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INTRODUCTORY SPEECH BY THE MINISTER OF FINANCE

TAXATION LAWS AMENDMENT BILL, 2007

7 June 2007

Introduction

It gives me great pleasure to introduce the “Taxation Laws Amendment Bill, 2007.” This Bill enacts some of the main tax policy changes announced in my February 2007 Budget Speech. The Bill contains measures to assist individuals, with a special emphasis on savings. The Bill also seeks to assist small business by extending the small business tax amnesty by another month.

Assisting Salaried Individuals

Given the continually growing economy and administrative efficiencies of the South African Revenue Service, Government is once again able to provide individuals with across-the-board personal income tax relief. At the low end, income up to R43 000 will now be tax-free instead of the former threshold of R40 000. The 18% bracket now ends at R112 500 instead of the previous R100 000. At the top end, the 40% rate now kicks in for taxable incomes above R450 000 instead of R400 000. The net result is over R8,8 billion worth of personal income tax relief.

However, some of the most notable changes have come in the area of savings. First and foremost, the Tax on Retirement Funds has been repealed. Long-term savings for pension, provident funds and individual retirement annuities can now grow tax-free so as to maximise the savings “nest egg” of future retirees.

Outside this process, it should also be noted that National Treasury is simultaneously undertaking regulatory reform so that this savings “nest egg” ultimately works for the benefit of hard working individuals, not for the benefit of intermediaries and financial institutions. These initiatives have included our interventions with regard to surplus apportionment, a statement of Intent with the insurance industry so minimum values will be preserved for those wrongfully deprived of their retirement savings and compensation for the bulking of pension interest.

Another related amendment that will be of great interest to future retirees is the new tax regime for lump sum payouts on retirement or death. Under the basic mechanics the Bill provides for:

- The first R300 000 lump sum amount will be tax-free;
- The amount between R300 000 to R600 000 will be subject to 18 per cent;
- The amount between R600 000 to R900 000 will be subject to 27 per cent rate; and
- All amounts above R900 000 will be subject to 36 per cent.

Retirees will also not be taxed to the extent they recover non-deductible contributions. The regime will apply equally to pension, provident and retirement annuity funds.

A final set of savings relief measures are also of note. The interest and dividend exemption for individuals of age below 65 will increase from R16 500 to R18 000 and the exemption for older individuals will increase from R24 500

to R26 000. The exemption for capital gains and losses will increase from R12 500 to R15 000. Lastly, the estate duty exemption increases from R2,5 million to R3,5 million, and the donations tax exemption increases from R50 000 to R100 000. Most of these changes should stimulate savings so that individuals have sufficient funds upon retirement or to pass onto future generations.

Extension of Small Business Amnesty

In the budget speech of 2006 I announced an amnesty for small businesses, including taxi operators, which this house approved. The amnesty application period ran from 1 August 2006 to 31 May 2007.

I am pleased that announce that SARS has received two hundred and seventy five thousand three hundred and ninety eight (275 398) applications for this amnesty. After an initial slow take up, the last two weeks saw thousands of applications flooding into SARS offices. With the kind “permission” of the Chair of the Portfolio Committee on Finance we allowed two extra days for applications as the queues at SARS offices were very long despite offices being open for longer hours.

Earlier this week I met with some organisations who wrote to me requesting an extension to the deadline of the small business tax amnesty. Arising from that meeting and considering the overwhelming response by small businesses who applied for amnesty, I decided to request Parliament to approve an extension to the deadline.

The Bill therefore makes provision for a one month extension to the small business tax amnesty deadline until 30 June 2007. In addition SARS will allow applicants until 31 August 2007 to submit all documents supporting their amnesty application.

I have to point out that we grant this extension from a position of strength. The response was overwhelming and the staff at SARS have done a great job with

this campaign and I want to express my appreciation to them. This campaign took SARS to remote parts of the country not visited before where they spoke to many small business owners working the economy.

It is important that those organisations that approached me for an extension should now show what they can deliver with such an extension.

Public Benefit Organisations and Corporate Amalgamations

Two other matters are worthy of an ending note. The Bill once again assists public benefit organisations (or “PBOs”) for the betterment of society. The tax deductible ceiling for donations to qualifying PBOs will be increased from 5% of taxable income to 10% to promote charitable giving. PBOs are currently exempted from tax on gross trading income of at least R50 000. This amount is increased to R100 000 so that additional funds are available, especially to small PBOs, for public benefit activities.

Finally, the Bill targets corporate amalgamations that undermine the tax base. Under current law, taxpayers have attempted to use amalgamations to strip out profits free of the Secondary Tax on Companies. This potential loophole has been closed. However, legitimate transactions should not be unduly affected.

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Once again, I would like to thank the Chairman, the Hon. Nhlanhla Nene for his leadership, and the members of the Portfolio Committee for their constructive role in the process. Madam Speaker, I hereby table the “Taxation Laws Amendment Bill, 2007”, as well as its companion, the “Taxation Laws Second Amendment Bill, 2007.”