



# HODKINSON INCORPORATED

INTEGRITY AND PROFESSIONALISM

## Budget 2015/2016 Newsletter

Some of the more important features of the Budget speech are as follows:

### CHANGES TO TAX TABLES, THRESHOLDS, REBATES & EXEMPTIONS

The taxation tables for natural persons are depicted on page 5 of the guide included herewith. The marginal personal income tax rates have been increased by one percentage point for all income tax brackets except the lowest, which will remain at 18%. The lowest rate of taxation (18%) extends to the first R181,900 (2015: R174,550) of taxable income, while the highest rate of taxation (41%) sets in at R701,301 (2015:40% at R673,101).

After the taxation is calculated using the above tables, the annual rebate is set-off to determine the taxation payable for the year. These rebates have changed as detailed in the table below.

#### **Natural persons - Tax rebates:**

	2015	2016
Primary - All natural persons	R12 726	R13 257
Secondary - Persons aged 65 and below 75 (added to primary)	R 7 110	R 7 407
Additional Secondary - Persons aged 75 and above (added to primary & secondary)	R2 367	R2 466

Using the taxation tables and the abatement applicable to the various age categories, the limit at which no tax is payable (the tax threshold) is calculated as follows:

#### **Natural persons - Tax thresholds:**

	2015	2016
Below 65 years of age	R70 700	R73 650
Aged 65 and below 75	R110 200	R114 800
Aged 75 and over	R123 350	R128 500

#### **Natural persons - Interest exemptions:**

	2015	2016
Below 65 years of age	R23 800	R23 800
Aged 65 and older	R34 500	R34 500

### CAPITAL GAINS TAX RATES

The inclusion rates for Capital Gains Tax remained unchanged from 2015

	2015	2016
Individuals/special trusts	33.3%	33.3%
Companies	66.6%	66.6%
Trusts	66.6%	66.6%

This means that individuals paying tax at the highest marginal tax rates will incur an effective capital gains tax rate of 13.66% (2015:13.3%). The effective rate for companies will be 18.65% and trusts 27.31% (2015:26.7%).

### TRUSTS

The trust income tax rate has been increased by one percentage point to 41% (2015: 40%).

### CORPORATE TAX RATE

No change was proposed to corporate tax rates. The normal income tax rate remained unchanged at 28% and the dividends tax rate at 15%.

## SMALL BUSINESS CORPORATIONS

The tax free threshold for small business corporations has been increased to R73,650 (2015: R70,700). Taxable income between R73,650 and R365,000 will be taxed at 7% (2015: R70,701 to R365,000), while taxable income between R365,000 and R550,000 continues to be taxed at 21%. For taxable income above R550,000 (2015:R550,000) the normal corporate tax rate of 28% will be applied.

## CHANGES TO DEDUCTIONS AND ALLOWANCES

### **Travel allowances:**

With effect from 1 March 2015, the new table as detailed on page 15 in the attached booklet will apply.

### **Reimbursive travel:**

Where the distance travelled for business purposes does not exceed 8 000 kilometers per annum, no tax is payable on a reimbursement to an employee up to the rate of R3,18 (2015:R3,30) per kilometer, regardless of the value of the vehicle.

### **Medical Expenses**

The medical aid rebate system continues for 2016.

The rebate against tax payable is calculated at R270 (2015:R257) per month for the taxpayer and the first dependent and R181 (2015:R172) per month for each dependent thereafter.

The balance of qualifying medical expenditure, as exceeds 7.5% of taxable income (before this deduction and RAF deductions) or where the taxpayer is 65 years and older or where a dependent has a disability, will be used to calculate a further tax credit based upon a formula contained on page 9.

### **Subsistence allowance**

Travel in RSA:

- Meals and incidental costs – R353 per day from 1 March 2015
- Incidental costs only – R109 per day from 1 March 2015

Travel outside RSA:

- The table per country is available on the SARS website under Legal & Policy/Secondary Legislation/Income Tax Notices/2015.

### **Income protection/loss of income policies**

As from 1 March 2015 income protection contributions will no longer qualify as a tax deduction. In turn the benefits received on your income protection/loss of income policy will not be taxable.

## TAX FREE INVESTMENT ACCOUNTS (TFIA's)

Tax Free Investment accounts were introduced as an incentive to encourage household savings and are available from 1 March 2015.

The basics are:

- Only certain investment products will qualify as TFIA's
- The returns from these investments will be tax free, you will not have to pay income tax, dividends tax or capital gains tax on the returns
- You can only contribute a maximum of R30 000 per annum and any unused portion does not carry forward to the following year
- There is a lifetime limit of R500 000 per person
- If a person exceeds the limits there is a penalty of 40% of the excess amount
- No transfers are allowed in the first year of investment (1 March 2015 to 28 February 2016), this includes transfers between service providers
- Parents can invest on behalf of their minor children. The minor child will use his/her own annual and lifetime limit
- TFIA's cannot be used as transactional accounts
- Only new accounts will qualify as TFIA's. Old investments cannot be converted.

## CONTRIBUTIONS TO RETIREMENT FUNDS

Several amendments to the Income Tax Act have been made with respect to retirement funds. These changes have been promulgated over the last two years and importantly, come into operation on 1 March 2016.

These amendments seek to equalise the taxation treatment of contributions to retirement annuities, pension funds and provident funds. In future, members contribution deductions will be limited to a maximum of 27,5% of remuneration or taxable income provided the total deduction does not exceed R350 000.

Contributions by employers will be included as fringe benefits in the employers hands and subject to the same deduction limit as described in the previous paragraph.