Unsettling times ahead for employee tax and take-home pay

By Jerry Botha

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The 2019 election year brings the normal risk of some tax populist decisions, including much higher social grants. This will add to the fiscus' pressure, desperate for additional tax revenues. Personal income tax, which is mostly collected from employees, is by far the largest contributor to tax in South Africa. The goose which lays the golden egg is employees, and not corporate taxes or VAT.

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In 2019, we will have a new permanent Commissioner of South African Revenue Service (Sars) and new National Prosecuting Authority boss, so it takes little foresight to know that tax collection will become a key fiscal driver. With a willing NPA and perhaps political green light, the tax collection problem will be a quick fix.

There is no mystical formula hereto – the correct Sars competency can swiftly land some well-placed punches. Get a couple of "untouchables" behind bars on tax fraud. The wealthy will suddenly better appreciate the importance of tax compliance and revenue will flow.

But what about the honest employee, working hard for a salary and supporting often more than one family? We hope they get a fair cut...

a. **National Health Insurance and medical aid credits:** There are promised announcements around National Health Insurance, especially the funding thereof in the Budget 2019/20. One should be very concerned that this will be funded, as suggested by government, from a reduction or removal of medical aid tax credits. Where this is done, because of how the medical aid credit system operates, it will cause an immediate take-home pay reduction for all employees. We can only hope this will not be announced, otherwise employees will take a further direct hit, on the back of many financial setbacks over the past year.

b. **Travel reimbursement rates:** The reimbursement and tax claim limits will require proper adjustment to keep track with the reality of petrol price increases and the higher-than-normal costs associated with business-use of vehicles.

This is very much evident by the widening of the gap between the AA rates and the Sars-allowed rates.

c. **Recession and low remuneration increases:** There are many employers going through restructuring and retrenchment exercises, with the direct upshot that employees should expect lower increases. The reality is often a choice between preserving a job vs. rightfully demanded increases. One can only hope that the Minister of Finance will give some much-needed tax relief.

d. **New financial products:** We have now seen a revolution in employee remuneration by "Total Guaranteed Package with Flexible Benefits", which allows an employer cost neutral approach, but the employee can structure their remuneration to suite their personal financial requirements. There are a number of new financial products and services, including at least three new zero- / low-cost banking options planned for 2019, so no doubt this will come with additional choices for employees.

e. **Expatriate tax exemption – R1m only from 1 March 2020:** The change is already in law and will most definitely increase the cost for South African employers which expands internationally when using South African employees as expatriates. In addition, the benefits and allowances provided to expatriates will often cause an additional tax burden, which becomes an employer cost in any tax equalised or tax protected policy approach. We have seen many employers proactively starting to plan for this already.

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