Four tax changes you need to know about in South Africa

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South African political and economic landscape has changed at rapid speed in 2018 – from the election of a new president in Cyril Ramaphosa, to the introduction of fee-free higher education for learners from low-income families, to the increase in VAT from 14% to 15%.

And this year's Tax Law amendments also rang in some important changes, notes Rob Cooper, a tax expert and director of legislation at Sage.

He highlights some of the common questions the enterprise software company is hearing from employers and employees about how new regulations and developments will affect the payroll.

Is the National Minimum Wage here to stay?

The National Minimum Wage Bill will soon become law, Cooper said. It aims to address wage inequality in South Africa, which is among the highest in the world.

"The minimum wage has been set at a conservative level, with the goal of benefiting an estimated four to six million workers living below the poverty line without dampening job creation and economic growth," he said.

The National Minimum Wage sets the minimum hourly wage rate at:

- R18 for farm workers,
- R15 for domestic workers,
- R11 for workers employed on an extended public works programme, and
- R20 for the rest of the workers.

"These rates set a new floor for compensation—an employer may not pay an employee less per hour, irrespective of whether he or she is paid weekly wages or a monthly salary. The national minimum wage will override other wage regulating mechanisms—such as the minimum wages set by bargaining councils – where their minimum wages are set at a lower rate," said Cooper.

Bargain council agreements, sectoral determinations and wage regulating measures in general, can, however, set higher minimum wages for their sectors.

Sage pointed out that employers will not be allowed to unilaterally reduce workers' hours to reduce the cost of wages. Businesses that cannot afford the minimum wage can apply for an exemption from the minimum wage for up to 12 months.

"We will hopefully see an amendment to the Employment Tax Incentive Act to align it with the National Minimum Wage—it currently states that an employee must be paid at least a monthly minimum wage of R2,000 if there is no other wage regulating measure for the industry. This would simplify administration of the Incentive," said Cooper.

What are the changes to reimbursive travel allowance?

With effect from 1 March 2018, the portion of a travel reimbursement above the ‘prescribed’ rate of R3.61 (was R3.55 for 2017/2018 tax year) per business kilometre is included in remuneration. “In the past, this was more complex,” said Cooper.

He said that the latest ‘Fixed Rate per KM’ regulation issued by SARS and effective from 1 March 2018 will encourage employers to use a reimbursement rate per kilometre which is not greater than the ‘prescribed’ rate.

This, he pointed out, will allow them to avoid a situation where skills development levies and UIF contributions are added to something that should be considered as an operational cost rather than a payroll cost—which had the result of lifting their costs of employment.

What effect will the National Health Insurance have on medical scheme fees tax credits?

“Many of us were bracing ourselves for the finance minister to do away with the small tax credit taxpayers receive for their medical aid payments to raise more funding for the National Health Insurance (NHI) plan. The good news is that it will stay in place; the bad news is that the tax credits will be increased below inflation over the next three years to fund expenditure for the NHI,” said Cooper.

This is already evident in the small increases to the medical scheme fees tax credits for 2018/2019, he said.

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Primary tax credit	242	257	270	286	303	310
Secondary tax credit	162	172	181	192	204	209

Sage pointed to National Treasury analysis which showed that 56% of the total credits claimed in 2014-2015 accrued to around 1.9 million taxpayers with a taxable income below R300,000. “Until we have a viable NHI in place, the medical aid credit will play an important role in making decent healthcare more affordable to millions of low-income earners. Getting rid of it would be a regressive move,” Cooper said.

What are the major changes to retirement funds for 2018?

- The removal of the provision that employees must join a new pension or provident fund within 12 months of its establishment. Employees are now allowed to join their employer’s fund at any time if the fund’s rules allow it.
- An employee is allowed a tax deduction on retirement fund contributions (employee and deemed employee contribution) up to the lesser of 27.5% of remuneration and R350,000 a year, said Sage. From March 2018, the legislation spreads the R350,000 cap across the year. Any unused portion will be considered on assessment. This will prevent employees from receiving more than a R350,000 benefit should they work at more than one employer during a

tax year and exceed the R350,000 cap at one of these employers, or from experiencing a sudden drop in net pay when the R350,000 cap is reached.

- The postponement of compulsory annuitisation requirement of provident funds for another year, from March 2018 to March 2019