

# Bulletin

NEWSLETTER FOR MEMBERS

MARCH 2011

## IMPACT OF THE 2011 BUDGET TAX PROPOSALS ON MEMBERS

Proposed changes were announced in the Budget Speech on 23 February 2011 that emphasise the need for sustainable economic growth and job creation in SA. It also “paves the way” for social security, health care and retirement reform initiatives.

The impact of these announcements on SENTINEL & MEPF members is summarised below.

### INCOME TAX RELIEF FOR INDIVIDUAL TAXPAYERS

The primary rebate is increased from R10 260 to R10 755, the secondary rebate for persons aged 65 and older is increased from R5 675 to R6 012 and a third rebate of R2 000 is introduced for persons aged 75 and older.

The tax thresholds for individual taxpayers in 2011/2 are:

- R59 750 for those younger than 65
- R93 150 for those aged 65 and older
- R104 261 for those aged 75 and older.

Adjustments to personal income tax brackets and rebates will compensate for the effects of inflation and result in reduced tax liability for taxpayers at all income levels. The following table illustrates the anticipated tax reductions that individual taxpayers can expect:

Annual Taxable Income	Annual tax reduction Younger than 65	Annual tax reduction Aged 65 to 75	Annual tax reduction Aged 75 plus
R90,000	R495	R265	
R100,000	R495	R832	R2,065
R120,000	R495	R832	R2,832
R150,000	R1,195	R1,532	R3,532
R250,000	R1,895	R2,232	R4,232
R400,000	R2,895	R3,232	R5,232
R500,000	R3,615	R3,952	R5,952
R750,000	R4,175	R4,512	R6,512



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## SAVINGS

The annual tax-free interest income threshold will be increased with effect from 1 March 2011 to:

- R22,800 for individuals below 65
- R33,000 for individuals aged 65 and older
- R3,700 will remain unchanged for foreign interest earned.

This threshold applies to an individual which means that both spouses qualify for an exemption. A more consistent treatment of all forms of income from investments, i.e. interest, dividends and capital gains will also be considered in future.

## MEDICAL DEDUCTION

Tax deductions for qualifying out-of-pocket expenses will remain unchanged for now, i.e. persons over 65 and those with qualifying disabilities may claim total expenses paid, while those under 65 may claim expenses paid that exceed 7.5% of their taxable income.

From 1 March 2012, tax deductions for medical expenses will be converted to tax credits as this will provide more equitable tax relief. One way of doing this may be to revert back to the pre-90's medical rebate mechanism.

## RETIREMENT LUMP SUM BENEFITS

Revised rates for the taxation of lump sum benefits upon retirement and involuntary retrenchment with take effect on 1 March 2011. The following tax table will apply in future:

Taxable Lump Sum	Rate of Tax
R0 to R315,000	Exempt from tax
R315,001 to R630,000	18% of the amount exceeding R315,000
R630,001 to R945,000	R56,700 plus 27% of the amount exceeding R630,000
R945,000 and above	R141,750 plus 36% of the amount exceeding R945,000

## CAPITAL GAINS TAX EXCLUSIONS

The following increased CGT exclusion amounts will take effect on 1 March 2011:

Exclusion	Previous	Now
Individuals: Annual exclusion	R17,500	R20,000
Individuals: On death	R120,000	R200,000
Individuals: On disposal of business if aged over 55	R750,000	R900,000
Public Benefit Organisations: Annual trading income	R150,000	R200,000
Recreational Clubs: Annual trading income	R100,000	R120,000

## DIVIDENDS TAX

Dividends tax (DT) will replace Secondary Tax on Companies (STC) on 1 April 2012 and will be levied at a rate of 10% on individuals and non-resident shareholders.

## GAMBLING TAX

The "sin tax" net is no longer limited to tobacco and alcohol only and will, from 1 April 2012, be widened to include gambling winnings above R25,000. A 15% final withholding tax will be levied on these "winnings" and will include the National Lottery. In this instance, 1 April is the start of a new fiscal year and not an April fool's initiative!

## TAX ADMINISTRATION

SARS' efforts have been concentrated on effective and efficient administration for some time now. Not only has the assessment process been enhanced, but access to various databases for relevant information has been obtained. This should not be a concern to compliant taxpayers (who were applauded in Parliament on Budget day) but for those who have been sheering away from their responsibilities, the following extract from official Budget documentation will certainly create some level of nervousness:

*“SARS plans to make greater use of data provided by credit bureaus to build detailed taxpayer profiles and identify non-compliance. SARS is also extending its cooperation with other tax administrators in the areas of information exchange, skills transfer and audit”.*

Taxpayers are reminded of the Voluntary Disclosure Programme which is aimed at encouraging taxpayers to come forward to regularise their tax affairs without the imposition of additional tax, penalties and interest. This programme began in November 2010 and will remain open until 31 October 2011.

SARS has further embarked on a project to register all “employees” in the PAYE system as taxpayers. Employers who are registered for PAYE will provide information of all their employees to SARS, who will in turn register these individuals as taxpayers and provide them with a tax reference number.

## RETIREMENT REFORM: Tax treatment of retirement fund contributions

Far reaching proposals were made which are aimed at improving tax administration and promoting greater equity. These proposals will take effect on 1 March 2012. These proposals include:

Description	Current Dispensation	Tax Treatment	Proposed Dispensation	Tax Treatment
Employer contributions	Max 20% of payroll to all benefit funds, including retirement funds	Tax free	Uncapped employer contributions	Taxed as fringe benefit
Member current contributions	7.5% of pensionable emoluments or R1,750 p.a.	Tax free	All contributions combined. Deductible to 22.5% of taxable income, minimum tax deduction R12 000pa and capped to maximum of R200 000 pa	Tax free to maximum cap
Member additional cons	R1,800 p.a.	Tax free		
Member non-deducted cons	Tax deductible against lump sum benefits	Tax free		
Retirement Annuity Fund cons	15% of non-pensionable emoluments, or R3,500 less pension cons, or R1,750	Tax free		

- Employer contributions will be treated as a taxable fringe benefit in the hands of the employee.
- Individuals will be allowed a deduction of 22.5% of their taxable income for contributions to pension, provident and retirement annuity funds, with a minimum annual deduction of R12,000 and an annual maximum of R200,000.

The Funds will investigate the impact of these proposed changes and consider greater flexibility on contributions that will enable members to enjoy maximum tax relief on retirement savings into the future.

## NATIONAL HEALTH INSURANCE

NHI is expected to be phased in over 14 years. The phasing in of a payroll tax (payable by employers), an increase in the VAT rate and a surcharge on individuals' taxable income could be considered as funding options in future.

# MEMBER INVESTMENT CHOICE UPDATE

## CHANGES TO CAPITAL PROTECTION PORTFOLIO

The Capital Protection Portfolio (CPP), provided by the Funds as part of the Member Investment Choice portfolios, will undergo a number of changes effective 1 April 2011. The main features of the new CPP are:

Description	Existing CPP	New CPP
Capital is 100% protected at end of	12 months	Every month
Can monthly growth be negative?	Yes	No
Investment growth vests	After 12 months	Every month
New investments may be made	Every quarter	Every month
Early termination allowed only due to	Death & Disability	Any Fund benefit
Guarantee forfeited if	Terminated early	None if at month end
Equity asset allocation	65%	65%
Fixed Income asset allocation	35%	35%
Asset Management fee (deducted from returns)	0.25%	0.65%

The Capital Protection Portfolio does not form part of the Life Stage Model and is specifically designed for conservative to moderate risk appetite investors, and those close to retirement, who are averse to volatility and risk of capital loss.

## CASH PORTFOLIO'S NAME CHANGED

To more accurately describe this portfolio and its underlying assets, the Cash Portfolios name has been changed to the Money Market Portfolio. This portfolio also does not form part of the Life Stage Model.

The assets invested in by this portfolio include, amongst others, Cash, Call Deposits, Treasury Bills, Bankers Acceptances and Negotiable Certificates of Deposit. This asset mix is designed to maximise returns over time when compared to a pure cash investment. The name Money Market Portfolio is, therefore, more appropriate.

### **MEMBERS ARE REMINDED THAT:**

- The option to investment in the above portfolios must be exercised in writing by completing the Member Investment Choice Option Form.
- Exercising an investment option can be a complex decision with far reaching implications. Members must ensure that they obtain expert advice prior to exercising an investment option.

**Please contact the Funds if you require any further information regarding Member Investment Choice.**