Budget 2020 brings hope for investors

The persistent tax increases of the past decade have been making investors jittery.

- Personal income tax increases and 'stealth tax' – not adjusting the higher income tax brackets with inflation – have left individuals with less disposable real income to invest.
- An uptick in the dividends tax rate and capital gains inclusion rate, together with no inflation adjustment to the annual interest exemption since 2012, has made investing less attractive to investors, especially in the recent low-growth environment.
- And the introduction of the so-called 'expat tax' has further complicated the lives of South African citizens.

Then, in his Budget speech on 26 February, Minister Mboweni surprised us with several elements of hope for long-term investors. We cover the most important points of Budget 2020 below.

Good investment returns rely on economic growth and Budget 2020 aligns with growth
Probably the most important aspect of Budget 2020 is that it recognises that persistent tax increases are not conducive to long-term economic growth, especially when those taxes weaken the spending power of individuals. Or when taxes discourage the saving and investing needed for infrastructure development in SA (dividends tax and capital gains tax are especially harmful). Instead of raising taxes, Budget 2020 focuses on the efficiency with which government spends its tax revenue and the Budget intends, in particular, to cut the 'dead weight' from the state wage bill.

From 1 March 2020 individuals have more after-tax money left
After three years of not adjusting the higher income tax brackets for inflation, Treasury is adjusting these upward by more than inflation from 1 March. Annual personal income tax rebates are also increasing. This means that individuals in these income brackets should see a net increase in their take-home pay, which leaves more money available to invest.

Minister Mboweni gave examples of the decrease in income tax in his Budget speech, 'Our income tax system is progressive, and the adjustments reflect this. Someone earning R10 000 a month will pay 10% less in tax. Someone earning R100 000 a month will pay about 1.5% less.'

Medical tax credits are also increasing from R310 per month to R319 per month for the first two members of a medical scheme and from R209 to R215 per month for remaining members. Those in the top income tax bracket – earning more than R1 577 300 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 'investment taxes'
The two taxes that hit investors the hardest are dividend withholding tax and capital gains tax (CGT), the latter being especially punitive for long-term investors, as in the South African tax system the base cost of assets is not adjusted by inflation every year. In 2013 the Minister of Finance increased the

CGT inclusion rate from 25% to 33.3%. In 2016 it was increased to 40%. Fortunately for investors, despite speculation that another increase is due, this rate remains constant for the 2020/21 tax year.

Dividend withholding tax was also kept constant at 20%. (For the record, the returns published for unit trusts and exchange-traded funds are after dividends tax has been withheld by the financial services company, i.e. the tax is already taken off in the figure you see on your statements.)

Good news for property investors
Property investors will be happy to know that they will now be paying less transfer duty on the purchase of a property. For the first time since 2017 the transfer duty table has been adjusted, with all property buyers benefiting, but those buying a property for less than R1 million will be paying zero transfer duty on offers to purchase signed after 29 February 2020.

Treasury recognises that South Africans' world is larger than SA
Treasury is signalling that it's aware that country borders are becoming dotted lines for those who have the means to work and/or live in various locations across the globe. It has proposed lifting the R10 million annual offshore allowance on individuals taking capital out of the country, but will apply a more stringent process in verifying the source of those funds. This repeal of the annual offshore allowance is likely to become effective on 1 March 2021 only.

But, already from 1 March 2020 the cap on the exemption of foreign remuneration earned by SA tax residents, in other words the cap above which the so-called 'expat tax' kicks in, is raised from R1 million to R1.25 million per tax year – good news for these international earners.

Other than the above relief, government is also repealing certain restrictions on emigrants, such as not being able to bank and borrow money in South Africa, as government wants to encourage emigrants to keep ties with SA.

Sin taxes will always be with us
'Sin taxes' are one of the tools government uses to change behaviour for the better, whether this be to increase the health of its citizens (and hence lower the part of the Budget that the state needs to allocate to public health care) or to decrease unsustainable development and ecologically harmful practices. These are the only taxes increasing this year, namely in the form of increases in the fuel levy and excise duties on alcohol and tobacco, new duties on heated tobacco products (e.g. e-cigarettes), and a higher levy on plastic bags.

VAT stays at 15%
Although not categorised as a sin tax, value added tax (VAT) is another tax that government uses to steer its citizens in the right direction – less consumption and more saving/investing. Even though South Africa's VAT rate of 15% is low by international standards, government decided not to increase it this year.

SA tax rates are still high, so use your tax breaks
Government might have pressed 'pause' on increasing taxes on individual investors, but South Africans still pay high tax rates compared to countries with a similar income profile.

View our infographic with the history of South African tax since 1971 for the bigger picture of how tax and allowances developed and increased over the years.

In the light of this, the two main tax-efficient investment vehicles available to you are retirement funds and tax-free savings accounts.

Retirement fund tax relief and limits remain unchanged
No changes were announced to the annual tax relief granted via retirement fund contributions. All the income and gains in a retirement fund is tax-free until retirement age. And on retirement date the first R500 000 of the lump sum withdrawal is taxed at the 0% rate.

And the best news: the annual limit on tax-free investing increases to R36 000
The lifetime limit for contributions to TFSAs is still R500 000, but the annual contribution limit is increasing from R33 000 per tax year to R36 000 per tax year – or R3 000 per month – from 1 March 2020, meaning you can boost your tax-free investments and potentially reach your investment goals sooner. (Any contribution above these limits will be taxed at 40%, so remain mindful of how much you invest across all your accounts.)

Throughout his speech, Minister Mboweni used his much-loved Aloe ferox analogy for our country and its finances. Among other things, he said, ‘For our Aloe ferox to grow to its full potential, we need to do things that will help it in the medium to long run – for example, augmenting the soil with the right amount of organic manure, providing the right amount of sun and the correct amount of water. For a fast-growing economy we need to make sure our children are well educated, our people are healthy and our money is invested properly.’

Without a doubt, Budget 2020 is preparing the soil for economic growth and increased saving and investing.