

C

Additional tax amendments

This annexure should be read with Chapter 4 of the *Budget Review*. It elaborates on some of the proposals contained in that chapter, clarifies certain matters and presents additional technical proposals.

■ Tax expenditure statement: February 2015

Tax expenditures are legislative provisions that reduce the amount of tax revenue that could otherwise have been realised. Such expenditures can be defined as deviations from the benchmark of a standard tax legislative framework.

As shown in Table C.2, total tax expenditure in 2012/13 was about R119.8 billion or 14.7 per cent of total gross tax revenue. Tax expenditure estimates reported in the previous statements may have changed due to availability of updated data, assumptions and other corrections.

Major changes to tax expenditure

This report now includes tax expenditure on medical credits, which were introduced in 2012/13 to replace income tax deductions for medical scheme contributions. In addition, the 2014 tax expenditure estimates for small business corporation tax savings were misaligned by one year (for example, estimates for 2008/09 should have been for 2009/10, and so on). This has been rectified. Diesel refunds previously offset against domestic VAT have been reversed out of domestic VAT and added to diesel refunds, increasing the level of refunds previously reflected in the report.

With the exception of the changes mentioned above, all other adjustments are the result of improved data availability due to increased levels of assessment. For 2012/13, some amounts are lower than for 2011/12 due to a lower level of assessment at the time the data was extracted for this exercise.

VAT relief on fuel sales

Because petrol, diesel and illuminating paraffin are zero-rated for VAT purposes, the resulting difference from a standard rating, when used by final consumers, is regarded as tax expenditure. It was assumed that 20 per cent of petrol sales was used for business purposes (by VAT vendors) and would have qualified for input VAT. For diesel, it was assumed that 90 per cent of sales was used for business purposes and would have qualified for input VAT.

Average national diesel, petrol and paraffin prices are shown below.

Table C.1 National average price and quantity of fuel sold (million litres)

Fuel type	2009/10		2010/11		2011/12		2012/13	
	Price (Rand/l)	Quantity	Price (Rand/l)	Quantity	Price (Rand/l)	Quantity	Price (Rand/l)	Quantity
Petrol	8.6	11 055	7.6	11 319	8.4	11 541	10.3	11 972
Diesel	9.0	9 914	6.7	9 570	7.7	10 333	9.7	11 291
Paraffin	7.1	506	4.8	776	5.4	482	7.3	576

Source: National Treasury

Estimates of tax expenditure

The following table summarises tax expenditure in terms of the Income Tax Act (1962), the VAT Act (1991) and the Customs and Excise Act (1964).

Table C.2 Tax expenditure estimates (R million)

Personal income tax	2009/10	2010/11	2011/12	2012/13
Pension and retirement annuity contributions ¹	17 966	20 380	22 277	24 393
<i>Pension contributions – employees</i>	6 765	7 647	8 344	9 083
<i>Pension contributions – employers</i>	7 608	8 600	9 384	10 215
<i>Retirement annuity</i>	3 593	4 133	4 549	5 094
Medical	12 237	14 808	16 413	19 782
<i>Medical contributions & deductions – employees</i>	6 917	14 808	16 413	3 901
<i>Medical contributions – employers²</i>	5 320	–	–	–
<i>Medical credits³</i>	–	–	–	15 881
Interest exemptions	1 730	2 960	1 468	2 202
Secondary rebate (65 years and older)	1 061	1 151	1 252	1 330
Tertiary rebate (75 years and older)	–	0	107	111
Donations	115	134	167	195
Capital gains tax (annual exclusion)	88	111	143	292
Total personal income tax	33 196	39 545	41 828	48 305
Corporate income tax				
Small business corporation tax savings	1 300	1 361	1 455	1 467
<i>Reduced headline rate</i>	1 280	1 343	1 434	1 450
<i>Section 12E depreciation allowance</i>	20	18	21	17
Research and development	966	1 153	964	343
Learnership allowances	740	1 144	1 004	689
Strategic industrial policy ⁴	352	740	38	3
Film incentive	283	185	288	1
Urban development zones	207	285	390	208
Total corporate income tax	3 848	4 868	4 139	2 710
Value-added tax				
Zero-rated supplies				
19 basic food items ⁵	14 258	15 497	17 106	18 628
Petrol ⁶	9 660	10 845	13 797	15 343
Diesel ⁶	903	1 107	1 532	1 759
Paraffin ⁶	519	367	585	611
Municipal property rates	3 973	6 032	7 568	9 598
Reduced inclusion rate for commercial accommodation	127	142	153	175
Subtotal zero-rated supplies	29 440	33 989	40 742	46 115
Exempt supplies (public transport and education)	905	999	1 088	1 175
Customs duties and excise				
Motor vehicles (MIDP/APDP, including IRCCs) ⁷	12 089	12 673	16 306	15 823
Textile and clothing (duty credits – DCCs) ⁷	2 024	2 230	860	652
Furniture and fixtures	128	153	150	163
Other customs ⁸	1 230	787	847	678
Diesel refund	1 993	2 184	2 668	4 137
Total customs and excise	17 464	18 027	20 831	21 453
Total tax expenditure	84 853	97 429	108 627	119 758
Tax expenditure as % of total gross tax revenue	14.2%	14.5%	14.6%	14.7%
Total gross tax revenue	598 705	674 183	742 650	813 826
Tax expenditure as % of GDP	3.3%	3.4%	3.5%	3.6%

1. Some of this tax expenditure is recouped when amounts are withdrawn as either a lump sum or an annuity

2. Prior to their abolishment on 1 March 2010, employer contributions were assumed to be equivalent to employee deductions

3. Medical credits were introduced in 2012/13 to replace income tax deductions for medical scheme contributions

4. Tax expenditure for all years is attributable to allowances under the s12I Strategic Industrial Policy

5. VAT relief in respect of basic food items based on National Treasury research of 2010/11 income and expenditure survey data

6. Based on fuel volumes and average retail selling prices

7. Motor Industry Development Programme (MIDP), replaced in 2013 by the Automotive Production Development Programme (APDP); import rebate credit certificate (IRCC), duty credit certificates (DCC)

8. Goods manufactured exclusively for exports, television monitors and agricultural goods exempted

Source: National Treasury

Personal income tax tables and graphs

The marginal rate of tax for all individuals from the second tax bracket onwards has been increased by one percentage point. The primary rebate has been increased to R13 257 per year for all individuals. The secondary rebate, which applies to individuals aged 65 years and over, is increased to R7 407 per year. The third rebate, which applies to individuals aged 75 years and over, is increased to R2 466 per year. The threshold below which individuals are not subject to personal income tax is increased to R73 650 of taxable income per year for those below the age of 65, R114 800 per year for those aged 65 to 74, and R128 500 for individuals aged 75 and over. The rates for the 2014/15 tax year and the proposed rates for 2015/16 are set out in Table C.3.

Table C.3 Personal income tax rate and bracket adjustments, 2014/15 – 2015/16

2014/15		2015/16	
Taxable income (R)	Rates of tax	Taxable income (R)	Rates of tax
R0 - R174 550	18% of each R1	R0 - R181 900	18% of each R1
R174 551 - R272 700	R31 419 + 25% of the amount above R174 550	R181 901 - R284 100	R32 742 + 26% of the amount above R181 900
R272 701 - R377 450	R55 957 + 30% of the amount above R272 700	R284 101 - R393 200	R59 314 + 31% of the amount above R284 100
R377 451 - R528 000	R87 382 + 35% of the amount above R377 450	R393 201 - R550 100	R93 135 + 36% of the amount above R393 200
R528 001 - R673 100	R140 074 + 38% of the amount above R528 000	R550 101 - R701 300	R149 619 + 39% of the amount above R550 100
R673 101 and above	R195 212 + 40% of the amount above R673 100	R701 301 and above	R208 587 + 41% of the amount above R701 300
Rebates		Rebates	
Primary	R12 726	Primary	R13 257
Secondary	R7 110	Secondary	R7 407
Tertiary	R2 367	Tertiary	R2 466
Tax threshold		Tax threshold	
Below age 65	R70 700	Below age 65	R73 650
Age 65 and over	R110 200	Age 65 and over	R114 800
Age 75 and over	R123 350	Age 75 and over	R128 500

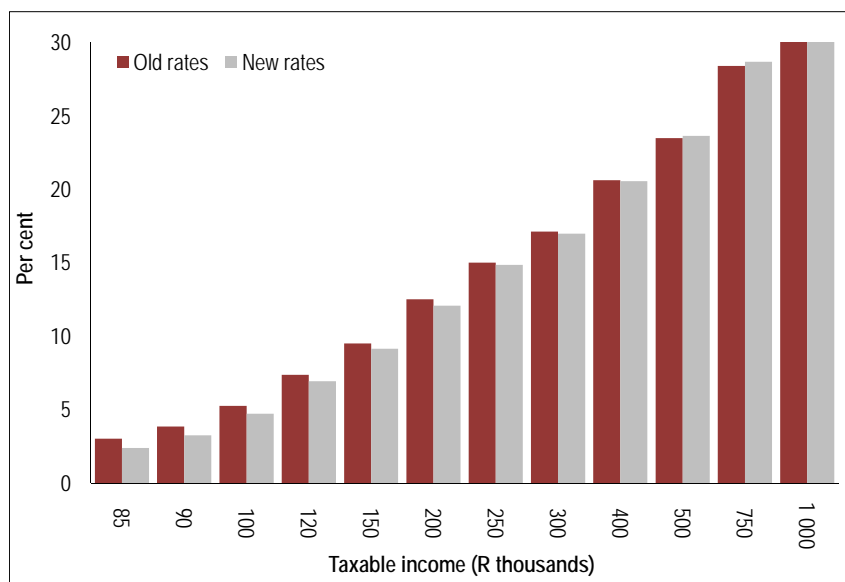
Source: National Treasury

The proposed tax schedule in Table C.3 compensates individuals for the effect of inflation on income tax liabilities and increases the marginal rate of tax. This reduces the tax liability for taxpayers with taxable income below R350 000. The impacts of these proposals are set out in tables C.4, C.5 and C.6. The average tax rates (tax as a percentage of taxable income) for individuals are illustrated in figures C.1, C.2 and C.3.

Table C.4 Annual income tax payable, 2015/16 (taxpayers below age 65)

Taxable income (R)	2014/15 rates (R)	Proposed 2015/16 rates (R)	Tax change (R)	% change
85 000	2 574	2 043	-531	-20.6%
90 000	3 474	2 943	-531	-15.3%
100 000	5 274	4 743	-531	-10.1%
120 000	8 874	8 343	-531	-6.0%
150 000	14 274	13 743	-531	-3.7%
200 000	25 056	24 191	-865	-3.5%
250 000	37 556	37 191	-365	-1.0%
300 000	51 421	50 986	-435	-0.8%
400 000	82 549	82 326	-223	-0.3%
500 000	117 549	118 326	778	0.7%
750 000	213 247	215 297	2 050	1.0%
1 000 000	313 247	317 797	4 550	1.5%

Source: National Treasury

Figure C.1 Average tax rates for taxpayers below age 65

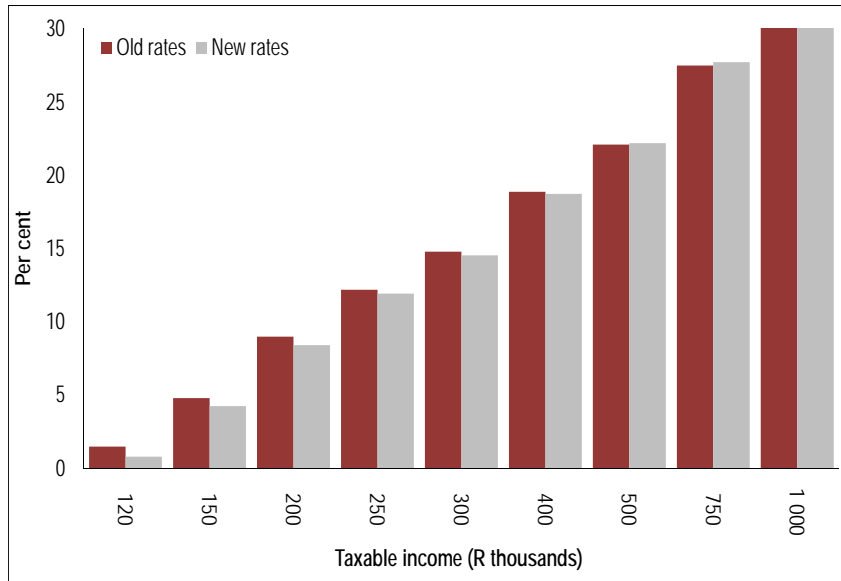
Source: National Treasury

Table C.5 Annual income tax payable, 2015/16 (taxpayers aged 65 to 74)

Taxable income (R)	2014/15 rates (R)	Proposed 2015/16 rates (R)	Tax change (R)	% change
120 000	1 764	936	-828	-46.9%
150 000	7 164	6 336	-828	-11.6%
200 000	17 946	16 784	-1 162	-6.5%
250 000	30 446	29 784	-662	-2.2%
300 000	44 311	43 579	-732	-1.7%
400 000	75 439	74 919	-520	-0.7%
500 000	110 439	110 919	481	0.4%
750 000	206 137	207 890	1 753	0.9%
1 000 000	306 137	310 390	4 253	1.4%

Source: National Treasury

Figure C.2 Average tax rates for taxpayers aged 65 to 74



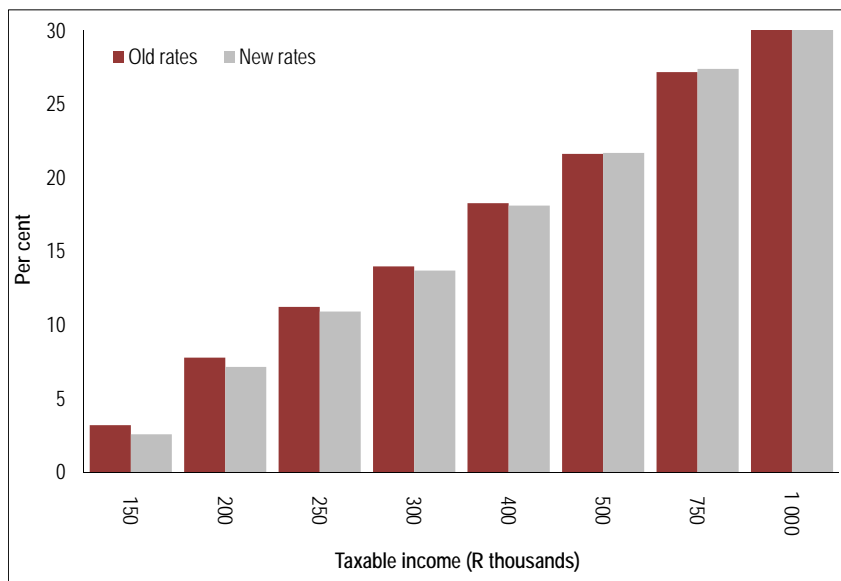
Source: National Treasury

Table C.6 Annual income tax payable, 2015/16 (taxpayers aged 75 and over)

Taxable income (R)	2014/15 rates (R)	Proposed 2015/16 rates (R)	Tax change (R)	% change
150 000	4 797	3 870	-927	-19.3%
200 000	15 579	14 318	-1 261	-8.1%
250 000	28 079	27 318	-761	-2.7%
300 000	41 944	41 113	-831	-2.0%
400 000	73 072	72 453	-619	-0.8%
500 000	108 072	108 453	382	0.4%
750 000	203 770	205 424	1 654	0.8%
1 000 000	303 770	307 924	4 154	1.4%

Source: National Treasury

Figure C.3 Average tax rates for taxpayers aged 75 and over



Source: National Treasury

Excise duty tables

Government proposes that the customs and excise duties in the Customs and Excise Act (part 1 and section A of part 2 of schedule 1) be amended with effect from 25 February 2015 to the extent shown in Table C.7.

Table C.7 Specific excise duties, 2014/15 – 2015/16

Tariff item	Tariff subheading	Article description	2014/15 Rate of excise duty	2015/16 Rate of excise duty
104.00		PREPARED FOODSTUFFS; BEVERAGES, SPIRITS AND VINEGAR; TOBACCO		
104.01	19.01	Malt extract; food preparations of flour, groats, meal, starch or malt extract, not containing cocoa or containing less than 40 per cent by mass of cocoa calculated on a totally defatted basis, not elsewhere specified or included; food preparations of goods of headings 04.01 to 04.04, not containing cocoa or containing less than 5 per cent by mass of cocoa calculated on a totally defatted basis not elsewhere specified or included:		
104.01.10	1901.90.20	Traditional African beer powder as defined in Additional Note 1 to Chapter 19	34.7c/kg	34.7c/kg
104.10	22.03	Beer made from malt:		
104.10.10	2203.00.05	Traditional African beer as defined in Additional Note 1 to Chapter 22	7.82c/li	7.82c/li
104.10.20	2203.00.90	Other	R68.92/li aa	R73.05/li aa
104.15	22.04	Wine of fresh grapes, including fortified wines; grape must (excluding that of heading 20.09):		
104.15.01	2204.10	Sparkling wine	R9.11/li	R9.75/li
104.15	2204.21	In containers holding 2 li or less:		
104.15	2204.21.4	Unfortified wine:		
104.15.03	2204.21.41	With an alcoholic strength of at least 4.5 per cent by volume but not exceeding 16.5 per cent by vol.	R2.87/li	R3.07/li
104.15.04	2204.21.42	Other	R137.54/li aa	R149.23/li aa
104.15	2204.21.5	Fortified wine:		
104.15.05	2204.21.51	With an alcoholic strength of at least 15 per cent by volume but not exceeding 22 per cent by vol.	R5.21/li	R5.46/li
104.15.06	2204.21.52	Other	R137.54/li aa	R149.23/li aa
104.15	2204.29	Other:		
104.15	2204.29.4	Unfortified wine:		
104.15.07	2204.29.41	With an alcoholic strength of at least 4.5 per cent by volume but not exceeding 16.5 per cent by vol.	R2.87/li	R3.07/li
104.15.08	2204.29.42	Other	R137.54/li aa	R149.23/li aa
104.15	2204.29.5	Fortified wine:		
104.15.09	2204.29.51	With an alcoholic strength of at least 15 per cent by volume but not exceeding 22 per cent by vol.	R5.21/li	R5.46/li
104.15.10	2204.29.52	Other	R137.54/li aa	R149.23/li aa
104.16	22.05	Vermouth and other wine of fresh grapes flavoured with plants or aromatic substances:		
104.16	2205.10	In containers holding 2 li or less:		
104.16.01	2205.10.10	Sparkling	R9.11/li	R9.75/li
104.16	2205.10.2	Unfortified:		
104.16.03	2205.10.21	With an alcoholic strength of at least 4.5 per cent by volume but not exceeding 15 per cent by vol.	R2.87/li	R3.07/li
104.16.04	2205.10.22	Other	R137.54/li aa	R149.23/li aa
104.16	2205.10.3	Fortified:		
104.16.05	2205.10.31	With an alcoholic strength of at least 15 per cent by volume but not exceeding 22 per cent by vol.	R5.21/li	R5.46/li
104.16.06	2205.10.32	Other	R137.54/li aa	R149.23/li aa
104.16	2205.90	Other:		
104.16	2205.90.2	Unfortified:		
104.16.09	2205.90.21	With an alcoholic strength of at least 4.5 per cent by volume but not exceeding 15 per cent by vol.	R2.87/li	R3.07/li
104.16.10	2205.90.22	Other	R137.54/li aa	R149.23/li aa

Table C.7 Specific excise duties, 2014/15 – 2015/16 (continued)

Tariff item	Tariff subheading	Article description	2014/15 Rate of excise duty	2015/16 Rate of excise duty
104.16	2205.90.3	Fortified:		
104.16.11	2205.90.31	With an alcoholic strength of at least 15 per cent by volume but not exceeding 22 per cent by vol.	R5.21/li	R5.46/li
104.16.12	2205.90.32	Other	R137.54/li aa	R149.23/li aa
104.17	22.06	Other fermented beverages (for example, cider, perry and mead); mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages, not elsewhere specified or included:		
104.17.03	2206.00.05	Sparkling fruit beverages and sparkling mead	R9.11/li	R9.75/li
104.17.05	2206.00.15	Traditional African beer as defined in Additional Note 1 to Chapter 22	7.82c/li	7.82c/li
104.17.07	2206.00.17	Other fermented beverages, unfortified, with an alcoholic strength less than 2.5 per cent by volume	R68.92/li aa	R73.05/li aa
104.17.09	2206.00.19	Other fermented beverages of non-malted cereal grains, unfortified, with an alcoholic strength by volume of 2.5 per cent or more by vol. but not exceeding 9 per cent by vol.	R68.92/li aa	R73.05/li aa
104.17.15	2206.00.81	Other fermented apple or pear beverages, unfortified, with an alcoholic strength of at least 2.5 per cent by volume but not exceeding 15 per cent by vol.	R3.45/li	R3.65/li
104.17.16	2206.00.82	Other fermented fruit beverages and mead beverages, including mixtures of fermented beverages derived from the fermentation of fruit or honey, unfortified, with an alcoholic strength of at least 2.5 per cent by volume but not exceeding 15 per cent by vol.	R3.45/li	R3.65/li
104.17.17	2206.00.83	Other fermented apple or pear beverages, fortified, with an alcoholic strength of at least 15 per cent by volume but not exceeding 23 per cent by vol.	R56.19/li aa	R60.97/li aa
104.17.21	2206.00.84	Other fermented fruit beverages and mead beverages including mixtures of fermented beverages derived from the fermentation of fruit or honey, fortified, with an alcoholic strength of at least 15 per cent by volume but not exceeding 23 per cent by vol.	R56.19/li aa	R60.97/li aa
104.17.22	2206.00.85	Other mixtures of fermented fruit or mead beverages and non-alcoholic beverages, unfortified, with an alcoholic strength of at least 2.5 per cent by volume but not exceeding 15 per cent by vol.	R3.45/li	R3.65/li
104.17.25	2206.00.87	Other mixtures of fermented fruit or mead beverages and non-alcoholic beverages, fortified, with an alcoholic strength of at least 15 per cent by volume but not exceeding 23 per cent by vol.	R56.19/li aa	R60.97/li aa
104.17.90	2206.00.90	Other	R68.92/li aa	R73.05/li aa
104.21	22.07	Undenatured ethyl alcohol of an alcoholic strength by volume of 80 per cent vol. or higher; ethyl alcohol and other spirits, denatured, of any strength:		
104.21.01	2207.10	Undenatured ethyl alcohol of an alcoholic strength by volume of 80 per cent vol. or higher	R137.54/li aa	R149.23/li aa
104.21.03	2207.20	Ethyl alcohol and other spirits, denatured, of any strength	R137.54/li aa	R149.23/li aa
104.23	22.08	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80 per cent vol.; spirits, liqueurs and other spirituous beverages:		
104.23	2208.20	Spirits obtained by distilling grape wine or grape marc:		
104.23.01	2208.20.10	In containers holding 2 li or less	R137.54/li aa	R149.23/li aa
104.23.03	2208.20.90	Other	R137.54/li aa	R149.23/li aa
104.23	2208.30	Whiskies:		
104.23.05	2208.30.10	In containers holding 2 li or less	R137.54/li aa	R149.23/li aa
104.23.07	2208.30.90	Other	R137.54/li aa	R149.23/li aa
104.23	2208.40	Rum and other spirits obtained by distilling fermented sugarcane products:		
104.23.09	2208.40.10	In containers holding 2 li or less	R137.54/li aa	R149.23/li aa

Table C.7 Specific excise duties, 2014/15 – 2015/16 (continued)

Tariff item	Tariff subheading	Article description	2014/15 Rate of excise duty	2015/16 Rate of excise duty
104.23.11	2208.40.90	Other	R137.54/li aa	R149.23/li aa
104.23	2208.50	Gin and Geneva:		
104.23.13	2208.50.10	In containers holding 2 li or less	R137.54/li aa	R149.23/li aa
104.23.15	2208.50.90	Other	R137.54/li aa	R149.23/li aa
104.23	2208.60	Vodka:		
104.23.17	2208.60.10	In containers holding 2 li or less	R137.54/li aa	R149.23/li aa
104.23.19	2208.60.90	Other	R137.54/li aa	R149.23/li aa
104.23	2208.70	Liqueurs and cordials:		
104.23	2208.70.2	In containers holding 2 li or less:		
104.23.21	2208.70.21	With an alcoholic strength by volume exceeding 15 per cent by vol. but not exceeding 23 per cent by vol.	R56.19/li aa	R60.97/li aa
104.23.22	2208.70.22	Other	R137.54/li aa	R149.23/li aa
104.23	2208.70.9	Other:		
104.23.23	2208.70.91	With an alcoholic strength by volume exceeding 15 per cent by vol. but not exceeding 23 per cent by vol.	R56.19/li aa	R60.97/li aa
104.23.24	2208.70.92	Other	R137.54/li aa	R149.23/li aa
104.23	2208.90	Other:		
104.23	2208.90.2	In containers holding 2 li or less:		
104.23.25	2208.90.21	With an alcoholic strength by volume exceeding 15 per cent by vol. but not exceeding 23 per cent by vol.	R56.19/li aa	R60.97/li aa
104.23.26	2208.90.22	Other	R137.54/li aa	R149.23/li aa
104.23	2208.90.9	Other:		
104.23.27	2208.90.91	With an alcoholic strength by volume exceeding 15 per cent by vol. but not exceeding 23 per cent by vol.	R56.19/li aa	R60.97/li aa
104.23.28	2208.90.92	Other	R137.54/li aa	R149.23/li aa
104.30	24.02	Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes:		
104.30	2402.10	Cigars, cheroots and cigarillos containing tobacco:		
104.30.01	2402.10.10	Imported from Switzerland	R2 690.00/kg net	R2 824.35/kg net
104.30.03	2402.10.90	Other	R2 690.00/kg net	R2 824.35/kg net
104.30	2402.20	Cigarettes containing tobacco:		
104.30.05	2402.20.10	Imported from Switzerland	R5.80/10 cigarettes	R6.21/10 cigarettes
104.30.07	2402.20.90	Other	R5.80/10 cigarettes	R6.21/10 cigarettes
104.30	2402.90.1	Cigars, cheroots and cigarillos of tobacco substitutes:		
104.30.09	2402.90.12	Imported from Switzerland	R2 690.00/kg net	R2 824.35/kg net
104.30.11	2402.90.14	Other	R2 690.00/kg net	R2 824.35/kg net
104.30	2402.90.2	Cigarettes of tobacco substitutes:		
104.30.13	2402.90.22	Imported from Switzerland	R5.80/10 cigarettes	R6.21/10 cigarettes
104.30.15	2402.90.24	Other	R5.80/10 cigarettes	R6.21/10 cigarettes
104.35	24.03	Other manufactured tobacco and manufactured tobacco substitutes; "homogenised" or "reconstituted" tobacco; tobacco extracts and essences:		
104.35	2403.1	Smoking tobacco, whether or not containing tobacco substitutes in any proportion:		

Table C.7 Specific excise duties, 2014/15 – 2015/16 (continued)

Tariff item	Tariff subheading	Article description	2014/15 Rate of excise duty	2015/16 Rate of excise duty
104.35.01	2403.11	Water pipe tobacco specified in Subheading Note 1 to Chapter 24	R145.20/kg net	R155.60/kg net
104.35	2403.19	Other:		
104.35.02	2403.19.10	Pipe tobacco in immediate packings of a content of less than 5 kg	R145.20/kg net	R155.60/kg net
104.35.03	2403.19.20	Other pipe tobacco	R145.20/kg net	R155.60/kg net
104.35.05	2403.19.30	Cigarette tobacco	R260.60/kg	R278.80/kg
104.35	2403.99	Other:		
104.35.07	2403.99.30	Other cigarette tobacco substitutes	R260.60/kg	R278.80/kg
104.35.09	2403.99.40	Other pipe tobacco substitutes	R145.20/kg net	R155.60/kg net

Source: National Treasury

Table C.8 Amendment of schedule 1 part 1

By the insertion of the following additional note(s) after note 5(c)(4) in chapter 22 of section 4 to part 1 of schedule 1:

6. Subheading 2206.00.19 is limited to beverages that are the end products of fermentation of a liquor (wort) of non-malted cereal grains classifiable in chapter 10 of schedule 1 part 1, whether or not flavoured but not mixed with any other beverages, provided the fermentable sugars are derived solely from the liquor (wort) without the addition of any other sugars during or prior to fermentation.

By the insertion of the following:

Subheading	Check digit	Article description	Statistical unit	Rate of duty			
				General	EU	EFTA	SADC
2206.00.19	6	Other fermented beverages of non-malted cereal grains, unfortified, with an alcoholic strength by volume of 2.5 per cent or more by vol. but not exceeding 9 per cent by vol.	li	25%	free	25%	free

Source: National Treasury

Additional tax amendments

Additional tax amendments proposed for the upcoming legislative cycle are set out below.

Individuals, employment and savings

Medical tax credits as part of PAYE: over 65 years

Employees over 65 are experiencing a decrease in their take-home pay as a result of the move to medical tax credits, although they may claim back some of these amounts on assessment after the end of the tax year. To alleviate this burden, it is proposed that medical tax credits related to medical scheme contributions be taken into account for both PAYE and provisional tax purposes.

Bus rapid transit payments to affected taxi operators

In 2010, government introduced the bus rapid transit system, which resulted in the compensation of affected taxi operators for the loss of potential earnings. It is proposed that the tax treatment of such payments to affected taxi operators be reviewed.

Employee share schemes

The interrelationships in the application of section 8C of the Income Tax Act, including the taxation of directors and employees on vesting of equity instruments; the attribution of capital gains to beneficiaries; the income tax exemption of dividends; and the employees' tax provision related to the return of capital, will be reviewed to remove anomalies.

Income and disposal to and from deceased estates

Section 25 of the Income Tax Act provides that no income or disposal is triggered in the deceased's hands upon death, but that income may be recognised in the hands of the deceased estate, heir or legatee. Paragraph 40 of schedule 8, however, recognises capital gains and losses upon death. To address the anomalies created when the two regimes interact, the provisions will be examined and amendments may be proposed.

Withdrawal from retirement annuity funds by non-residents

Non-residents who move to South Africa for a fixed term of employment often contribute to a retirement annuity fund to continue saving for retirement in a tax-efficient manner. The current definition of "retirement annuity fund" does not allow these individuals to withdraw the amounts they have saved over this fixed term if they return to their home countries. In contrast, if South Africans emigrate, they are allowed to withdraw their retirement annuity interest. The mismatch in treatment will be reviewed.

Harmonisation of the treatment of retirement funds

The taxation of contributions and the rules on compulsory annuitisation for pension funds, provident funds and retirement annuity funds will change from 1 March 2016. The level of deductible contributions will be limited to 27.5 per cent of the greater of taxable income or remuneration per year. An additional amendment will be investigated to correct an omission in 2013 that inadvertently excludes some retirement funds that enjoy the benefit of higher deductions without being subject to the uniform annuitisation rules.

A maximum age for the preservation of retirement assets

From 1 March 2015, a retirement fund member may defer the drawing of their retirement income until after their retirement date (if the retirement fund allows). This will provide greater flexibility for retirement fund members and encourage the preservation of retirement assets. However, to limit tax planning opportunities, it is proposed that a maximum age at which withdrawals must be taken be introduced. This is in line with other countries that have similar retirement funding arrangements.

Estate duty and retirement funds

Amendments in 2008 removed the upper age limit at which an individual was required to purchase an annuity if they had an interest in a retirement annuity fund, and excluded retirement fund benefits from the dutiable estate when a member passed away. These two amendments have made it possible for some individuals to avoid estate duty by transferring their assets into a retirement annuity fund before their death. In the deceased's tax calculation, lump sums paid to the estate are subject to the lump sum retirement taxable. However, lump sums equal to amounts above the allowable deduction (non-deductible contributions) are not subject to the lump sum tax table or estate duty.

To eliminate the potential to avoid estate duty, government proposes that an amount equal to the non-deductible contributions to retirement funds be included in the dutiable estate when a retirement fund member passes away.

Business (general)

Corporate reorganisation rules

Township developer allowance: Section 45 of the Income Tax Act makes provision for allowances on capital assets to be transferred. However, the definition of a capital asset in section 41 excludes trading stock. The township developer allowance covers assets that qualify as trading stock, so it cannot be transferred in terms of this section. Government proposes to amend the wording of the section to include the allowance.

Asset for share transaction: The current anti-avoidance measure in section 42(5) of the Income Tax Act is creating anomalies and needs to be clarified.

Cross-border intra-group transactions: In 2012, section 45(3A) of the Income Tax Act was amended to clarify that the section also applies to cross-border intra-group transactions. However, subparagraph (c) of this section was inadvertently not amended, which creates anomalies. It is proposed that this subparagraph be amended to clarify that the provisions of this section refer to the same group of companies as defined in section 1 of the act.

Distribution and issue of shares for no consideration

The current wording in section 40C of the Income Tax Act creates anomalies when a company distributes shares internally. It is proposed that changes be made to clarify that the section's provisions only apply to the issue of shares, not their distribution.

Amounts from disposal of shares

Government will consider the provisions of section 9C of the Income Tax Act to address the problem of return of capital after a taxpayer has held a share for a period of three years, as well as the meaning of the term "disposal" for the purpose of this section.

Cancellation of contracts

If a contract is cancelled, it is expected that the parties will be restored to the status quo before the transaction. However, it is argued that the cancellation of contracts results in the rebasing of the asset's base cost, leading to zero capital gain or capital loss. This is prevalent between connected persons. It is proposed that this potential anomaly be removed.

Third-party-backed shares

In 2014, changes were made in the Income Tax Act regarding the refinancing of third-party-backed shares for qualifying transactions and limited pledges. Further refinements are needed to clarify the requirements or meaning of "qualifying purpose" to further the provisions' objectives.

Sharia-compliant financing arrangements

In 2010, government enacted legislation that recognises certain forms of Islamic finance as equivalent to traditional finance entailing interest. In 2014, changes were made in the Income Tax Act to include public entities in the Islamic finance arrangements and to extend the definition of *sukuk* to include other entities. To create a more enabling environment for Islamic finance, it is proposed that the *murabaha* and *sukuk* financing arrangements be extended to listed entities and that section 8A of the Securities Transfer Tax Act (2007) be amended to cater for *murabaha* transactions.

Business (financial sector)

REITS

In 2012, a special tax dispensation for listed REITS was introduced in the Income Tax Act. The provisions of section 25BB will be refined to remove anomalies.

Unlisted property-owning companies

Unlisted property-owning companies marketed to the general public or held by institutional investors do not qualify for the same special tax dispensation as listed real estate investment trusts. Government proposes that unlisted property-owning companies should qualify for the same tax treatment if they become regulated. A regulatory framework for unlisted property-owning companies will be developed.

Hedge funds

Government proposes that hedge funds be declared as collective investment schemes, subjecting them to similar rules as other collective investment schemes in terms of the Collective Investment Schemes Control Act (2002). Tax amendments will be considered to minimise any inadvertent tax consequences that may arise from the restructuring of regulated hedge funds.

Securities lending arrangements

The transfer of collateral in a securities lending arrangement provides the lender with confidence that they will not lose the underlying value of the securities lent, which increases liquidity in this market. However, the transfer of collateral currently results in securities transfer tax and capital gains tax. The taxation consequences of the collateral transfer may negatively affect liquidity and South Africa's attractiveness as an investment destination.

Government proposes to review the tax treatment of the transfer in beneficial ownership of collateral to reduce any negative effects on acceptable business practices and limit the use of collateral in possible tax avoidance arrangements. In addition, the current tax treatment of securities lending arrangements will be reviewed to account for corporate actions during the term of such arrangements.

Introduction of the SAM basis of regulating long-term insurers

In 2016, the Financial Services Board intends to implement Solvency Assessment and Management (SAM), a risk-based supervisory regime for long- and short-term insurers. The SAM basis of valuing policyholder liabilities is not in line with the current tax treatment. To take account of SAM, government proposes a new valuation method for the policyholder liabilities of long-term insurers. The new approach will be based on an adjusted International Financial Reporting Standards method of valuation.

Business (incentives)

Industrial policy projects

The industrial policy project tax incentive supports the National Industrial Policy Framework's objectives to diversify South Africa's industrial output, develop the knowledge-based economy and create higher levels of employment. To allow for more projects to be included, it is proposed that the window period for the incentive be extended from 31 December 2015 to 31 December 2017.

Depreciation deductions for hydropower generation

Investments in renewable energy to generate electricity are incentivised through accelerated depreciation deductions. However, a capacity limit of 30 megawatts is in place for hydropower generation because of concerns about possible environmental impact.

This limit may be overly restrictive because installed capacity alone may not be the best indication of a project's environmental impact. Consideration will be given to including hydropower generators of more than 30 megawatts if other environmental concerns are addressed. A broader incentive could increase electricity supply and support the transition to a low-carbon economy.

Urban development zone incentive

Current legislation allows municipalities with a population of more than 2 million people to demarcate two areas as urban development zones (UDZs). With the amalgamation of various municipalities, the need for the demarcation of more than one UDZ has become apparent. Consideration will be given to allowing for the demarcation of two or more UDZs per municipality, within an overall limit of the area of the UDZs.

Research and development incentive

The research and development (R&D) tax incentive was introduced to boost R&D as a percentage of gross domestic product, and to encourage knowledge transfer and skills development. For expenditure to qualify for the tax incentive in terms of the Income Tax Act, the taxpayer must submit an application for approval to the adjudication committee. However, the backlog in the approval process is creating difficulties, especially for smaller businesses, which have to wait months for approval. Measures will be considered to ensure that taxpayers are not disadvantaged by undue delays by the adjudication committee. The issue of third-party funding for R&D activities will also be considered.

Government grants

Government will review the tax treatment of government grants to remove unintended anomalies arising before and after the introduction of section 12P of the Income Tax Act, as well as the regulatory mechanism relating to these grants. Government aims to address anomalies related to grants that were not previously listed, the claiming of deductions on tax-exempt grants, and grant relationships with public-private partnerships.

Indefeasible right of use of transmitting electronic communications outside South African territorial waters

In 2009, government introduced a deduction for premiums or consideration paid for the "right of use" of transmission lines or cables used to transmit electronic communications outside South African territorial waters, where the term of the right of use is 20 years or more. Due to the change in business models and international best practices, it is necessary to review the term set as a condition of this deduction.

Revision of manufacturing assets deduction

Section 12C of the Income Tax Act makes provision for an accelerated depreciation deduction for manufacturing assets, provided that the assets are directly used by the taxpayer for the purposes of his or her trade. Due to changes in the business models of some manufacturing activities, government will review the conditions of the granting of this allowance without undermining the current limitation provisions in section 23D of the Income Tax Act.

Film incentives

Government will refine film incentives in section 12O of the Income Tax Act to remove anomalies arising as a result of the interaction of its provisions with other provisions in the Income Tax Act.

Special economic zones: definition of qualifying company

In order for a company to qualify for the 15 per cent special economic zone income tax benefit, at least 90 per cent of its income must be derived from conducting business or providing services within approved special economic zones. However, there is a risk that profits may be artificially shifted from fully taxable connected persons to the qualifying company. Government therefore proposes that a

company be disqualified from the tax benefit if more than 20 per cent of its expenditure or gross income arises from transactions with connected persons.

International tax

Withdrawal of special foreign tax credits for service fees sourced in South Africa

In 2011, government introduced a special foreign tax credit for withholding taxes imposed on South African residents by foreign countries for services rendered in South Africa for clients who were residents in those countries. However, taxes imposed in these circumstances were not in accordance with the provisions of tax treaties between South Africa and these countries. The concession aims to alleviate the compliance burden on South African taxpayers to apply for a refund of the tax that was incorrectly imposed. While the introduction of relief was well intended, it has resulted in a significant compliance burden to both taxpayers and SARS. Some taxpayers are also exploiting this relief. As a result, it is proposed that the special foreign tax credits for services be withdrawn.

Capital gains tax implications on cross-issue of shares

In 2013, government amended the Income Tax Act to counter base erosion and profit shifting. If a South African resident company issues shares as a consideration for an acquisition of shares in a foreign company, it will result in a capital gain for the resident company. Although the concerns that led to the changes in tax legislation are understood, these changes may affect legitimate commercial transactions, curtailing the growth and expansion of South African multinationals. Government will consider relaxing the provision's requirements, without losing sight of the initial policy intent, which is to counter untaxed corporate migration out of South Africa.

Controlled foreign company rules

Before 2011, the controlled foreign company (CFC) legislation had diversionary rules to prevent the shifting of income offshore through the sale of goods by a CFC to a connected resident. In 2011, these rules were removed because transfer pricing rules could be applied as an alternative. However, CFC rules have proven less effective in immediately addressing profit shifting by South African resident companies. Although transfer pricing rules can be applied in these circumstances, the CFC diversionary rules are more effective in taxing profits from these transactions. It is proposed that diversionary rules applicable to the sale of goods by a CFC to a connected resident be reinstated. In addition, consideration will be given to allowing CFCs held by interposed trusts to be subject to tax in South Africa.

Sale of immovable property by non-residents

Withholding on disposal of immovable property by non-residents: Section 35A of the Income Tax Act states that a purchaser does not need to withhold tax from a deposit "until the agreement for that disposal has been entered into". It is proposed that the wording should be amended to clarify the timing of the withholding.

Definition of immovable property: To remove any anomalies, it is proposed that the definition of immovable property in paragraph 2(2) of schedule 8 be aligned with the definition in the Organisation for Economic Cooperation and Development's model tax treaty, specifically the definition related to the right to work mineral deposits.

Withholding tax on interest

Definition of interest: It is proposed that interest for withholding tax purposes be defined. This will ensure that there is no confusion with other definitions related to interest in the Income Tax Act.

Alignment of section 50B(1) with section 9(2)(b) of the Income Tax Act: The provisions of these sections should be aligned to provide for exemption for interest paid to a non-resident for debt owed by another

non-resident, unless the other non-resident was present in South Africa for a period exceeding 183 days or the debt claim is effectively connected to a permanent establishment in South Africa.

Withholding tax on services

It is proposed that the section be reviewed to clarify definitions and remove any anomalies.

Value-added tax

Educational services

Educational services are currently exempt from VAT, but there are uncertainties around the exact definition of “educational services” and the VAT treatment of certain expenditures, such as accommodation and the provision of meals. The Davis Tax Committee is reviewing the VAT implications for educational institutions, and its conclusions will guide potential changes.

Thresholds for payment basis

To help with cash flow, some vendors with annual taxable supplies below R2.5 million are allowed to account for VAT on a payment basis rather than an accrual basis. These vendors must be natural persons or unincorporated bodies of which all members are natural persons. The Davis Tax Committee is reviewing this provision. There may be scope to increase the threshold and/or broaden the application to include incorporated businesses under this regime. However, the abuses previously experienced when businesses on the accrual basis transact with businesses on the payment basis will have to be addressed.

VAT on SABC TV licences

The South African Broadcasting Corporation Limited (SABC) is a Public Finance Management Act (1999) schedule 2 public entity. Under the Broadcasting Act (1999), anyone who possesses or uses a television set or any device capable of receiving a broadcast television signal must pay an annual television licence fee. The SABC issues notices of renewal two months before the TV licence expires. Under VAT rules, the SABC should account for output tax on the earlier of an issued invoice or payment received. However, the SABC is experiencing a high level of licence non-payment. This is compounded by the VAT requirement to account for output tax on an invoice basis for revenue it might not be able to collect. Government proposes that the SABC be allowed to account for VAT on a payment basis on its entire operations, including that of its subsidiaries.

Regulation prescribing foreign electronic services

To address base erosion and profit shifting, several legislative amendments were made to the VAT Act, including the introduction of a framework for VAT on foreign electronic services. The regulations prescribing electronic services will be updated to include software and other electronic services and to remove some uncertainties.

Adjusted cost

To remove unintended anomalies, it is proposed that the definition of “adjusted cost” in section 1 of the VAT Act be amended to deem VAT at the standard rate to be included where the acquisition was subject to VAT at the zero-rate.

Commercial accommodation

The definition of “commercial accommodation” in section 1 of the VAT Act states that an establishment is a commercial accommodation if it regularly or systematically supplies the listed supplies and where the total annual receipts from such supplies exceed (or are expected to exceed) R60 000 in a period of 12 months. It is proposed that the registration and threshold requirements of a commercial accommodation be reviewed to limit potential abuse.

Fixed property

The supply of a share by a share block company that confers the right to or an interest in the use of immovable property is subject to VAT at the standard rate in terms of section 7(1)(a) of the VAT Act because it is specifically included in the definition of fixed property in section 1 of the act. Similar rights or interests in the use of immovable property supplied by a cooperative, however, do not fall within the ambit of the definition of “fixed property”. To address this anomaly, it is proposed that the definition of “fixed property” in section 1 be amended to include a right or interest in the use of immovable property supplied by cooperatives or other entities entering into similar arrangements.

Resident of the republic

It is proposed that the definition of “resident of the republic” in section 1 of the VAT Act be clarified to remove anomalies.

Deemed supply: corporate reorganisation rules

To qualify for corporate relief in terms of section 8(25) of the VAT Act, a vendor must comply with the requirements of the provisions of section 42, 44, 45 or 47 of the Income Tax Act. These provisions only apply to groups of companies that are incorporated, and do not apply to unincorporated entities such as joint ventures and partnerships. The VAT Act, however, recognises unincorporated persons as vendors. It is proposed that the VAT Act be amended to remove the unintended anomalies and allow for reorganisation relief for all vendors.

Time of supply: connected persons (undetermined amounts)

It is proposed that sections 9(2) and 10(4) of the VAT Act be amended to clarify the time and value of supplies between connected persons where the value of the supply cannot be determined until a future date.

Zero-rating: goods delivered by a cartage contractor

The supply of movable goods in terms of a sale or instalment sale agreement to a customs-controlled enterprise or an industrial development zone operator is subject to zero-rated VAT, provided that the goods are delivered by a registered cartage contractor whose “main activity” is transporting goods. In terms of SARS Interpretation Note 30 (issue 3), the term “cartage contractor” is defined as a person whose “activities include” the transportation of goods. This has a wider scope than the VAT Act’s current requirement. It is proposed that the term cartage contractor in section 11(1)(m)(ii) of the VAT Act be broadened to align it with the term’s definition in Interpretation Note 30 (issue 3).

Zero-rating of services: loop transactions

Section 11(1)(q) of the VAT Act provides for the zero-rating of goods supplied to a non-resident recipient that are delivered to the recipient’s customer in South Africa. Section 11(2)(1)(ii)(bb) of the VAT Act, however, allows for the zero-rating of services supplied to a non-resident recipient if the services are in relation to goods situated in South Africa and form part of the recipient’s supply of goods to a vendor in the country. The VAT Act does not provide a comparable zero-rating provision for services supplied to a non-resident recipient but that are actually provided to the recipient’s customer in South Africa where such services do not form part of the supply referred to in section 11(2)(1)(ii)(bb) of the VAT Act. It is proposed that a comparable provision be included in the VAT Act to cater for such loop transactions where the supply is of services only and they do not relate to any goods situated in South Africa.

Zero-rating of services: vocational training

In terms of section 11(2)(r) of the VAT Act, the words “for an employer who is not a resident” implies that for zero-rating to apply, a contractual relationship must exist between the person supplying the

vocational services and the employer. It does not cater for situations where the employees' training is subcontracted by a non-resident supplier to a third-party vendor in South Africa. It is proposed that the section be amended to refer to vocational training provided "for the benefit" of a non-resident employer.

National housing programme

In terms of section 11(2)(s) and section 8(23) of the VAT Act, a person is deemed to have supplied services to a public authority or municipality to the extent of any payment made to or on behalf of that vendor in terms of the national housing programme contemplated in the Housing Act (1997), which is approved by the Minister of Finance after consultation with the Minister of Human Settlements. These services may be zero-rated. There has been confusion among taxpayers and municipalities regarding the scope of the services that qualify for zero-rating. It is proposed that the provisions of the sections dealing with this issue be reviewed to remove anomalies.

Ad valorem excise duties

Digital cinema projectors are subject to a 7 per cent *ad valorem* excise duty, regardless of whether they are used for household, commercial or industrial use. This excise duty negatively affects the movie industry as it moves towards digital technologies and is not in line with the abolition of *ad valorem* excise duties on cinematographic cameras and projectors in 2007. It is proposed that the excise duty on digital cinema projectors above R250 000 per unit be abolished on 1 April 2015. This monetary limit will ensure that the relief is limited to commercial use only.

Environmental taxation

Tyre levy

South Africa generates an estimated 108 million tonnes of waste each year, of which only 10 per cent is recycled. Government has designed additional environmental levies on a range of waste streams to help divert waste away from landfills towards reuse, recycling and recovery. Government proposes a tyre levy, with effect from the last quarter of 2015, to be implemented through the Customs and Excise Act and collected by SARS. The existing levy arrangements for tyres as per the Department of Environmental Affairs' regulations will be replaced with the proposed tyre levy. Revenues from the levy will be deposited into the National Revenue Fund, and an on-budget allocation will be made available through the budget of the Department of Environmental Affairs for the recycling of waste tyres and other waste streams.

Carbon tax

Two discussion documents were published in 2013 and 2014 and the proposed carbon tax has been further refined after a review of the comments received. The potential use of carbon offsets was well received as a cost-effective mechanism to reduce greenhouse gas emissions and taxpayers' carbon tax liabilities. The tax design seeks to minimise potential adverse effects on low-income households and industry competitiveness. The publication of the draft Carbon Tax Bill later in 2015 will allow for a further period of consultation. This will also allow for the tax to be aligned with the proposed carbon budgets. Amendments to the Customs and Excise Act will be effected to provide for the administration of the carbon tax.

Diesel refund system

The diesel refund system's implementation has experienced technical and administrative challenges. As noted in Chapter 4, the system's administration will be comprehensively reviewed. While the review is under way, steps will be undertaken to deal with some of the immediate challenges. This includes, among others, disputes over refunds for subcontracting in the mining sector through cession mining licences in terms of the Mineral and Petroleum Resources Development Act (2002). In the farming sector, attention will be given to rules for sugarcane contract farming and issues related to small-scale

sugarcane growers. The review also aims to clarify the record-keeping requirements that apply to diesel deliveries to claimants' premises and the approval of diesel tanks on these premises.

Transfer Duty Act

The definitions of "date of acquisition" and "property" in the Transfer Duty Act (1949) need to be reviewed to align the terms with other legislative provisions.

National gambling tax bill

The national gambling tax bill will be processed in 2015.

Tax administration

Self-assessment system for income tax: Amendments to the Income Tax Act are proposed to provide for the move to an income tax self-assessment system.

Appeal and dispute resolution procedures for customs and excise: Uniform appeal and dispute resolution procedures for taxes administered by SARS are proposed by aligning the procedures under the Customs Control Act (2014), the Customs Duty Act (2013) and the Customs and Excise Act (1964) with dispute resolution procedures under the Tax Administration Act (2011).

Technical corrections

In addition to the amendments described above, the 2015 tax legislation will effect various technical corrections, which mainly cover inconsequential items – typing errors, grammar, punctuation, numbering, incorrect cross-references, updating and removing obsolete provisions, removing superfluous text, and incorporating regulations and commonly accepted interpretations into formal law. Technical corrections also include changes to effective dates and the proper coordination of transitional tax changes.

A final set of technical corrections relate to modifications that account for practical implementation of the tax law. Although tax amendments go through an intensive comment and review process, new issues arise once the law is applied (including obvious omissions and ambiguities). These issues typically arise when tax returns are prepared for the first time after the tax legislation is applied. Technical corrections of this nature are almost exclusively limited to recent legislative changes.