

# Tax training 2016

Kevin Yeh, CFP®

Daberistic Financial Services

[www.daberistic.com](http://www.daberistic.com)



# Agenda

- Budget 2016 highlights
- Budget 2016 – Taxes for individuals
- Budget 2016 – retirement funds
- Tax calculations

# What it takes to be good with tax

- Knowledge about tax laws
- Know how to apply tax knowledge
- Good arithmetic skills

# Budget framework

- The budget deficit will fall from 3.2 per cent in 2016/17 to 2.8 per cent in 2017/18 and 2.4 per cent the following year.
- Debt stock as percentage of GDP will stabilise at 46.2 per cent in 2017/18.
- Government will lower the expenditure ceiling by R10 billion in 2017/18 and R15 billion in 2018/19 by reducing public-sector compensation budgets.
- An additional R18.1 billion of tax revenue will be raised in 2016/17, with an additional R15 billion in each of the subsequent two years.
- Government has responded to new spending needs without compromising expenditure limits. An amount of R31.8 billion has been reprioritised over the MTEF period to support higher education, the New Development Bank and other priorities.

# Spending programmes

## Over next 3 years government will spend:

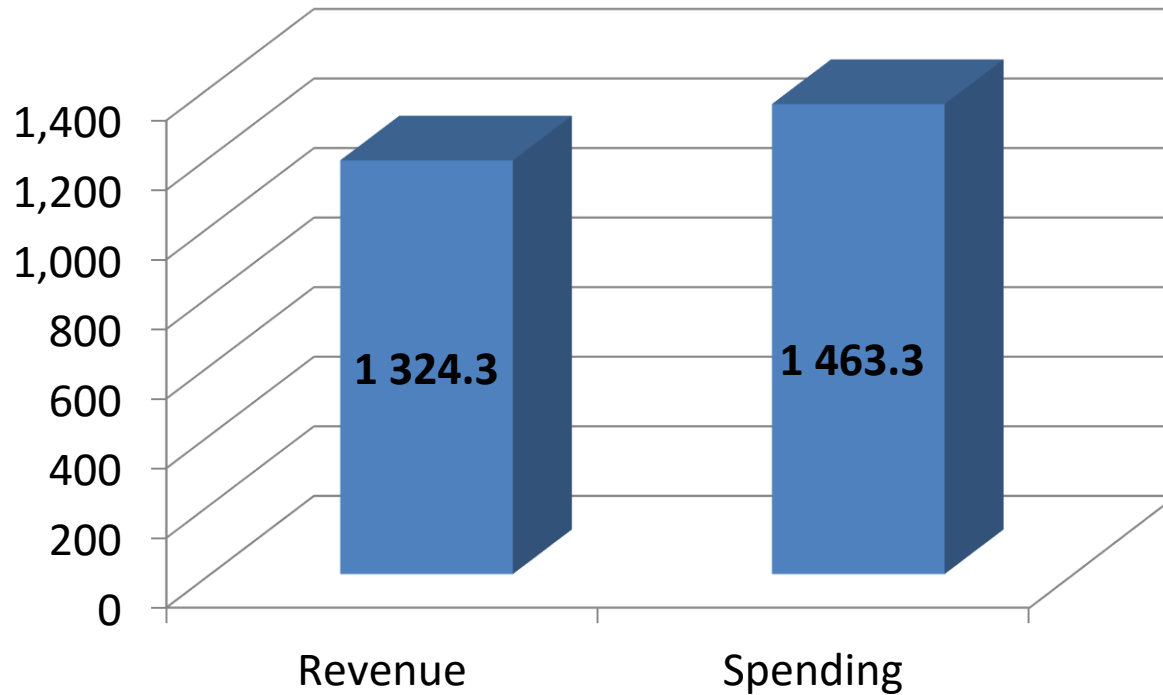
- R457.5 billion on social grants.
- R93.1 billion on transfers to universities, while the National Student Financial Aid Scheme receives R41.2 billion.
- R707.4 billion on basic education, including R45.9 billion for subsidies to schools, R38.3 billion for infrastructure, and R14.9 billion for learner and teacher support materials.
- R108.3 billion for public housing.
- R102 billion on water resources and bulk infrastructure.
- R171.3 billion on transfers of the local government equitable share to support the expansion of access of poor households to free basic services.
- R30.3 billion to strengthen and improve the national non-toll road network.
- R13.5 billion to Metrorail and Shosholoza Meyl to subsidise passenger trips and long-distance passengers.
- R10.2 billion for manufacturing development incentives.
- R4.5 billion for NHI pilot districts.

# Tax proposals

- An amount of R9.5 billion will be raised through increases in excise duties, the general fuel levy and environmental taxes.
- Limited fiscal drag relief of R5.5 billion will be implemented for individuals, focusing on lower- and middle-income earners.
- Adjustments to capital gains tax and transfer duty raise R2 billion.
- Government proposes to introduce a sugar tax on 1 April 2017 to help reduce excessive sugar intake.
- A tyre levy will be implemented, effective 1 October 2016.

# Budget highlight

Budget 2016/17(in R bn)



# Budget highlight

- Personal tax threshold R75,000
- Fuel levy up 30c/per litre
- Medical aid credit R286 first two/R192 additional
- Retirement reform
- Sugar – sweetened beverages tax



# Individual Taxes



# Individual taxes – younger than 65

Taxable income (R)	Rates of tax (R)
0 – 188 000	18% of taxable income
188 001 – 293 600	33 840 + 26% of taxable income above 188 000
293 601 – 406 400	61 296 + 31% of taxable income above 293 600
406 401 – 550 100	96 264 + 36% of taxable income above 406 400
550 101 – 701 300	147 996 + 39% of taxable income above 550 100
701 301 and above	206 964 + 41% of taxable income above 701 300

# Individual taxes

Rebates	
Primary (Under age 65)	R13,500
Secondary (65 – 75)	R7,407
Tertiary (age 75 and over)	R2,466

Tax threshold	
Below age 65	R75,000
Age 65 – 75	R116,150
Age 75 and over	R129,850

# Individual taxes

Medical aid tax credit	
First two	R286
Each additional dependant	R192

# Individual taxes

- Interest and dividend income
  - Annual exemption on interest R23,800 (age <65) and R34,500 (age 65+)
- Capital Gains Tax raised
  - Individuals inclusion rate 40%; effective highest tax rate 16.4%
  - Companies and trusts inclusion rate 80%: effective tax rate 22.4%

# Individual taxes

- Retirement fund lump sum withdrawal benefits

Taxable income (R)	Rate of Tax
0 – 25,000	0%
25,001 – 660,000	18%
660,001 – 990,000	27%
990,001 +	36%

# Individual taxes

- Retirement fund lump sum benefits or severance benefits

Taxable income (R)	Rate of Tax
0 – 500,000	0%
500,001 – 700,000	18%
700,001 – 1,050,000	27%
1,050,001 +	36%

# Retirement fund reforms

- Implemented 1 March 2016:
  - Employer contributions as taxable fringe benefits in the hands of the employee. A formula to calculate the fringe benefit inclusion amount in respect of employer contributions to defined benefit funds has been provided for. Full employer contribution is deductible by the employer
  - Individuals allowed 27.5% of the higher of taxable income or employment income as deduction, for contributions to pension, provident and retirement annuity funds
  - Maximum annual deduction R350,000
  - Currently retirement fund members have to purchase annuity with at least 2/3rds of their retirement benefit; threshold has been increased to R247 500
- Proposal for provident fund and provident preservation fund members to purchase an annuity at retirement is delayed to 1 March 2018



# Retirement fund reforms

- Implemented 1 March 2016:
  - Retirement funds must identify appropriate preservation funds for exiting members
  - Must guide members of converting savings into a regular income after retirement
  - More competition promoted to sell living annuities
  - Tax treatment of pension, provident and retirement annuity funds simplified and harmonised

# Retirement fund comparison – prior to 1 March 2016

	Pension Fund	Group Retirement Annuity	Provident Fund
Employer contribution	In practice up to 20% if justifiable	Up to 15% of taxable income	In practice up to 20% if justifiable
Employee contribution	7.5%		Not tax deductible
On resignation	Can withdraw or transfer	Cannot withdraw, can transfer to individual RA	Can withdraw or transfer
On retirement	Up to 1/3 paid out as lump sum, balance as annuity	Up to 1/3 paid out as lump sum, balanced as annuity	<b>Currently</b> Can have full amount paid out as lump sum

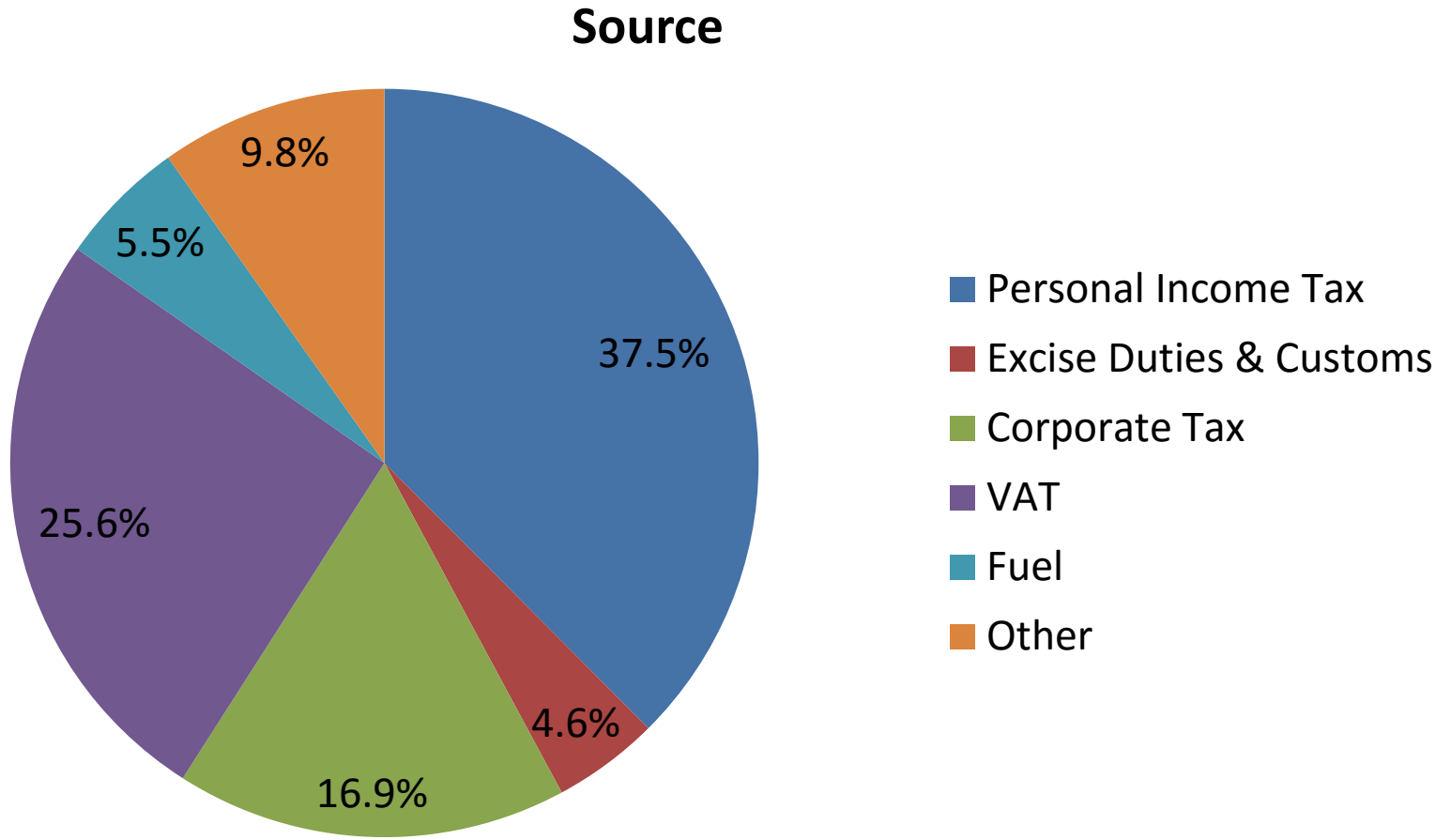
# Retirement fund comparison – from 1 March 2016

	Pension Fund	Group Retirement Annuity	Provident Fund
Employer contribution	Up to 27.5% of taxable income, tax-deductible in the hands of employee		
Employee contribution			
On resignation	Can withdraw or transfer	Cannot withdraw, can transfer to individual RA	Can withdraw or transfer
On retirement	Up to 1/3 paid out as lump sum, balance as annuity	Up to 1/3 paid out as lump sum, balanced as annuity	<b>Currently</b> Can have full amount paid out as lump sum

# Micro business tax relief

Taxable turnover (R)	Rate of tax
0 – 335,000	0%
335,001– 500,000	1%
500,001 – 750,000	2%
750,001 +	3%

# Where the budget money comes from



# Individual tax calculation

- Mr Andile, Annual Salary R300,000
- Income tax:
- $R300,000 - R293,600 = R6,400 * 31\% = R1,984$
- $+ R61,296 = R63,280$
- Less rebate:  $R13,500 = R49,780$  (monthly R4,148.33)

# Has medical aid

- 2 adults, 2 children =  $R286*2 + R192*2 = R956$   
tax credit per month
- Income tax =  $R63,280 - (R956*12) - R13,500 =$   
 $R38,308$  (monthly  $R3,192.33$ )

# Also has Retirement funds

- 10% contribution to Provident Fund – R2,500 p.m.
- 10% contribution to RA = R2,500 p.m.

Annual Salary	R 300,000.00
Less: Provident Fund Contributions	R 30,000.00
Less: RA contributions	R 30,000.00
Taxable income	R 240,000.00
Income Tax	R 47,360.00
$33840+(240000-188000)*26\%$	
Less: Medical aid tax credit	R 11,472.00
	R 35,888.00
Less: Primary rebate	R 13,500.00
Income tax	R 22,388.00
Monthly	R 1,865.67