘pause’ on increasing taxes on individual investors, but investors have every incentive to maximise their savings in the products designed for optimal tax relief – the tax-free savings account and the retirement fund.