

## **PRESS RELEASE**

### **TAX TREATMENT OF RSA GOVERNMENT BONDS ISSUED TO NON-SOUTH AFRICAN RESIDENTS**

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The tax treatment of interest earned by non-residents has been amended. The amendments will be effective from 1 July 2013 and will apply in respect of any interest that accrues, is received, becomes payable or is deemed to have accrued on or after this date.

#### **Current tax treatment**

Currently, South Africa's system provides for a blanket tax exemption on interest payable to foreign residents with two exceptions, namely:

1. Foreign residents (company or individual) who conduct business in South Africa through a permanent establishment (e.g. a foreign company or individual operating in South Africa in the form of a branch, office, factory, workshop, mine etc.)
2. The exemption also does not apply to foreign resident individuals that are physically based in South Africa for more than 183 days during the relevant year of assessment.

Therefore, bonds issued to a foreign person will be exempt from normal income tax in South Africa, unless it falls in the above categories.

#### **Tax treatment from 1 July 2013**

With effect from 1 July 2013, the South African government will introduce a withholding tax on interest at a rate of 15 per cent. The withholding tax will apply to all interest paid by South African residents to foreign residents except if subject to normal tax as outlined above.

The following withholding tax exemptions will apply to interest paid or accrued to foreign residents from the following:

1. Bonds issued by any sphere of Government (National, provincial or local government) ;
2. Listed debt instruments ( e.g. bonds listed on the JSE)
3. Any debt owed by a domestic bank or the South African Reserve Bank; Development Bank of Southern Africa (DBSA) and the Industrial Development Corporation (IDC). (Please note that this exemption does not include back-to-back loan agreements designed to avoid the 15 per cent withholding tax)
4. Domestic dealer and brokerage accounts and
5. Domestic investment schemes
6. In respect of bills of exchange, letters of credit or similar instrument.

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