MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

REMARKS BY MINISTER OF FINANCE MR NHLANHLA NENE

NATIONAL ASSEMBLY

3 June 2015

Honourable Speaker

I have the privilege of introducing three bills in the National Assembly this afternoon:

a. The Rates and Monetary Amounts and Amendment of Revenue Laws Bill;

b. The Eskom Special Appropriation Bill; and

c. The Eskom Subordinated Loan Special Appropriation Bill

The Rates and Monetary Amounts and Amendment of Revenue Laws Bill of 2015

The Rates and Monetary Amounts and Amendment of Revenue Laws Bill of 2015 contain some of the tax amendments as announced in the Budget in February 2015. This bill includes only amendments with respect to adjustments to thresholds and tax rates. Most of these amendments were effective as from the tabling of the Budget or soon thereafter. The remainder of the 2015 tax proposals will be included in the Taxation Laws Amendment Bill and Taxation Administration Laws Amendment Bill that will be tabled later this year.

The main amendments in this bill are the changes to personal income taxes, medical tax credits, the tax rate for trusts, the turnover tax regime for small businesses, transfer duties on the purchase of properties and excise duties on alcohol and tobacco.

At the time of the 2014 Budget we expected economic growth of 2.7 per cent for 2014. However, the actual figure came in at 1.5 per cent. The Medium Term Budget Policy Statement in October 2014 recognised the impact that the slowdown in growth would have on tax revenues and on the sustainability of our public finances. This worsening in the revenue outlook prompted the announcement at the Medium Term Budget Policy Statement in October 2014 that measures would be proposed to raise additional tax revenues in Budget 2015 in order to "narrow the deficit and stabilize debt over the medium term".

Gross tax revenue collections for the 2014/15 fiscal year amounted to R986.3 billion; this was R7.4 billion less than the estimate of R993.7 billion at the time of the 2014 Budget but R7.3 billion more than the more conservative figure of R979.0 billion at the time of the 2015 Budget.

The two main tax instruments that were increased in the 2015 Budget to help raise the additional required tax revenues were the marginal personal income taxes and fuel levies. The marginal tax rates for individual taxpayers with taxable incomes above R181 900 were increased by 1 percentage point as from 1 March 2015, increasing the top marginal rate of tax from 40 per cent to 41 per cent for those with taxable incomes R701 300.

To counter the impact of inflation and provide some relief for those on lower incomes the income tax brackets and the rebates were increased by 4.2 per cent. This resulted in an increase in the income tax free threshold for individuals from R70 700 to R73 650.

The increase in the medical tax credit helps to maintain real relief for those that are members of medical schemes. The amount of medical tax credits that an individual can claim for medical aid contributions was increased by 5.1 per cent from R250 to R257 per month for each of the first two beneficiaries and from R172 to R181 for any additional beneficiaries.

The marginal rate at which Trusts are taxed increased from 40 per cent to 41 per cent, to remain in line with the new maximum marginal personal income tax rate.

Increases in the general fuel levy by 30.5 cents per litre and the Road Accident Fund levy by 50 cents per litre were also implemented, although not part of this Bill. These adjustments were processed as amendments to the Schedules for the Customs and Excise Act.

The Davis Tax Committee recommended that the turnover tax regime for micro enterprises could be made more generous to provide additional support for businesses with an annual turnover of less than R1 million per year. The bill includes adjustments to increase the level of turnover at which a micro business starts to paying tax from R150 000 to R335 000 and reduces the marginal rates of tax that are paid on that turnover from a maximum of 6 per cent down to 3 per cent.

The excise duties on alcohol and tobacco were adjusted to maintain the targeted tax burdens expressed as a proportion of the average retail selling prices. The resulting increases were between 4.8 per cent and 8.5 per cent for alcoholic beverages and between 5 and 7 per cent of tobacco products.

Transfer duty relief was provided for at the lower end and the transfer duties on the purchase of properties were made more progressive. This was made possible by increasing the value at which transfer duties are paid from R600 000 to R750 000, but at the same time creating an additional bracket for more expensive properties above R2.25 million with a higher marginal tax rate of 11 per cent.

Honourable speaker

I now turn to **the Eskom Special Appropriation Bill**

During September 2014, Cabinet approved a support package that balanced a number of interventions that were aimed at making Eskom a sustainable business. The key interventions included Eskom improving efficiency through reducing costs; Eskom applying for tariff adjustments in line with the regulatory processes; an allocation of R23 billion from government to help relieve the immediate impact on electricity consumers and the conversion into equity of the subordinated loan that government had previously provided to Eskom.

The commitment to allocate R23 billion of funding to Eskom was reaffirmed in the 2014 Medium Term Budget Policy Statement and 2015 Budget. At the time of the Budget, it was indicated that the intention was to appropriate the funds in three tranches: R10 billion in June 2015; a second R10 billion in December 2015, and the remaining R3 billion in 2016/17.

In order to ensure that the funding allocation would not have an impact on the budget deficit, it was to be funded through the sale of non-strategic government assets and the appropriations were to be made as the funds were received into the National Revenue Fund. This principle applies to all allocations to fund state owned companies.

Significant progress has been made in raising the funds. Anticipating the receipt of proceeds and to ensure that the first R10 billion allocation can be transferred in June 2015 as has been announced, I am introducing into Parliament the Eskom Special Appropriation Bill 2015 which provides for the appropriation of the R23 billion funding allocation announced in February 2015.

Honourable members

Eskom Subordinated Loan Special Appropriation Amendment Bill

The Eskom Subordinated Loan Special Appropriation (2008/09-2010/11 Financial Years) Act, 2008, provided for funding totalling R60 billion to be provided to Eskom in the form of a subordinated loan to support the entity's capital expenditure programme. An amount of R10 billion was appropriated to Eskom during 2008/09, followed by amounts of R30 billion in 2009/10 and R20 billion in 2010/11.

In line with the 2008 Act, the terms and conditions of the loan are specified in the subordinated loan agreement that was entered into between the Minister of Finance and Eskom. The loan has a term of 30 years. The loan is subordinated to any other debts of Eskom meaning that Eskom would be required to pay all other creditors before using the remaining funds to repay government. Interest is payable, but payment thereof is subject to the specified credit metrics of Eskom being sufficiently strong to meet the targeted levels. Similarly, although government charges guarantee fees, the payment of guarantee fees is subject to the same credit metrics being sufficiently strong. To date, Eskom has not been required to make payments for interest or guarantee fees.

The conversion to equity of this subordinated loan was one of the interventions that Cabinet approved as part of the September 2014 support package for Eskom.

The conversion of the loan to equity will strengthen Eskom's balance sheet. Due to its structure, a portion of the subordinated loan is already recognised as equity on Eskom's balance sheet whilst the remainder is reflected as debt. The loan's conversion to equity would result in the full R60 billion being reflected as equity. This would reduce Eskom's debt by R24.4 billion whilst simultaneously increasing the equity by the same amount. This is expected to result in an improvement in Eskom's debt to equity ratio and other credit metrics.

The conversion to equity of the subordinated loan will have no direct cash flow impact either for Eskom or government. The funds were already appropriated and paid to Eskom between 2008 and 2011. Eskom is currently not paying interest or guarantee fees on the loan, nor was it anticipated to do so over the three year period of the Medium Term Expenditure Framework.

The conversion of the loan also benefits Eskom by demonstrating government's commitment to supporting the company.

To effect the conversion, an amendment to Eskom Subordinated Loan Special Appropriation (2008/09-2010/11 Financial Years) Act, 2008 is introduced.

In conclusion I would like to thank the Standing Committee on Finance for their oversight role in processing the Rates and Monetary Amounts and Amendment of Revenue Laws Bill and I trust that the Eskom Special Appropriation Bill and the Eskom Subordinated Loan Special Appropriation Amendment Bill will also be processed by the Standing Committee on Appropriations before the end of June 2015.