

BUDGET 2018 – How will it impact you?

The weeks leading up to the 2018 budget speech were full of speculation as to how the government was going to offset the ever-increasing budget deficit.

For the first time since 1993 an adjustment to the standard VAT rate has been proposed in Minister Gigaba's budget speech. Currently South Africa's VAT rate is lower than global and African averages. The proposal was made that the VAT rate be increased by 1% from 14% to 15%, with effect from 1 April 2018.

The increase in the VAT rate is reason for concern for lower income households, which are anticipated to be impacted far more than higher earning households. Government has however proposed structures to alleviate the effect of the increased VAT on lower income households by adjusting the zero-rated basic goods list together with an above inflation increase in social grants.

During the past few years, personal income tax has increased substantially. In an attempt to limit the burden of the increase in income tax rates, the bottom three tax brackets have been adjusted by below inflation rates, while no adjustments were made to the top four income tax brackets.

Ad valorem taxes are taxes applied to items that are mainly consumed by wealthier households. These items include cosmetics, perfumes and electronics. It is proposed that these taxes (currently 5% to 7%), be increased to (7% to 9%) from 1 April 2018. Furthermore, the maximum ad valorem excise duty on motor vehicles will be increased from 25% to 30%. These increases will ensure that households spending more on luxury goods will proportionately contribute more to revenue.

It is proposed that estate duty on estates of R30 million or more be increased from 20% to 25%, effective from 1 March 2018. Any donations in excess of R 30 million in one tax year, will also be taxed at 25% in an attempt to limit the staggering of donations as avoidance attempts of the higher estate duty.

Financial planners will have to reassess their clients' life cover and the effect of the proposed amendments on their clients' estates. Careful consideration should now be given to estates and effective estate planning of high net worth individuals becomes a necessity.

George Robertson
Director