

BUDGET REVIEW 2023 – CHAPTER 4 ‘STATEMENTS OF INTENTION’

PAGSA Newsflash 2023-11 explained the annual legislation amendment cycle and discussed the proposals that were issued in Annexure C of Budget 2023.

The intention to make significant changes to the legislation and to administration requirements are stated in Chapter 4 of the Budget and are included *verbatim* below for discussion.

Budget 2023 Intention: Two-pot retirement system

The intention behind the introduction the ‘two-pot’ retirement system and its postponement to 1 March 2024, is stated in Chapter 4 of the Budget as follows.

Following extensive public consultation, the first phase of legislative amendments to the retirement system is due to take effect on 1 March 2024.

The intent of these amendments is to enable pre-retirement access to a portion of one’s retirement assets, while preserving the remainder for retirement. Retirement fund contributions will remain deductible up to R350 000 per year or 27.5 per cent of taxable income per year – whichever is lower.

Permissible withdrawals from funds accrued before 1 March 2024 will be taxed according to the lump sum tables. Withdrawals from the “savings pot” before retirement will be taxed at marginal rates. On retirement, any remaining amounts in the savings pot will be taxed according to the retirement lump sum table (for example, R550 000 is a tax-free lump sum on retirement).

Four areas required additional work: *a proposal for seed capital, legislative mechanisms to include defined benefit funds in an equitable manner, legacy retirement annuity funds and withdrawals from the retirement portion if one is retrenched and has no alternative source of income.*

The first three matters will be clarified in forthcoming draft legislation. The final matter will be reviewed as a second phase of implementation.

PAGSA Comments

The purpose of the ‘two-pot’ retirement system is to improve pre-retirement preservation of the retirement interest and was proposed to be made effective from 1 March 2023. The requirements of the ‘two-pot’ system impact more on retirement fund employers than on commercial employers, requiring significant changes to their systems but equally importantly, to their infrastructure and internal procedures.

It was also discovered during the 2022 amendment cycle that there are four areas of related legislation that need to be addressed (see above). For all these reasons, the two-pot system has been postponed to 1 March 2024 to allow the additional changes to the legislation to be made, and to give retirement fund administrators more time to prepare their organisations.

Budget 2023 Intention: Broadening the personal income tax base.

The intention to broaden the personal income tax base is stated in Chapter 4 of the Budget as follows.

*As part of exploring the effect of remote work on the personal income tax regime, the National Treasury and SARS committed to a **multi-year** review of allowances.*

*A discussion document will be released this year to outline workplace practices and policies, changes in the current environment and how different workplaces are affected by **home office and travel allowance** policies.*

PAGSA Comments

The intention stated in Budget 2023 to investigate home office allowances, and in particular travel allowances, with a view to changing their requirements is a welcome and positive step forward.

For many years the PAGSA has submitted requests to National Treasury to investigate and make changes to travel allowances (we have also submitted suggested changes), and in 2020, because of the Covid lockdowns and the subsequent spotlight on ‘working from home’, we also requested changes to home office allowances.

Our requests surfaced for the first time in the 2021 Budget that spoke to a “multi-year” intention to review travel and home office allowances, but as far as can be determined, the investigation was not started.

The fact that the 2021 Budget proposal has been included again in Budget 2023 signals intention.

The travel allowance is the most frequently used of all the allowances, and is a sensitive, important, and difficult area of employment law to tackle. Non-compliance, whether deliberate or inadvertent, is high.

The “multi-year review” wording of the 2023 budget indicates that it will take more than a year to investigate these two allowances and to draft proposed changes to the legislation.

Unrelated, but perhaps of significance, keep in mind that in recent times there have been indications from the policy makers of a general move to replace allowances with reimbursements.

Budget 2023 Intention: Third-party data and Personal Income Tax Administration Reform

The intention to accelerate the roll-out the ‘Vision 2024 PAYE’ project (as it has been referred to up to now) is stated in Chapter 4 of the Budget as follows.

The pay-as-you-earn (PAYE) and personal income tax administration reform announced in the 2020 Budget has given pensioners the option to agree to more accurate PAYE withholding rates to take account of multiple sources of income, as well as enabling 2.9 million individual taxpayers to be automatically assessed without the need to file personal income tax returns.

The reform will continue over the medium term with a view to reducing the administrative burden for employers, payroll administrators and SARS, as well as individual salaried taxpayers.

Work has commenced, in consultation with employers and representative organisations, to provide employer and employee data on a monthly basis in a fully automated fashion.

Over time, the need for employer PAYE annual reconciliation is expected to fall away, and the reform will be extended to third-party data providers.

PAGSA Comments

In plain English, the above wording that is highlighted in yellow means monthly tax certificate submissions.

It is followed by the intention to do away with the EMP501 reconciliation of tax certificates at a later stage.

[Rob: Payroll suppliers, employers, and tax practitioners: Take a deep breath ... 😊]

This statement of intention in the 2023 budget puts the project into the public domain, including its immediate objectives, which is welcome.

Members are advised to refer to PAGSA Newsflash 2023-03 for a recent update to the Vision 2024 PAYE project, that included a PAGSA/SARS meeting on 25 January 2023. At the end of this Newsflash, a ‘heads-up’ was given to payroll suppliers to prepare themselves for significant and urgent changes to their payroll systems, as follows:

“At this stage, if the roll-out of the Vision 2024 PIT project (that includes monthly tax certificate submissions) proceeds as planned, then payroll suppliers must prepare themselves for significant changes to their payroll systems soon after the start of the 2023/24 tax year.”

Since then more meetings have been held between the PAGSA and SARS, also including other key role player organisations to resolve some blockages that are holding back the release of a Monthly PAYE BRS that will give the technical details of monthly tax certificates.

PAGSA members will be kept up to date by Newsflash as this process unfolds, but once again, prepare yourselves for urgent changes to your payroll systems.

Regards,

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