Tax bites the rich, but not as badly as predicted

All the predictions ahead of the Budget Speech were far worse than what actually transpired, including the impact on wealthier South Africans, which wasn't as severe as it could have been.

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The expected direct wealth tax – or super tax on the wealthy – did not materialise, but increases in estate duty, excise duties and donations tax were directed specifically at the wealthier South African taxpayer.

“On the positive side, there was no introduction of a direct wealth tax, the top marginal tax rate did not go up and there was no adjustment in capital gains tax inclusion rates. However, adjustment to donations tax, estate duty, VAT, a levy on international travel, and higher excise duty on luxury goods will lead to increased tax payable,” says Philip Faure, global head of wealth advisory for Standard Bank Wealth and Investment.

“Whatever the negative impacts are based on the current tax increases, we are currently going through a tough economic cycle and there is no need to despair despite the wealthy now having to pay a higher burden of overall taxes. We have to believe the new government is going to focus on economic growth and things should settle down in the next few years,” he says.

Preservation funds and emigration

Government is also proposing to align the tax treatment of preservation funds upon emigration. On formal emigration, a taxpayer is able to withdraw the full value from their retirement annuity, but government is now considering aligning the tax treatment of different retirement withdrawals in such circumstances.

Personal income tax

Minor adjustments to income tax brackets, and therefore below inflation adjustments was a notable feature of the Budget. Limited adjustments to personal income tax brackets continue the progressive steepening of the income tax curve, which in recent years has also involved increasing capital gains and shareholder dividend tax rates, and establishing a new rate of 45% for the top tax bracket.

However, the salient features of this budget are:

- Top marginal remains 45%, for taxable income above R1,500,001; limited relief in personal income tax brackets to accommodate inflation
- VAT rate increases from 14% to 15%
- No change to CGT inclusion rates
- Donations tax increases from 20% to 25% tax on amounts above R30m
- Estate duty lifts from 20% to 25% for estates above R30m
- Increase in excise duty rate on luxury goods from 7% to 9%
- Levy on international travel R190 per passenger departing international flights
- Increase of 52c/litre for fuel, consisting of a 22c/litre increase in the general fuel levy and 30c/litre increase in the Road Accident Fund levy

Offshore allowances, which have been capped at R10m annual investment allowance and R1m discretionary allowance, were not increased.

Trusts

The treatment of taxation as it relates to trusts is unchanged since the introduction of section 7C in 2017, which negatively impacted interest free loans from individuals to trusts. If used correctly, trusts remain an important vehicle for the protection of assets and legacy planning.

VAT

Higher tax rates for the wealthy had been mooted as one of the ways to generate more tax income without lifting the value-added tax rate. However, VAT was increased by one percentage point as it is estimated to have the least detrimental effects on economic growth and employment over the medium term with the biggest spenders carrying the highest proportion of this indirect tax.

“We saw a number of increases in taxes that are traditionally paid by wealthier taxpayers and this was not too surprising. A carefully planned and managed overall wealth strategy remains the best way to overcome these immediate tax increases, but I also expect economic growth to assist in reducing the tax burden in the future,” concludes Faure.