

NATIONAL BUDGET 2020 RETIREMENT AND RELATED EMPLOYEE BENEFITS

Minister of Finance Tito Titus Mboweni tabled the latest National Budget in parliament on 26 February 2020. The purpose of this note is to briefly set out the implications for retirement fund stakeholders.

Tax deductibility of contributions is unchanged with the Rand limit remaining at R350,000 per annum

Tax on retirement fund investment growth is unchanged and remains at nil

Tax rates on benefits payable from funds are unchanged

No changes to Regulation 28 / or mention of prescribed assets

Continued talks on harmonisation of pension and provident funds

Markets responded well

Rand limit on tax free savings increased from R33,000 to R36,000 p.a.



Minister Mboweni's muse, the Aloe Ferox plant, reappeared at the proceedings to provide this prickly analogy:

"Our Aloe Ferox can withstand the long dry season because it is unsentimental. It sheds dead weight, in order to direct increasingly scarce resources to what is young and vital."

This was followed by a raft of proposed spending cuts, the bulk of which would come from adjustments to the government wage bill.

Winston Churchill is quoted as saying:

"for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle."

It looks like our government has come to the same realisation...

PRESCRIBED ASSETS

There were no specific mentions of the retirement industry's favourite swear word (prescribed assets), although the centralisation and mobilisation of unclaimed benefit funds for infrastructure funding purposes were mooted. This is hopefully a clever way of quietly, and with hardly any opposition, putting this issue to bed, for the moment at least.

RETIREMENT SPECIFICS

In the retirement fund space, there were hardly any changes.

WITHDRAWING RETIREMENT FUNDS ON EMIGRATION

Details are light at this stage but it is proposed that the trigger for individuals to withdraw from retirement funds be reviewed on emigration. Changes will take effect on 1 March 2021.

RETIREMENT FUND REFORM

Government and the National Economic Development and Labour Council have agreed to proceed with retirement reform related to the harmonisation of all retirement benefits, including provident funds but no dates or specifics have been set. Government will take steps to ensure the development of annuity products more suitable for the low-income market, which may help to soften the stance of unions.

OTHER THINGS

The social old age grant increases from R1,780 to R1,860.

A tightening of the wording around the deductibility to employer contributions will be made to bring legislation in line with current practice.

After introducing a range of tax increases in recent history (most notably low-to-no inflationary adjustments to personal income tax brackets and rebates, increase in top tier personal income tax rates, and 2018's VAT increase), the 2020 Budget announced no major tax increases. In fact, this year's personal income tax brackets and rebates were adjusted by more than inflation, i.e. by 5.2%!

MARKETS

Markets reacted positively to the Budget, with the local equity market (Capped SWIX) swinging sharply from coronavirus-related losses at the start of trade to end Budget Day 1.1% higher. The heavily out-of-favour financial sector, which is typically quite sensitive to local economic conditions, responded particularly well and ended the day 3.7% stronger. While the Rand also strengthened during the speech it was unable to hold onto these gains, but the local bond market still managed to record its highest daily gain (+0.7%) in nearly 4 months.

WHAT DOES THIS MEAN FOR YOU?

Other than some relief on the bottom-line offset by ever increasing sin taxes, it's business as usual for retirement savers

Your Robson Savage consultant will be glad to provide any further input you might require.

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