New personal income tax bracket for top earners

Finance Minister Pravin Gordhan has proposed a new personal income tax bracket for those earning salaries of above R1.5 million.

The Minister has also proposed an increase in the dividend withholding tax rate from 15% to 20%.

The Minister said this when he tabled his Budget Speech in the National Assembly on Wednesday.

The proposal is set to affect 100,000 taxpayers.

"[The National Treasury proposes] a new top personal income tax rate of 45% for those with taxable incomes above R1.5 million," the Minister said.

According to the National Treasury, increasing the top marginal rate without concurrently raising the dividend withholding tax rate would increase the arbitrage opportunity for some individuals to pay themselves with dividends rather than salaries.

The Minister said this as the National Treasury projects a R30.4 billion shortfall in tax revenue collections for the 2016/17 financial year – the largest shortfall since the 2009/10 financial year.

The shortfall was revised upwards in this budget after the Minister announced a R22.8 billion revenue shortfall in his Medium Term Budget Policy Statement (MTBPS) in October.

The Minister said projections have fallen short in three of the four main tax instruments. This includes a fall in personal income tax (R15.2 billion), value-added tax (VAT) (R11.3 billion) and customs duties (R6.5 billion).

“This reflects slower growth in wages, employment and bonus pay-outs last year, amongst other factors.

“Our current expectation is that total tax revenue for 2016/17 will be R1.144 trillion, which is an increase of 7% on the previous year,” he said.

Redistributive approach to curb inequalities

National Treasury said in its Budget Review that although raising revenue is the primary objective of the tax system, tax is an important instrument to address inequality.

Citing studies by the International Monetary Fund, National Treasury said countries with lower levels of inequality experience higher, more prolonged periods of economic growth.

“Given that a greater portion of the gains from economic growth have accrued to those on the upper end of the income and wealth spectrums, and that levels of poverty and inequality remain extremely high, a more redistributive approach is required to consolidate the social compact.

“At the same time, care will be taken to ensure that the social wage grows at a rate consistent with the capacity of the economy to generate resources,” National Treasury said.

National Treasury said over the long term, higher levels of economic growth are required to bolster tax revenues and public expenditure.

“Government will monitor how the tax rate changes affect taxpayer behaviour, revenues collected and economic growth to ensure that government’s ability to reduce poverty and inequality and promote development is not diminished.”