

MEDIA STATEMENT

Publication of the initial batch of the draft Taxation Laws Amendment Bill, 2019 for public comment

National Treasury today publishes an initial batch of the 2019 draft Taxation Laws Amendment Bill to cover specific provisions that require additional consultation. National Treasury will be publishing the full text of the 2019 draft Taxation Laws Amendment Bill for public comment in the mid July 2019. The publication of an initial batch of the 2019 draft Taxation Laws Amendment Bill for an initial shorter public comment process before a more detailed second round process of public comments, when these provisions are revised in the full text of the 2019 draft Taxation Laws Amendment Bill. Written comments on the initial batch of the 2019 draft Taxation Laws Amendment Bill are due on 25 June 2019.

This initial batch of the 2019 draft Taxation Laws Amendment Bill is intended to solicit comments on two specific amendments that are more urgent and require further consultation. It also serves as notice to taxpayers of proposals for earlier effective dates for some of the proposed amendments.

The specific amendments in the first batch are:

1. Addressing abusive arrangements aimed at avoiding the anti-dividend stripping provisions

On 20 February 2019, the Minister of Finance made an announcement in Annexure C of the Budget Review regarding “Addressing abusive arrangements aimed at avoiding the anti-dividend stripping provisions”, with effect on 20 February 2019. This implies that the changes to the tax legislation addressing abusive arrangements aimed at avoiding the anti-dividend stripping provisions will come into effect from 20 February 2019 and apply to dividend stripping arrangements entered into on or after the date of that announcement (i.e. 20 February 2019). These legislative interventions will not apply in respect of dividend stripping arrangements entered into before 20 February 2019.

As stated in Annexure C of the 2019 Budget Review, the proposed amendments are aimed at structures that certain taxpayers have embarked on that aim at circumventing the current dividend stripping rules that were amended during the 2017 and 2018 legislative cycles. These schemes involve millions of rands, and have a potential of eroding the South African tax base. In order to curb this abuse, amendments are proposed in section 22B and paragraph 43A to the Eighth Schedule of the Income Tax Act.

2. *Aligning the effective date of tax neutral transfers between retirement funds with the effective date of retirement reforms, which is 1 March 2021*

In 2013, retirement fund reform amendments were effected to the Income Tax Act regarding the annuitisation requirements for provident funds. The main objective of these amendments was to enhance preservation of retirement fund interests during retirement and to have uniform tax treatment across the various retirement funds, thus resulting in provident funds being treated similarly to pension and retirement annuity funds with regard to the requirement to annuitise retirement benefits.

These retirement fund reform amendments were originally intended to come into effect on 1 March 2015. However, since then, further negotiations within NEDLAC have not been finalised, therefore necessitating the postponement of the effective date for the annuitisation requirements for provident funds to 1 March 2021. Each postponement of the effective date for the annuitisation requirements for provident funds requires several consequential amendments to various provisions of the Income Tax Act. In making changes to the effective dates, several consequential amendments were required, but one was inadvertently left out in paragraph 6(1)(a) of the Second Schedule to the Income Tax Act, which makes provision for tax neutral transfers between retirement funds. In order to correct this, it is proposed that urgent changes be made to the Income Tax Act to align the effective date of the tax neutral transfers from pension to provident or provident preservation funds with the effective date of the retirement reform amendments, which is 1 March 2021.

The draft legislation and draft explanatory memorandum regarding the initial batch release of the 2019 draft Taxation Laws Amendment Bill can be found on the National Treasury (www.treasury.gov.za) and SARS (www.sars.gov.za) websites.

Please forward written comments to the Treasury's tax policy depository at 2019AnnexCProp@treasury.gov.za and Adele Collins at acollins@sars.gov.za by close of business on 25 June 2019

ISSUED BY NATIONAL TREASURY ON 10 JUNE 2019