4

Revenue trends and tax proposals

In brief

- Revenue collection has deteriorated as a result of weaker-than-expected economic conditions. The revised tax revenue estimate for 2012/13 is R16.3 billion lower than the 2012 Budget estimate.
- Higher revenue collections will depend on an improved economic growth outlook.
- The 2013 tax proposals include personal income tax relief of R7 billion, the creation of an employment tax incentive and steps to encourage higher savings.
- A study will be conducted to evaluate the robustness of the tax system. It will assess the tax system's ability to support long-term policy objectives, including those set out in the National Development Plan, and faster economic growth.

Overview

The tax system raises the revenue needed to fund government programmes and deliver services. While the South African economy has continued to grow since the 2009 recession, the moderate pace of economic growth has adversely affected revenue performance.

Tax revenues are expected to improve over medium term in line with moderately higher economic growth

The revised tax revenue estimate for 2012/13 is R810.2 billion, R16.3 billion lower than the estimate made in the 2012 Budget. This underperformance is largely the result of weak economic growth during the second half of 2012, labour unrest and lower commodity prices. Tax revenues are expected to improve over the medium-term expenditure framework (MTEF) period in line with higher economic growth and the stabilisation of key commodity prices at marginally higher levels.

The main tax proposals for 2013 include:

- Personal income tax relief of R7 billion
- Reforms to the tax treatment of contributions to retirement savings
- An employment tax incentive targeted to support young workers and those employed in special economic zones

- Tax relief for small businesses
- Requiring foreign businesses selling digital goods in South Africa to register as VAT vendors
- Increases in fuel and excise taxes
- Alignment of the proposed carbon tax, energy-efficiency savings tax incentive and the electricity levy.

Tax system to be reviewed for its impact on employment and fiscal sustainability

Over the next year, a tax review will assess whether present tax policy is appropriate to support government's objectives of inclusive growth, employment, development and fiscal sustainability. As the National Development Plan notes, the best way to generate resources to implement the national vision is to grow the economy more rapidly. It envisages that "what we contribute in our taxes, we get back through the high quality of our public services".

Consolidated budget revenue – revised estimates

Consolidated budget revenue consists of tax revenue net of SACU transfers, departmental revenue, mineral royalties, social security fund revenue, and provincial and public entity own revenue

Table 4.1 highlights budget estimates and revenue outcomes of the major tax instruments for 2011/12, and revised projected revenue outcomes for 2012/13. Tables 2 and 3 in Annexure B set out these trends in more detail.

Audited results show that tax revenue for 2011/12 of R742.7 billion was R68.5 billion or 10.2 per cent higher than the amount collected in 2010/11. Customs duties (up 28.3 per cent), corporate income tax (14 per cent) and personal income tax (10.3 per cent) accounted for the increase. The revised tax revenue estimate for 2012/13 of R810.2 billion is R67.5 billion or 9.1 per cent higher than in 2011/12. However, it is R16.3 billion lower than the estimate at the time of the 2012 Budget.

Post-recession nominal gross tax revenue collections grew by 12.6 per cent in 2010/11 and 10.2 per cent in 2011/12. This growth is markedly slower than the 15 per cent average growth rate between 2006/07 and 2008/09.

Gross tax revenue collections slowed in final three months of 2012/13

During 2012/13, tax revenue collection slowed in response to conditions in the domestic economy – including labour unrest – and uncertainty in the global economy, in particular the continued downturn in Europe, which is one of South Africa's major trading partners. These factors led to a deceleration in gross tax revenue collection in the last three months of the calendar year. Personal income tax and corporate income tax revenues are respectively R12 billion and R11.5 billion below the estimate made in February 2012. Fuel tax revenues are R2.3 billion below initial estimates.

This performance has been partially offset by better-than-expected collections of value-added tax (VAT) (R7.3 billion) and customs duties (R1.5 billion). Flowing from these trends, projected gross tax revenue collections for the MTEF period have been revised downwards from the estimates at the time of the 2012 *Medium Term Budget Policy Statement*.

Table 4.1 Budget estimates and revenue outcome, 2011/12 and 2012/13

R million	2011/12 Budget	2011/12 Outcome	2011/12 Deviation	2012/13 Budget	2012/13 Revised	2012/13 Deviation	2011/12 to 2012/13 % change[1]
Taxes on income and profits	**418 345**	**426 584**	**8 239**	**475 729**	**453 522**	**-22 208**	**6.3%**
Persons and individuals	252 750	250 400	-2 350	285 970	274 020	-11 950	9.4%
Companies	144 165	151 627	7 462	167 839	156 350	-11 489	3.1%
Secondary tax on companies/ Dividend withholding tax	18 100	21 965	3 865	19 050	21 000	1 950	-4.4%
Tax on retirement funds	–	7	7	–	–	–	–
Other taxes on income and profits[2]	3 330	2 585	- 744	2 871	2 152	- 719	-16.8%
Taxes on payroll and workforce	**9 150**	**10 173**	**1 023**	**11 131**	**11 400**	**269**	**12.1%**
Taxes on property	**9 590**	**7 817**	**-1 773**	**8 627**	**8 200**	**- 427**	**4.9%**
Domestic taxes on goods and services	**274 210**	**263 950**	**-10 260**	**294 554**	**298 935**	**4 381**	**13.3%**
Value-added tax	200 880	191 020	-9 860	209 675	217 000	7 325	13.6%
Specific excise duties	25 085	25 411	326	28 772	28 360	- 412	11.6%
Ad valorem excise duties	2 230	1 828	- 402	2 000	2 190	190	19.8%
General fuel levy	36 900	36 602	- 298	42 776	40 500	-2 276	10.6%
Other domestic taxes on goods and services[3]	9 115	9 088	- 27	11 331	10 885	- 446	19.8%
Taxes on international trade and transactions	**30 325**	**34 121**	**3 796**	**36 359**	**38 093**	**1 734**	**11.6%**
Customs duties	29 860	34 198	4 338	36 160	37 640	1 480	10.1%
Diamond export levy	56	64	9	50	53	4	-16.9%
Miscellaneous customs and excise receipts	410	- 141	- 551	150	400	250	-383.3%
Stamp duties and fees	**–**	**- 3**	**- 3**	**–**	**–**	**–**	**–**
State miscellaneous revenue[4]	**–**	**9**	**9**	**–**	**–**	**–**	**–**
Total tax revenue	**741 620**	**742 651**	**1 031**	**826 401**	**810 150**	**-16 250**	**9.1%**
Non-tax revenue[5]	10 001	19 193	9 192	15 091	14 475	- 616	-24.6%
of which:							
Mineral royalties	*4 890*	*5 612*	*722*	*6 510*	*5 000*	*-1 510*	*-10.9%*
Less: SACU[6] payments	-21 763	-21 760	3	-42 151	-42 151	–	93.7%
National budget revenue	**729 858**	**740 084**	**10 227**	**799 340**	**782 474**	**-16 866**	**5.7%**
Provinces, social security funds and selected public entities	94 609	96 766	2 157	105 489	105 375	- 114	8.9%
Budget revenue	**824 467**	**836 850**	**12 384**	**904 829**	**887 849**	**-16 981**	**6.1%**

1. Percentage change 2011/12 outcome versus 2012/13 revised estimate
2. Includes interest on overdue income tax, and small business tax amnesty levy
3. Includes turnover tax for small businesses, air departure tax, plastic bags levy, electricity levy, CO_2 tax on motor vehicle emissions, incandescent light bulb levy and Universal Service Fund
4. Revenue received by SARS that could not be allocated to a specific tax instrument
5. Includes mineral royalties, mining leases, departmental revenue and sales of capital assets
6. Southern African Customs Union

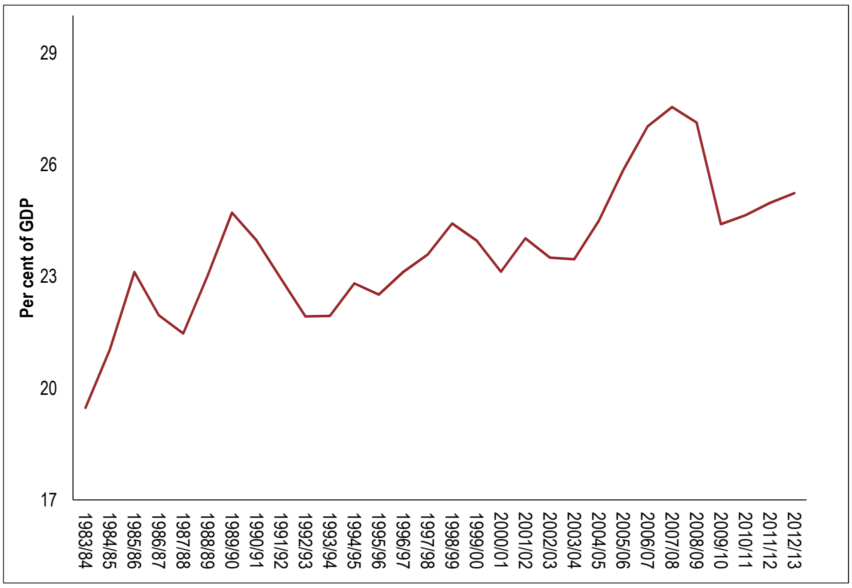
Long-term tax revenue trends

Gross tax revenues have averaged at about 25 per cent of GDP over the past decade

Nationally levied taxes are collected by the South African Revenue Service (SARS) for the National Revenue Fund. As a percentage of gross domestic product (GDP), gross tax revenues have increased from 22.1 per cent in the 1980s to an average of 25 per cent over the past

10 years. During 2007/08, at the height of the economic boom, the ratio of gross tax revenue to GDP reached a high of 27.6 per cent. As the global economic crisis took hold in 2009/10, the ratio declined to 24.4 per cent, marking the first time that nominal gross tax revenues declined. Tax revenues have since recovered, but at a much slower pace than expected. Gross tax revenue as a percentage of GDP is expected to average 25.2 per cent in 2012/13. Figure 4.1 shows these trends.

Figure 4.1 Gross tax revenue as percentage of GDP,[1] 1983/84 – 2012/13



1. Excludes revenue collected by provinces, municipalities, social security funds and public entities, which account roughly for an additional 3 per cent of GDP

Personal income tax, VAT and corporate income tax account for more than 80 per cent of total budget revenue

Revenues from personal income tax, VAT and corporate income tax account for more than 80 per cent of total budget revenue. From 1994/95 to 2012/13, personal income tax, VAT and corporate income tax accounted for, on average, 36, 26, and 18 per cent respectively of budget revenue. About 58 per cent of tax revenues are derived from direct taxes (taxes on personal and corporate income, and on wealth) and 42 per cent from indirect taxes (VAT, fuel taxes, excise and customs duties, and so on).

Corporate income tax revenues fell sharply from an average of 23.4 per cent of budget revenue in the 1980s to 14 per cent between 1990/91 and 1999/00. The resulting revenue shortfall was made up by revenue from individuals, mainly through "bracket creep" (movement into higher tax brackets) because little or no relief was provided for inflation.

Mid-2000s recovery in corporate income tax based on strong growth allowed for direct tax relief to individuals

From 2000, corporate income tax revenues recovered strongly, reaching about 20 per cent of budget revenue, or 5 per cent of GDP. This strong recovery, which lasted until 2008/09, was the result of robust economic growth, base broadening (including the introduction of capital gains tax) and more rigorous enforcement. It provided scope to extend direct tax relief to individuals by fully compensating for inflation and providing additional real relief in some years.

A sharp decline in corporate income tax revenues from 7.2 per cent of GDP in 2008/09 to 5.5 per cent in 2009/10 and 4.9 per cent in 2010/11 was a major shock to the fiscus. This ratio recovered marginally in 2011/12 to 5.1 per cent, but may deteriorate again to 4.9 per cent in 2012/13.

Recent trends in the three main tax instruments are shown in Table 4.2. Nominal tax revenues from personal income tax and VAT have each increased by about 40 per cent over the past six years. Projected nominal corporate income tax revenue in 2012/13, however, will be 5.5 per cent lower than the peak reached in 2008/09.

Table 4.2 Nominal tax revenue collections, 2007/08 – 2012/13

	Individuals		Companies		Value-added tax	
	R million	% change	R million	% change	R million	% change
2007/08	168 379		140 191		150 443	
2008/09	195 115	15.9	165 378	18.0	154 340	2.6
2009/10	205 145	5.1	134 883	-18.4	147 941	-4.1
2010/11	226 925	10.6	132 902	-1.5	183 571	24.1
2011/12	250 389	10.3	151 563	14.0	191 014	4.1
2012/13	274 020	9.4	156 350	3.2	217 000	13.6
2012/13 vs. 2008/09		**40.4**		**-5.5**		**40.6**

As Table 4.3 shows, corporate income tax revenue from the mining sector is volatile, driven by global commodity prices and the rand exchange rate. Mining-related corporate income tax revenue, which had been recovering following the 2009 recession, is expected to contract in 2012/13, largely due to lower commodity prices and labour unrest.

Table 4.3 Mining sector: corporate income tax and mineral and petroleum royalties 2005/06 – 2012/13

R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13 Estimate
Total provisional corporate income tax[1]	89 753	119 874	143 072	166 213	135 695	136 872	158 782	162 000
of which:								
Mining and quarrying	*5 875*	*12 176*	*15 068*	*22 522*	*9 873*	*14 996*	*17 029*	*12 200*
Percentage of total corporate income tax	*6.5%*	*10.2%*	*10.5%*	*13.6%*	*7.3%*	*11.0%*	*10.7%*	*7.5%*
Mineral royalties	–	–	–	–	–	3 555	5 612	5 000
Total mining and quarrying	**5 875**	**12 176**	**15 068**	**22 522**	**9 873**	**18 551**	**22 641**	**17 200**

1. Provisional corporate income tax excludes refunds and final assessment

Direct tax relief measures

Personal income tax relief

Personal income tax relief of R7 billion

Personal income tax provides the foundation for an equitable and progressive tax system. Personal income tax brackets and rebates are partially adjusted for "fiscal drag" to take inflation into account. The 2013 Budget proposes direct personal income tax relief of R7 billion. In addition, adjustments to the monetary thresholds, such as the medical tax credit, will provide relief of about R350 million. Table 4.4 gives an overview of the 2013/14 income tax brackets, rates and rebates.

Table 4.4 Personal income tax rate and bracket adjustments, 2012/13 – 2013/14

2012/13		2013/14	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 - R160 000	18% of each R1	R0 - R165 600	18% of each R1
R160 001 - R250 000	R28 800 + 25% of the amount above R160 000	R165 601 - R258 750	R29 808 + 25% of the amount above R165 600
R250 001 - R346 000	R51 300 + 30% of the amount above R250 000	R258 751 - R358 110	R53 096 + 30% of the amount above R258 750
R346 001 - R484 000	R80 100 + 35% of the amount above R346 000	R358 111 - R500 940	R82 904 + 35% of the amount above R358 110
R484 001 - R617 000	R128 400 + 38% of the amount above R484 000	R500 941 - R638 600	R132 894 + 38% of the amount above R500 940
R617 001	R178 940 + 40% of the amount above R617 000	R638 601	R185 205 + 40% of the amount above R638 600
Rebates		**Rebates**	
Primary	R11 440	Primary	R12 080
Secondary	R6 390	Secondary	R6 750
Tertiary	R2 130	Tertiary	R2 250
Tax threshold		**Tax threshold**	
Below age 65	R63 556	Below age 65	R67 111
Age 65 and over	R99 056	Age 65 and over	R104 611
Age 75 and over	R110 889	Age 75 and over	R117 111

Table 4.5 shows taxpayers' relative contributions to the income tax base. In 2013/14, a quarter of individual taxpayers – those with taxable income of between R150 000 and R250 000 – will account for 13.2 per cent of personal income tax revenues, and 8.4 per cent of individual taxpayers – those earning a taxable income above R500 000 – will account for 54.4 per cent of personal income tax revenues.

Table 4.5 Estimates of individual taxpayers and taxable income, 2013/14

	Taxpayers		Taxable income		Income tax payable		Personal income tax relief		Tax revenue	
Taxable bracket	**Number**	**%**	**R million**	**%**	**R million**	**%**	**R million**	**%**	**R million**	**%**
0 to R60 000	8 067 075		155 911	10.8	–	–	–	–	–	–
R60 001 to R150 000	3 018 270	47.4	279 699	19.4	18 924	6.0	1 867	26.6	17 057	5.6
R150 001 to R250 000	1 596 649	25.1	290 735	20.2	42 148	13.4	1 579	22.5	40 569	13.2
R250 001 to R350 000	853 430	13.4	239 884	16.6	47 821	15.3	1 269	18.1	46 551	15.2
R350 001 to R500 000	362 713	5.7	145 761	10.1	36 217	11.5	759	10.8	35 458	11.6
R500 001 to R750 000	187 374	2.9	97 202	6.7	27 470	8.8	487	6.9	26 983	8.8
R750 001 to R1 000 000	203 646	3.2	142 687	9.9	45 711	14.6	618	8.8	45 093	14.7
R1 000 001 +	148 468	2.3	246 803	17.1	95 279	30.4	452	6.4	94 827	30.9
Total	**6 370 550**	**100.0**	**1 442 771**	**100.0**	**313 570**	**100.0**	**7 032**	**100.0**	**306 538**	**100.0**
Grand total	**14 437 625**		**1 598 682**							

Relief for low-cost employer-provided housing

Fringe-benefit tax relief to support lower-income earners

Some businesses provide their employees with subsidised rental accommodation or home loans. There are also instances where employers build houses for their employees, initially on a rental basis, with the understanding that the house will become the property of the employee over time. Where an employer transfers a house to an employee at a price below market value, a taxable fringe benefit is triggered. The fringe benefit tax is often unaffordable for low-income employees. To contribute to a more stable workforce and adequate housing, government proposes to provide fringe-benefit tax relief for lower-income earners in such cases.

Medical tax credits

Monthly medical tax credits increased

Monthly tax credits for medical scheme contributions will be increased from R230 to R242 for the first two beneficiaries, and from R154 to R162 for each additional beneficiary, with effect from 1 March 2013.

Employer-provided bursaries to relatives

The rules covering the exemption of fringe benefit taxation for bursaries given to relatives will be reviewed. Government proposes to increase the relevant monetary thresholds. Differential monetary thresholds for bursaries to students attending tertiary institutions and to learners at schools are shown in Table C.6 in Annexure C.

Non-retirement savings

Tax-preferred savings and investment accounts to be phased in over two years

In the 2012 *Budget Review*, tax-preferred savings and investment accounts were proposed as alternatives to the current tax-free interest-income caps, to encourage greater savings. A discussion document was published in September 2012 and, after consideration of comments received, government intends to proceed with the implementation of tax-preferred savings and investment accounts. All returns accrued within these accounts and any withdrawals would be exempt from tax. The account would have an initial annual contribution limit of R30 000 and a lifetime limit of R500 000, to be increased regularly in line with inflation.

The new accounts will be introduced by April 2015. In the meantime, with effect from 1 March 2013, tax-free interest-income annual thresholds will be increased from R33 000 to R34 500 for individuals 65 years and over, and from R22 800 to R23 800 for individuals below 65 years. These thresholds will not be adjusted for inflation in future years.

Retirement savings reforms

Changes to tax treatment of pension and provident funds

Individuals' contributions to pension and retirement annuity funds are tax deductible. To promote savings, the deductibility of such contributions, as well as contributions to provident funds and employer contributions that will constitute fringe benefits, will be increased to 27.5 per cent of the greater of remuneration or taxable income (excluding retirement annuity or lump sum income). For equity reasons, an annual cap on deductible contributions of R350 000 will be applied.

Vested rights will be protected

Tax treatment of contributions to pension, retirement annuity and provident funds will be harmonised, allowing provident fund members to receive a tax deduction on their own contributions. Vested benefits will be protected: balances in provident funds at the date of implementation, and subsequent growth, will not be required to be annuitised.

It is proposed, however, subject to public consultations, that future contributions made to provident funds after an agreed date be subject to the same annuitisation requirements applicable to retirement annuity and pension funds. This requirement will not apply to provident fund members older than 55 years at the date of implementation. New employees can still join and contribute to existing provident funds, and new funds can be created subject to the same tax and annuitisation rules. This will reduce the complexity of the retirement system significantly.

Contributions in excess of the annual caps may be rolled over to future years

Contributions in excess of the annual caps may be rolled over to future years. At retirement, where any non-deductible contributions remain, they will be set off against any lump sum or annuity income before tax is calculated to avoid double taxation.

Specific provisions will need to be made for defined-benefit pension plans and will require further engagement with industry.

Taxpayers with multiple sources of income

People receiving multiple incomes are often faced with a higher-than-expected tax liability on assessment, due to the aggregation of these incomes. These include people with more than one job and widows/widowers on the death of a spouse. Individual employers and pension funds are typically unaware that there are two or more income streams and each calculates pay-as-you-earn (PAYE) as if there is only one. The result is that too little PAYE is deducted. Government will address this issue during 2013/14. Steps under consideration include higher levels of withholding by employers (though confidentiality is a concern); holding employees responsible for PAYE at a higher tax rate to take into account the "aggregation effect"; SARS informing affected taxpayers and suggesting preventative measures; and temporary relief in the case of widows and widowers.

Employment tax incentives

Incentive to encourage hiring of young people

The introduction of a youth employment tax incentive will help young people enter the labour market, gain valuable experience and access career opportunities. The administratively simple incentive will create a graduated tax incentive at the entry-level wage, falling to zero when earnings reach the personal income tax threshold. Protection provided by existing labour legislation, combined with oversight by the South African Revenue Service and the Department of Labour, will avoid displacement that might arise. A similar tax incentive will be made available to eligible workers of all ages within special economic zones.

Special economic zones

Tax treatment in special economic zones designed to attract investment

In certain special economic zones, the Minister of Finance will authorise the following tax incentives, after consultation with the Minister of Trade and Industry:

- A 15 per cent corporate income tax rate for businesses in such areas.
- An employment incentive allowing for a tax deduction for employment of workers earning less than R60 000 per year.
- An accelerated depreciation allowance for buildings in these areas, based on the existing regime for urban development zones, to encourage developers to invest more in industrial premises.

Small business corporation relief and social-impact firms

Government proposes that the R14 million turnover threshold for small business corporations be increased to R20 million and that the graduated tax structure for such corporations be revised as shown in Table 4.6.

Proposal to afford relief to small business corporations

Table 4.6 Small business corporations, 2012/13 – 2013/14

Current rates 2012/13		Proposed rates 2013/14	
Taxable Income	**Rate**	**Taxable Income**	**Rate**
Below R63 556	0.0%	Below R67 111	0.0%
R63 557 to R350 000	7.0%	R67 112 to R365 000	7.0%
Above R350 000	28.0%	R365 001 to R550 000	21.0%
		Above R550 001	28.0%

The application of the same rate structure to the trading activities of public-benefit organisations (PBOs) will also be explored.

The feasibility of special support for social-impact businesses, which have both profit-making and social objectives, is being explored. Encouraging investment in such businesses is in line with the policy objectives of small business development, social solidarity and job creation.

Feasibility of support for social-impact businesses being explored

Public-benefit organisations

Donations to PBOs working in the areas of welfare and humanitarian activities, health care, education, conservation, environmental protection, animal welfare, and land and housing are deductible up to 10 per cent of taxable income in the year the donation is made.[1] Donations in excess of this figure cannot be carried forward, which reportedly discourages large donations. Government proposes to allow donations in excess of 10 per cent of taxable income in any given year to be rolled over as allowable deductions in subsequent years. Also under consideration are rules governing the amount of funding that must be distributed where PBOs provide funding to other PBOs.

Adjustments to help organisations involved in environmental, welfare and humanitarian activities

Reforms to the biodiversity tax incentive

Government proposes to modify the rules concerning the allowable deductions for setting aside private land as a protected area. The limitation of not allowing a rollover of donations in excess of 10 per cent of taxable income will be scrapped. Where land has been owned for many years, the original cost of the land is generally much lower than its current market value. Presently, the incentive is calculated using the lower of cost or market value of the protected area for 99-year contracts. Government proposes that the value for the purpose of this incentive should be the lower of the municipal or market value. Capital gains will be triggered, but the taxable proportion of these gains will be set off against the deduction allowed over a period. Certain conservation capital and maintenance expenditure will be allowed as deductible tax expenses.

Rules on tax incentives that encourage biodiversity management to be modified

[1] For the full list, see part 2, schedule 9 of the Income Tax Act (1962).

Medium-term proposal on old age grant

Secondary and tertiary rebates to be phased out with the means test

The means test for the existing *old age grant* is complex and costly to administer, generates arbitrary inequities, and creates disincentives for individuals to save for retirement. Government proposes to establish a universal old age grant, phasing out the means test, by 2016. All citizens over a designated age would be eligible for the grant, irrespective of income level. To ensure equity, adjustments to the secondary and tertiary rebates will be made to offset the costs of this change and retain broadly the same progressive tax structure.

Protecting the tax base

Reforming the taxation of trusts

Legislative measures will address tax avoidance through trusts

To curtail tax avoidance associated with trusts, government is proposing several legislative measures during 2013/14. Certain aspects of local and offshore trusts have long been a problem for global tax enforcement due to their flexibility and flow-through nature. Also of concern is the use of trusts to avoid estate duty, which will be reviewed.

The proposals will not apply to trusts established to attend to the legitimate needs of minor children and people with disabilities. The proposals are as follows:

- Discretionary trusts should no longer act as flow-through vehicles. Taxable income and loss (including capital gains and losses) should be fully calculated at trust level with distributions acting as deductible payments to the extent of current taxable income. Beneficiaries will be eligible to receive tax-free distributions, except where they give rise to deductible payments (which will be included as ordinary revenue).
- Trading trusts will similarly be taxable at the entity level, with distributions acting as deductible payments to the extent of current taxable income. Trusts will be viewed as trading trusts if they either conduct a trade or if beneficial ownership interests in these trusts are freely transferable.
- Distributions from offshore foundations will be treated as ordinary revenue. This amendment targets schemes designed to shield income from global taxation.

Employment share schemes

Employment share schemes will be subject to uniform tax treatment

Some employers offer staff equity schemes as part of their compensation packages. Some of these arrangements are also used as a tool to lower overall tax rates for executives and other high-income earners. Schemes for lower-income taxpayers, however, are sometimes subject to anomalies that may give rise to double taxation. A special dispensation is proposed to ensure uniform tax treatment of these schemes. The way that employers claim deductions will be examined.

Disability or income protection policies

Disability and income protection policies to receive consistent tax treatment

Disability insurance policies that fall outside the ambit of retirement funds are treated differently, depending on whether they compensate for the loss of future income (deductible for employees when premiums are incurred) or compensate against loss of personal capital, such as the loss of an arm (not deductible). Many policies blur this distinction. Government proposes a more consistent treatment: all non-retirement fund disability and income-protection policies will conform to the overall tax paradigm of non-deductible contributions and exempt payouts.

Business taxes

Restricting debt to prevent base erosion

Steps to restrict erosion of tax base

Although debt financing is a feature of all healthy economies, debt is often used to erode the tax base. Closure of artificial and excessive debt has been on the tax policy agenda for more than two years. To bring this matter to a conclusion, government proposes the following:

- *Artificial debt:* Some debt instruments will be re-characterised as shares (along with the underlying yield) if they contain certain features. The main concerns are so-called debt instruments that do not have a realistic possibility of being repaid in 30 years, or debt that is convertible into shares at the request of the issuer. Banks and insurers will be excluded from this re-characterisation.
- *Connected person debt:* Excessive debt issued to connected person creditors is of concern if the creditor is exempt from tax on the interest, because connected persons can often use debt and equity interchangeably without serious economic consequence. Limits will be imposed so that the interest on this form of debt does not exceed 40 per cent of earnings after interest on other debts is taken into account. Excess interest will be allowed to roll over for up to five years.
- *Acquisition debt:* In corporate restructuring, use of acquisition debt against future earnings effectively eliminates taxable profits for years to come (with the debt often renewed via a new acquisition in later years). Interest on excessive debt will be allowed to roll over for up to five years. This system will replace the discretionary system applied to interest on discretionary debt.

Taxation of long-term insurers (four funds)

Risk business of long-term insurers will no longer be taxed in the policyholder funds

Policies representing the risk business of long-term insurers will no longer be taxed in the policyholder funds but in the corporate (shareholder) fund. As a result, significant amounts of policy-selling expenses will be deductible against taxable premium income from risk policies, and no longer against a relatively smaller investment-income tax base. Reserving will be allowed for this risk business on a similar basis as for short-term insurers.

Unlisted real estate investment trusts

New treatment for real estate investment trusts

A real estate investment trust (REIT) is a listed company or trust that invests in immovable property, receives income from rental and distributes it to investors. A REIT can deduct such distributions if it resides in South Africa and at least 75 per cent of its gross income is rental income.

This regime will be extended to unlisted REITs once they are subject to similar regulation as listed REITs. This form of regulation should initially be extended to wholly owned entities of private and government pension funds, as well as long-term insurers. Property syndication legislation is also proposed to protect investors from Ponzi schemes. REIT tax relief will similarly be extended to cover other real estate entities if they become subject to property syndication regulation.

Hedge funds

Hedge funds to fall under collective investment scheme legislation

Hedge funds will fall under collective investment scheme legislation and will be regulated accordingly. While regulated hedge funds will be treated much the same as other collective investment schemes, unit holders will be required to treat their earnings as ordinary revenue when realised. This should generate the intended tax result without interfering with daily operations. A similar regime will be considered for interest-income funds.

Uniform cross-border withholding to prevent base erosion

Service fees to be included in cross-border withholding framework

Government proposes that the cross-border withholding regime on interest and royalties be extended to cross-border service fees, subject to treaty relief. To facilitate administration, all three sets of withholding regimes (interest, royalties and cross-border service fees) will become effective from 1 March 2014. Prior changes to interest and royalty withholding will also be deferred until this date.

Longer-term tax considerations

Mining taxation review

Review of mining taxation as part of broader review of tax system

The mineral and petroleum royalty regime has broadened the tax base and allowed for increased revenue during periods of high commodity prices, while providing relief to marginal mines when commodity prices and profitability are low. The broader review of the tax system will consider whether this approach is sufficiently robust and assess what the most appropriate mining tax regime is to ensure that South Africa remains a competitive investment destination.

National health insurance discussion paper

Paper with funding options for national health insurance to be released during 2013

National health insurance will be phased in over a 14-year period (see Chapter 6). This will require additional funding over time. A discussion paper presenting funding options will be released during 2013.

Indirect tax proposals

Carbon tax, energy-efficiency savings and the electricity levy

Government to phase in carbon tax over time

Government has proposed a carbon tax as part of South Africa's efforts to mitigate the effects of climate change. By pricing the external costs associated with carbon dioxide (CO_2) emissions, incentives will be created to change behaviour and encourage energy-efficiency measures. Government proposes to phase the tax in over time. During the first phase of implementation (between 2015 and 2020), a basic tax-free threshold of 60 per cent is proposed, as well as offset percentages of 5-10 per cent to allow emission-intensive and trade-exposed industries to invest in projects outside their normal operations to help reduce their carbon tax liabilities.

With effect from 1 January 2015, a carbon tax at a rate of R120 per ton of CO_2 equivalent is proposed, with the rate increasing at 10 per cent a year during the first phase of implementation. An updated policy paper will be published by the end of March 2013 for further comment and consultation. The energy-efficiency savings tax incentive will help companies to reduce their energy intensity and the country's level of CO_2 emissions. Some of the revenues generated through the carbon tax will be recycled to fund the energy-efficiency savings tax incentive. A gradual phasing out of the electricity levy as the carbon tax is phased in is also being considered.

Increase in vehicle CO_2 emissions tax

Increase in CO_2 emissions tax for passenger vehicles

The motor vehicle CO_2 emissions tax encourages consumers to buy vehicles with lower carbon emissions. Data shows declining average CO_2 emissions for passenger vehicles since the tax was introduced. Government proposes an increase in the tax for passenger vehicles from R75 to R90 for every gram of emissions/km above 120 gCO_2/km and, in the case of double cabs, from R100 to R125 for every gram/km in excess of 175 gCO_2/km, effective from 1 April 2013.

Certified emission reductions tax incentive

To stimulate the uptake of Clean Development Mechanism projects in South Africa, income from primary certified emissions reductions has been exempt from income tax from 2009 to 2012. In light of the adoption of a second commitment period of the Kyoto Protocol, government proposes to extend the incentive to 31 December 2020.

Increase in plastic bag and incandescent light bulb levies

Levy on plastic shopping bags to increase to 6c/bag

Government proposes to increase the levy on plastic shopping bags, which has been at 4c/bag since 2009, to 6c/bag from 1 April 2013, and the environmental levy on incandescent light bulbs from R3 to R4 per bulb from 1 April 2013.

Increase in fuel levies

Government proposes to increase the general fuel levy and Road Accident Fund levy by 22.5c/l and 8c/l respectively with effect from 3 April 2013.

Since April 2010, the general fuel levy has included a new multiproduct pipeline levy (7.5c/l) component. This component was introduced for 36 months to help fund the construction of additional pipeline capacity and will end on 2 April 2013. The net increase in the general fuel levy on 3 April 2013 will thus be only 15c/l and not the full 22.5c/l. The demand-side levy on 95 octane petrol sold inland will be increased later this year.

Table 4.7 Total combined fuel taxes on petrol and diesel, 2011/12 – 2013/14

	2011/12		2012/13		2013/14	
c / litre	**93 Octane petrol**	**Diesel**	**93 Octane petrol**	**Diesel**	**93 Octane petrol**	**Diesel**
General fuel levy	177.50	162.50	197.50	182.50	212.50	197.50
Road Accident Fund levy	80.00	80.00	88.00	88.00	96.00	96.00
Customs and excise levy	4.00	4.00	4.00	4.00	4.00	4.00
Illuminating paraffin marker	0.00	0.01	0.00	0.01	0.00	0.01
Total	**261.50**	**246.51**	**289.50**	**274.51**	**312.50**	**297.51**
Pump price: Gauteng (as in February)[1]	884.00	814.05	1 077.00	1 026.69	1 206.00	1 129.17
Taxes as percentage of pump price	*29.6%*	*30.3%*	*26.9%*	*26.7%*	*25.9%*	*26.3%*

1. Diesel (0.05% sulphur) wholesale price (retail price not regulated)

Biofuels production incentive

Support for expanded biofuels industry in South Africa

The South African biofuels strategy proposes to establish eight biofuels manufacturing plants. As in other countries, a fiscal incentive is required to overcome the initial capital cost hurdles and offset risks. The proposed incentive is based on benchmark costs of hypothetical world-scale plants in South Africa, and will compensate for monthly movements in benchmark feedstock and output prices. It will serve as an "infant industry" support mechanism and will be phased out over an assumed 20-year lifetime of a benchmark plant. The initial cost of the incentive will be 3.5c/l to 4c/l of petrol or diesel, recovered through a levy included in the monthly price determination.

Excise duties on tobacco and alcohol

Excise duties on tobacco products to increase by between 5.8 and 10 per cent

The excise duties on tobacco products are determined in accordance with a targeted total tax burden (excise duties plus VAT) of 52 per cent of the retail price. Government proposes increases in the excise duties of tobacco products of between 5.8 and 10 per cent.

The current targeted tax burdens (excise duties plus VAT) expressed as a percentage of the weighted average retail selling price for wine, clear beer and spirits are 23, 35, and 48 per cent respectively. Government proposes to increase excise duties on alcoholic beverages for this year by between 5.7 and 10 per cent.

Table 4.8 Changes in specific excise duties, 2013/14

Product	Current excise duty rate	Proposed excise duty rate	Percentage change Nominal	Real
Malt beer	R59.36 / litre of absolute alcohol (100.98c / average 340ml can)	R63.81 / litre of absolute alcohol (108.48c / average 340ml can)	7.5%	1.9%
Traditional African beer	7.82c / litre	7.82c / litre	0.0%	-5.6%
Traditional African beer	34.70c / kg	34.70c / kg	0.0%	-5.6%
Unfortified wine	R2.50 / litre	R2.70 / litre	8.0%	2.4%
Fortified wine	R4.59 / litre	R4.85 / litre	5.7%	0.1%
Sparkling wine	R7.53 / litre	R8.28 / litre	10.0%	4.4%
Ciders and alcoholic fruit beverages	R2.97 / litre (100.98c / average 340ml can)	R3.19 / litre (108.48c / average 340ml can)	7.4%	1.9%
Spirits	R111.64 / litre of absolute alcohol (R36.00 / 750ml bottle)	R122.80 / litre of absolute alcohol (R39.60 / 750ml bottle)	10.0%	4.4%
Cigarettes	R10.32/ 20 cigarettes	R10.92/ 20 cigarettes	5.8%	0.3%
Cigarette tobacco	R11.05/ 50g	R12.16/ 50g	10.0%	4.5%
Pipe tobacco	R3.22/ 25g	R3.54/ 25g	9.9%	4.4%
Cigars	R53.05 / 23g	R56.76 / 23g	7.0%	1.4%

VAT registration of foreign businesses

VAT is payable where goods and services are consumed. Consequently, exports are zero-rated and imports are subject to VAT. This principle does not lend itself to simple application for imported services or e-commerce. While the consumer bears the burden of VAT, the law requires vendors to register with SARS, collect VAT and pay it to SARS. In the case of imported services or digital supplies, such as e-books or music, no border post or post office can perform the function as collecting agent, as is the case with physical goods. The net result is that the local consumer can buy imported digital goods or services without paying VAT.

Foreign businesses supplying digital goods and services will have to register for VAT

Government proposes that all foreign businesses supplying e-books, music and other digital goods and services in South Africa be required to register as VAT vendors. This proposal is in line with international trends, such as regulations adopted by the European Union requiring such suppliers to register for VAT in the country where the consumer resides.

Revenue impact of tax proposals

2013/14 tax proposals reduce total tax revenue by a net R2.4 billion

Table 4.9 shows the expected impact of tax proposals on revenue collection in 2013/14, the net effect of which decreases the estimated total tax revenue by R2.4 billion.

Table 4.9 Impact of tax proposals on 2013/14 revenue

R million	Effect of tax proposals	
Tax revenue (before tax proposals)		**900 416**
Non-tax revenue		18 336
Less: SACU payments		-43 374
National budget revenue		**875 378**
Provinces, social security funds and selected public entities		114 273
Budget revenue (before tax proposals)		**989 651**
Budget 2013/14 proposals:		**-2 412**
Taxes on individuals and companies	**-8 242**	
Personal income tax	-7 382	
Adjustment in personal tax rate structure	*-7 032*	
Adjustment in monetary thresholds	*-350*	
Business income tax	-860	
Employment tax incentive	*-500*	
Small business corporations	*-360*	
Indirect taxes	**5 830**	
Increase in general fuel levy	3 270	
Increase in excise duties on tobacco products	855	
Increase in alcoholic beverages	1 210	
Increase in incandescent bulb levy	50	
Increase in plastic bag levy	90	
Increase in CO_2 vehicle emission tax	355	
Tax revenue (after tax proposals)		**898 004**
Budget revenue (after tax proposals)		**987 240**

Medium-term revenue outlook

Revenue expected to increase to 25.7 per cent of GDP in 2015/16

Table 4.10 sets out actual revenue collections for 2009/10 to 2011/12, the revised estimate for 2012/13 and the medium-term estimates. After taking the tax proposals into account, tax revenue as a percentage of GDP is expected to increase from 25.2 per cent in 2012/13 to 25.7 per cent in 2015/16.

Table 4.10 Budget revenue, 2009/10 – 2015/16

R million	2009/10	2010/11 Outcome	2011/12	2012/13 Revised	2013/14	2014/15 Medium-term estimates	2015/16
Taxes on income and profits[1]	359 045	379 941	426 584	453 522	501 353	557 285	618 813
of which:							
Personal income tax	*205 145*	*226 925*	*250 400*	*274 020*	*306 188*	*337 420*	*372 160*
Corporate income tax	*134 883*	*132 902*	*151 627*	*156 350*	*169 830*	*191 376*	*214 745*
Taxes on payroll and workforce	7 805	8 652	10 173	11 400	12 403	13 544	14 817
Taxes on property	8 826	9 102	7 817	8 200	9 070	10 130	11 350
Domestic taxes on goods and services	203 667	249 490	263 950	298 935	333 344	364 300	401 530
of which:							
Value-added tax	*147 941*	*183 571*	*191 020*	*217 000*	*242 990*	*270 540*	*304 010*
Taxes on international trade and transactions	19 319	26 977	34 121	38 093	41 834	46 570	52 445
Stamp duties and fees	49	3	- 3	–	–	–	–
State miscellaneous revenue[2]	- 6	17	9	–	–	–	–
Tax revenue	**598 705**	**674 183**	**742 651**	**810 150**	**898 004**	**991 830**	**1098 955**
Non-tax revenue[3]	8 894	13 460	19 193	14 475	18 336	19 129	20 241
of which:							
Mineral and petroleum royalties	–	*3 555*	*5 612*	*5 000*	*5 900*	*6 500*	*7 200*
Less: SACU payments[4]	-27 915	-17 906	-21 760	-42 151	-43 374	-43 036	-48 469
National budget revenue	**579 685**	**669 738**	**740 084**	**782 474**	**872 966**	**967 923**	**1070 727**
Provinces, social security funds and selected public entities	84 790	87 418	96 766	105 375	114 273	124 613	130 368
Repayment of Gautrain loan	–	–	–	–	-1 521	-1 430	-1 340
Budget revenue	**664 475**	**757 156**	**836 850**	**887 849**	**985 719**	**1091 105**	**1199 755**
As percentage of GDP							
Tax revenue	*24.4%*	*24.6%*	*25.0%*	*25.2%*	*25.5%*	*25.6%*	*25.7%*
Budget revenue	*27.1%*	*27.7%*	*28.1%*	*27.7%*	*28.0%*	*28.1%*	*28.1%*
GDP (R billion)	*2 453*	*2 735*	*2 973*	*3 209*	*3 520*	*3 880*	*4 271*
Tax/GDP multiplier	*0.83*	*1.09*	*1.17*	*1.15*	*1.12*	*1.02*	*1.07*

1. Also includes secondary tax on companies/dividend with holding tax and interest on overdue income tax and small business tax amnesty levy

2. Revenue received by SARS that could not be allocated to a specific tax instrument

3. Includes mineral royalties, mining leases, departmental revenue and sales of capital assets

4. 2010/11 SACU includes adjustment for a previous error in calculation

Tax expenditure statement

As part of its commitment to transparent budgeting, government publishes a tax expenditure statement. The statement is presented in Annexure C and summarised in Table 4.11 below.

Tax expenditure in 2010/11 estimated at R105.2 billion

The statement summarises the effect of provisions in tax legislation that reduce the amount of tax revenue that could otherwise have been realised to help achieve social and economic policy objectives. The estimate of total tax expenditure in 2010/11 was R105.2 billion, or 3.8 per cent of GDP. Some of the incentives that give rise to these tax expenditures will be reviewed.

Table 4.11 Summary of tax expenditure estimates, 2007/08 – 2010/11

R million	2007/08	2008/09	2009/10	2010/11
Personal income tax[1]	24 987	29 913	33 364	38 602
Corporate income tax[2]	2 613	2 715	3 321	2 754
Value-added tax[3]	27 706	30 354	30 701	34 959
Customs and excise duties[4]	20 334	16 714	17 139	28 912
Total tax expenditure	**75 641**	**79 695**	**84 524**	**105 226**
Tax expenditure as percentage of total gross tax revenue	*13.2%*	*12.7%*	*14.1%*	*15.6%*
Total gross tax revenue	**572 815**	**625 100**	**598 705**	**674 183**
Tax expenditure as percentage of GDP	*3.6%*	*3.5%*	*3.4%*	*3.8%*

1. Retirement savings and medical expenses
2. Investment incentives, urban development zones, research and development, and learnerships
3. Zero-rating of basic food stuffs, petrol and diesel
4. Motor industry, textiles, agriculture and mining

Tax administration

Aggressive tax planning, base erosion and profit shifting

SARS to continue with efforts to arrest aggressive tax planning, base erosion and profits shifting

The Group of 20 has recognised the international problems of base erosion and profit shifting. South Africa is participating in the Organisation for Economic Cooperation and Development’s work in this area. South Africa has also committed to the development of a BRICS (Brazil, Russia, India, China and South Africa) mechanism to assist in countering abusive tax avoidance, as well as the abuse of tax treaty benefits, incomplete disclosure and fraudulent claims. SARS will continue with efforts to arrest aggressive tax planning, base erosion and profit shifting.

Streamlining registration and filing for businesses and individuals

A single registration process for multiple tax products will be launched to simplify registration for all businesses. VAT registration will be streamlined to ease the compliance burden while guarding against fraud. A new company income tax form will be introduced that requires fewer fields to be completed by smaller businesses.

Individuals with a single source of taxable employment income currently do not have to submit tax returns if their taxable income is below a threshold of R120 000 per year. The threshold is raised to R250 000.

Tenders and tax compliance

SARS to implement automated tax clearance certificate later this year

Last year it was announced that the tax clearance system would be strengthened to ensure that non-compliant taxpayers cannot do business with the state. SARS is now testing an automated tax clearance certificate for implementation later this year. This will enable the real-time tracking of the tax compliance of the person who tendered. SARS is also following up on payments made by the state to tenderers to check whether full tax disclosure was made.

Illicit economy

SARS has continued to uncover illicit activities related to customs duty fraud, smuggling of goods, counterfeiting, round tripping and transshipments, as well as tax evasion and money laundering. A total of 1 531 seizures of goods to the value of R151.8 million have occurred. In collaboration with labour and business, reference-pricing risk indicators to detect and deal with potential undervaluation of imported clothing, textile and home-ware products have been introduced.

Small and micro business registration

SARS is working with the Department of Home Affairs and other agencies to register small and micro businesses, including those operated by foreigners.

Understatement penalties

The penalty provisions will be refined and relief will be provided for bona fide errors.

Tax policy research projects

Research on VAT treatment of financial services and sustainable financing of local government

In addition to the investigations described above, the National Treasury will undertake the following research during 2013/14:

- Reviewing the VAT treatment of financial services and VAT apportionment within the financial sector.
- Exploring a sustainable framework for financing local government.
- Assessing the effectiveness of various tax incentives.
- Investigating the taxation of alternative transport fuels such as liquefied natural gas and liquefied petroleum gas.
- Reviewing the taxation of various innovative financial instruments.

Conclusion

Government will continue to protect the tax revenue base to support the fiscus, while maintaining a fair tax system. Tax reforms seek to improve the robustness of tax collection by ensuring that cross-border e-commerce, for example, is subject to VAT. A youth employment tax incentive is proposed to help young work seekers gain access to employment. The introduction of a carbon tax is proposed in gradual phases. Various loopholes are being closed.

Revenue collection has slowed in line with the economic environment. Higher tax collections will depend on improved economic growth and better compliance over the medium term.

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