



GMS Flash Alert



2017-108 | June 21, 2017

South Africa - Personal Income Tax, Follow on from Budget 2017

South Africa's Budget 2017 introduced changes to personal income tax rates and proposed changes to the tax exemption for foreign service income that could impact employees on international assignments and their multinational employers. Also, reforms to the retirement system are scheduled to come into effect on 1 March 2018.¹

These and other changes are briefly described below.

WHY THIS MATTERS

The new top tax rate introduced in the Budget will generally result in higher taxation for high-income individuals. The higher personal tax burden will be partially mitigated by the increases in the tax rebates and medical tax credits. Each individual's tax status should be determined in light of his or her particular situation.

Companies with high-income-earning international assignees are likely to see an increase in their assignment-related costs.

In cases of assignments to South Africa where assignees are subject to South African taxation, and for assignees working outside South Africa but still subject to South African taxation, international assignment cost projections and budgeting should reflect the changes described in this newsletter as and when they come into effect. Where appropriate, adjustments to gross-up packages and withholding taxes need to be considered.

Personal Income Tax Adjustments

To recap, with effect from 1 March 2017²:

- New top personal income tax bracket³ of 45 percent for taxable income above ZAR 1.5 million (see footnote 3).
- Increases in the individual tax rebates, the individual tax threshold, and the medical tax credits which followed the pattern of prior years.

Tax Exemption for Foreign Service Income

It has been proposed that the tax exemption for income related to foreign services in respect of South African tax residents be amended to allow the exemption only where the remuneration has been proven to have been subject to tax in the foreign country.

KPMG NOTE

Since many South African tax residents work abroad for a period during their working life, this amendment may have far-reaching effects, especially for the out-bound population rendering services in low-/no-income tax jurisdictions such as the United Arab Emirates, Mauritius, etc.

At present, employment income is exempt when received by a South African tax resident during any year of assessment in respect of services rendered outside South Africa for or on behalf of any employer, if that individual was outside South Africa:

- for a period or periods exceeding 183 full days in aggregate during any 12-month period; and
- for a continuous period exceeding 60 full days during that 12-month period.⁴

The exemption is only available to employees of private-sector companies.

KPMG NOTE

There is currently no requirement that tax be payable in another country for this exemption to apply, and therefore individuals often do not have to rely on double taxation treaties or make use of the tax credit system to avoid double taxation.

The KPMG International member firm in South Africa ("KPMG") has been in contact with the South African National Treasury and has contributed to an industry submission to policy-makers there, addressing the application of the exemption and the effect the exemption would have should it be amended/deleted.

We expect the draft Taxation Laws Amendment Bill (containing the proposed amendment) to be published toward the end of July/August. We shall provide an update as soon as there is more certainty on the way forward.

Retirement Reforms

At present, the requirement for Provident Fund members to “annuitise” upon retirement is still set to become effective from 1 March 2018 (with certain vested right protection for existing members and members above 55 years). However, the National Treasury has indicated in industry forums that there is a possibility that the effective date may be postponed.

KPMG NOTE: NEXT STEPS

While certain proposals mentioned in the Budget 2017 are in the process of being enacted, there is still an extensive legislative process to follow in respect of the changes to the tax exemption for foreign service income and the retirement reforms. KPMG intends to provide further submissions to National Treasury and, where required, present to the Standing Committee on Finance.

FOOTNOTES:

1 For the text of the Budget speech and related documents, see:
<http://www.treasury.gov.za/documents/national%20budget/2017/> .

2 As contained in the *Draft Rates and Monetary Amounts and Amendment of Revenue Laws Bill*, currently in front of the Parliamentary Standing Committee on Finance.

3 **2018 Tax Year Personal Income Tax Rates and Thresholds (1 March 2017 – 28 February 2018)**

| TAXABLE INCOME | | RATE OF TAX | | |
|-----------------|-----------|-------------|-------------------------|-----------|
| ZAR | ZAR | ZAR | | ZAR |
| 0 | 189,880 | | 18% of each | 1 |
| 189,881 | 296,540 | 34,178 + | 26% of the amount above | 189,880 |
| 296,541 | 410,460 | 61,910 + | 31% of the amount above | 296,540 |
| 410,461 | 555,600 | 97,225 + | 36% of the amount above | 410,460 |
| 555,601 | 708,310 | 149,475 + | 39% of the amount above | 555,600 |
| 708,311 | 1,500,000 | 209,032 + | 41% of the amount above | 708,310 |
| Above 1,500,000 | | 533,625 + | 45% of the amount above | 1,500,000 |

[ZAR 1 = EUR 0.0687 | ZAR 1 = USD 0.0765 | ZAR 1 = GBP 0.0606 | ZAR 1 = INR 4.949]

4 Section 10(1)(o)(ii) of the *Income Tax Act, No. 58 of 1962*.

Contact us

For additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm in South Africa:



Beatrice Gouws
Associate Director
Tel. + 27 (0) 71 356 0753
beatrice.gouws@kpmg.co.za



Lameez Arendse
Tax Consultant
Tel. + 27 (0) 79 512 9986
lameez.arendse@kpmg.co.za

The information contained in this newsletter was submitted by the KPMG International member firm in South Africa.

© 2017 KPMG Services (Proprietary) Limited, a South African company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

www.kpmg.co.za

kpmg.com/socialmedia



© 2017 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in the U.S.A. NDPPS 530159

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

The KPMG logo and name are trademarks of KPMG International. KPMG International is a Swiss cooperative that serves as a coordinating entity for a network of independent member firms. KPMG International provides no audit or other client services. Such services are provided solely by member firms in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint venturers. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any member firm in any manner whatsoever. The information contained in herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Flash Alert is a GMS publication of KPMG LLP's Washington National Tax practice. To view this publication or recent prior issues online, please click [here](#). To learn more about our GMS practice, please visit us on the Internet: click [here](#) or go to <http://www.kpmg.com>.