MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA
Private Bag x115, Pretoria, 0001 • Tel: +27 12 323 8911• Fax: +27 12 323 3262
PO Box 29, Cape Town, 8000 • Tel: +27 21 464 6100 • Fax: +27 21 461 2934

INTRODUCTORY SPEECH BY THE MINISTER OF FINANCE

REVENUE LAWS AMENDMENT BILLS, 2007

AND

SECURITIES TRANSFER TAX BILLS, 2007

30 October 2007

Introduction

Madame Speaker, it gives me great pleasure to introduce the "Revenue Laws Amendment Laws Bills, 2007" and the "Securities Transfer Tax Bills, 2007". These bills contain the second installment of tax announcements contained in my annual February 2007 Budget Address to the Nation.

Given the complex nature of the South African economy, these Bills cover an expansive range of tax topics. However, despite these disparate topics, Government's goals for the tax system remain clear and consistent i.e. to achieve equity, certainty, efficiency and simplicity. These all call for a broadening of the tax base and where possible a reduction in the complexity of the tax code. However, it must be stressed that unintended loopholes exploited by some taxpayers and their highly sophisticated advisers will not be tolerated. The additional revenue stemming from the closing these loopholes will provide scope for further tax reforms, more funds available for critical expenditure priorities and lower tax rates where deemed appropriate.

Business taxation

In terms of business taxation, the main focus of the Bills is the Secondary Tax on Companies ("STC"). The STC rate will be reduced from 12,5 per cent down to 10 per cent. This rate reduction comes with the closing of significant loopholes that have emerged in the market place. A small group of taxpayers have sought to disguise otherwise taxable sales and taxable dividends through a variety of means. Many of these schemes seek to artificially classify both sets of transactions as a tax-free return of capital or as tax-free intra-group dividends. While many of these schemes seem remote to all but an elite set of tax experts, the costs of these schemes should not be ignored. We understand that some private equity fund managers have been very active in this regard.

This drive to close loopholes, however, should not be perceived as an anti-business attitude on the part of Government. The set of Bills presented today contain a range of measures designed to support the growth of business. Shares held by taxpayers for at least three years will now automatically receive beneficial capital gains tax rates. For individuals with savings held directly in the form of shares, this change will mean that there will be certainty that the tax on growth from these shares will be limited to a 10 per cent capital gain rate. Other provisions in the Bills presented today seek to minimize the tax impact of mergers and acquisitions, many of which are important for our country's goal of transformation. Finally, in order to promote infrastructure development, the Bills contain depreciation tax relief for new and used rolling stock, railways, port infrastructure, environmental equipment and commercial buildings.

Special situations

As strange as it may seem to some, our tax system does have a sympathetic heart. Beyond the broad-based relief in income tax rates granted earlier this year, certain situations call for special assistance. Of particular note is the taxation of sporting bodies. Our national and provincial sports organisations contain both professional and amateur sports divisions. Our children in amateur sports today need support so that they can become our future stars in rugby, soccer and cricket (or at least so they can enjoy themselves along the way). Under the proposed amendments, professional sports organisations can now obtain tax deductions for funding amateur sport development directly. Most funding for amateur sports is derived this way, so the deduction should play a significant role.

On a different note, certain workers face the risk of physical injury (and even death) in their jobs. In order to compensate them for this danger, Government presently provides tax-free compensation in terms of the Compensation for Occupational Injuries and Diseases Act, 1993. However, some employers provide additional death and injury benefits that are currently subject to tax. The proposed amendments allow for tax-free treatment for up to R300 000 of these additional benefits. Our police men and women who face daily risk in protecting our society will be major beneficiaries of this proposal.

Lastly, many of our poorer citizens lack ready access to banking facilities, especially in the rural areas. Earlier this year, National Treasury introduced the Co-operative Banks Bill so that communities can form their own associations for everyday savings and loans. We are proposing an amendment that complements this effort by providing small business tax relief for co-operative banks. This relief spares these co-operative banks from a flat 29 per cent tax charge. Co-operative banks will now be eligible for a tax exemption up to R43 000 of their annual net income, a 10 per cent charge of income up to R300 000 and 29 per cent thereafter.

Securities Transfer Tax

The second set of bills deals with Securities Transfer Taxes on shares. It is important to note that the Securities Transfer Tax Bills, 2007 do not represent a new tax. These Bills merely combine pre-existing Stamp Duties on unlisted shares and pre-existing Uncertificated Securities Taxes on listed shares. The new regime simplifies many archaic rules and streamlines exemptions.

Most taxpayers should benefit from the reduced compliance costs associated with the new regime.

* * * *

Once again, I would like to thank the Chairman Nhlanhla Nene for his leadership, and the members of the Portfolio Committee for their constructive role in the process. Madame Speaker, I hereby table the “Revenue Laws Amendment Bills, 2007” and the “Securities Transfer Tax Bills, 2007”.