

# Summary of tax proposals

## Direct tax proposals

### Income tax on individuals

A single scale of rates for individuals is proposed, reaching a maximum marginal rate of 42 per cent at a taxable income of R200 000 a year. A primary rebate of R3 800 is granted to all individuals, with an additional rebate of R2 900 for taxpayers aged 65 years or older. The rates of tax in respect of the 1999/00 tax year and the proposed rates for the 2000/01 tax year are set out in Table C1.

**Table C1 Tax rates for natural persons**

1999/00		2000/01	
Taxable income in (R)	Rates of tax	Taxable income in (R)	Rates of tax
0 – 33 000	19% of each R1	0 – 35 000	18% of each R1
33 001 – 50 000	R6 270 + 30% of the amount above R33 000	35 001 – 45 000	R6 300 + 26% of the amount above R35 000
50 001 – 60 000	R11 370 + 35% of the amount above R50 000	45 001 – 60 000	R8 900 + 32% of the amount above R45 000
60 001 – 70 000	R14 870 + 40% of the amount above R60 000	60 001 – 70 000	R13 700 + 37% of the amount above R60 000
70 001 – 120 000	R18 870 + 44% of the amount above R70 000	70 001 – 200 000	R17 400 + 40% of the amount above R70 000
120 001 and above	R40 870 + 45% of the amount above R120 000	200 001 and above	R69 400 + 42% of the amount above R200 000
<b>Rebates of tax:</b>		<b>Rebates of tax:</b>	
Primary	R3 710	Primary	R3 800
Age 65 and over (additional to primary rebate)	R2 775	Age 65 and over (additional to primary rebate)	R2 900
<b>Tax threshold:</b>		<b>Tax threshold:</b>	
Below age 65	R19 526	Below age 65	R21 111
Age 65 and over	R33 717	Age 65 and over	R36 538

The tax schedule proposed would result in a reduced tax liability for all taxpayers. The tax reductions are set out in Tables C2 and C3.

**Table C2 Income tax payable, 2000/01 (taxpayers younger than 65)**

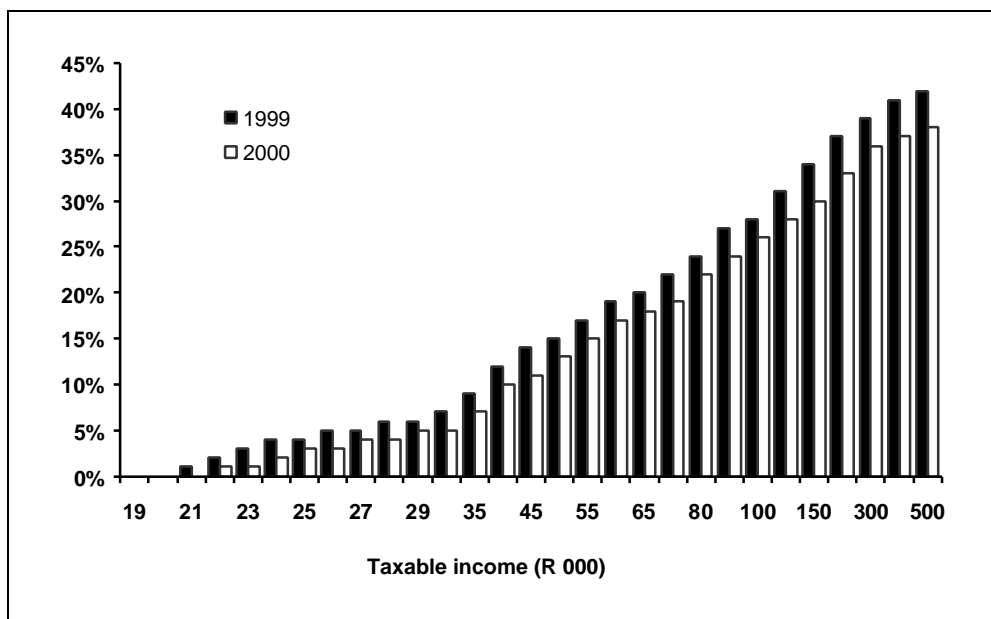
<b>Taxable income (R)</b>	<b>1999 rates (R)</b>	<b>2000 rates (R)</b>	<b>Tax reduction (R)</b>
19 000	0	0	0
20 000	90	0	90
21 000	280	0	280
22 000	470	160	310
23 000	660	340	320
24 000	850	520	330
25 000	1 040	700	340
26 000	1 230	880	350
27 000	1 420	1 060	360
28 000	1 610	1 240	370
29 000	1 800	1 420	380
30 000	1 990	1 600	390
35 000	3 160	2 500	660
40 000	4 660	3 800	860
45 000	6 160	5 100	1 060
50 000	7 660	6 700	960
55 000	9 410	8 300	1 110
60 000	11 160	9 900	1 260
65 000	13 160	11 750	1 410
70 000	15 160	13 600	1 560
80 000	19 560	17 600	1 960
90 000	23 960	21 600	2 360
100 000	28 360	25 600	2 760
120 000	37 160	33 600	3 560
150 000	50 660	45 600	5 060
200 000	73 160	65 600	7 560
300 000	118 160	107 600	10 560
400 000	163 160	149 600	13 560
500 000	208 160	191 600	16 560

**Table C3 Income tax payable, 2000/01 (individuals 65 and over)**

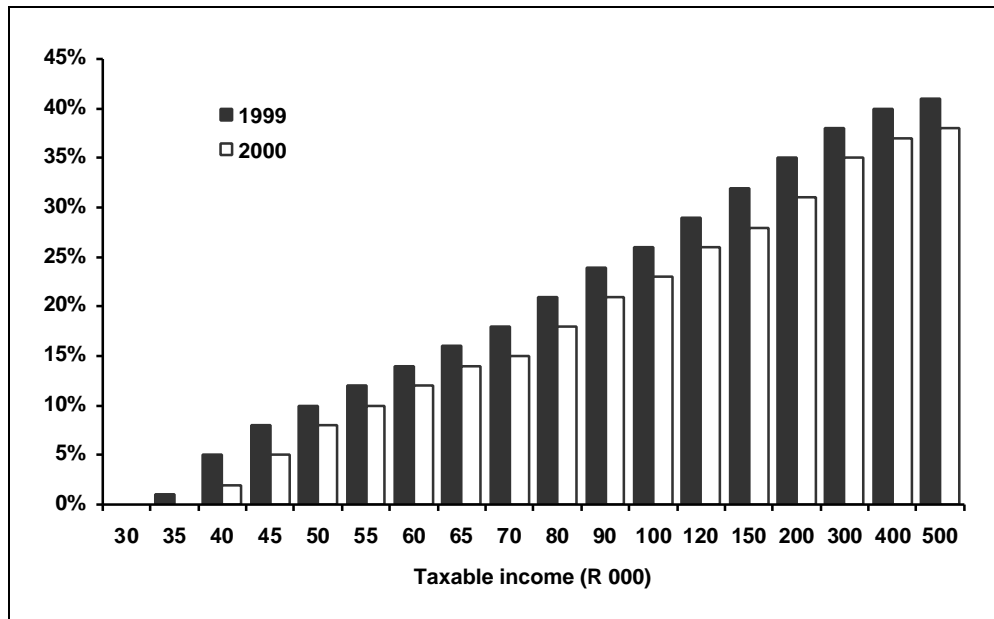
Taxable income (R)	1999 rates (R)	2000 rates (R)	Tax reduction (R)
30 000	0	0	0
35 000	385	0	385
40 000	1 885	900	985
45 000	3 385	2 200	1 185
50 000	4 885	3 800	1 085
55 000	6 635	5 400	1 235
60 000	8 385	7 000	1 385
65 000	10 385	8 850	1 535
70 000	12 385	10 700	1 685
80 000	16 785	14 700	2 085
90 000	21 185	18 700	2 485
100 000	25 585	22 700	2 885
120 000	34 385	30 700	3 685
150 000	47 885	42 700	5 185
200 000	70 385	62 700	7 685
300 000	115 385	104 700	10 685
400 000	160 385	146 700	13 685
500 000	205 385	188 700	16 685

Figure C1 and C2 depict the average tax rates (tax liability as a percentage of taxable income) for individuals under age 65 and those aged 65 and over. Average tax rates have declined across the income spectrum as a result of the income tax relief provided in this Budget. Figure C3 illustrates that the percentage tax reduction is larger for lower-income taxpayers than for higher income taxpayers.

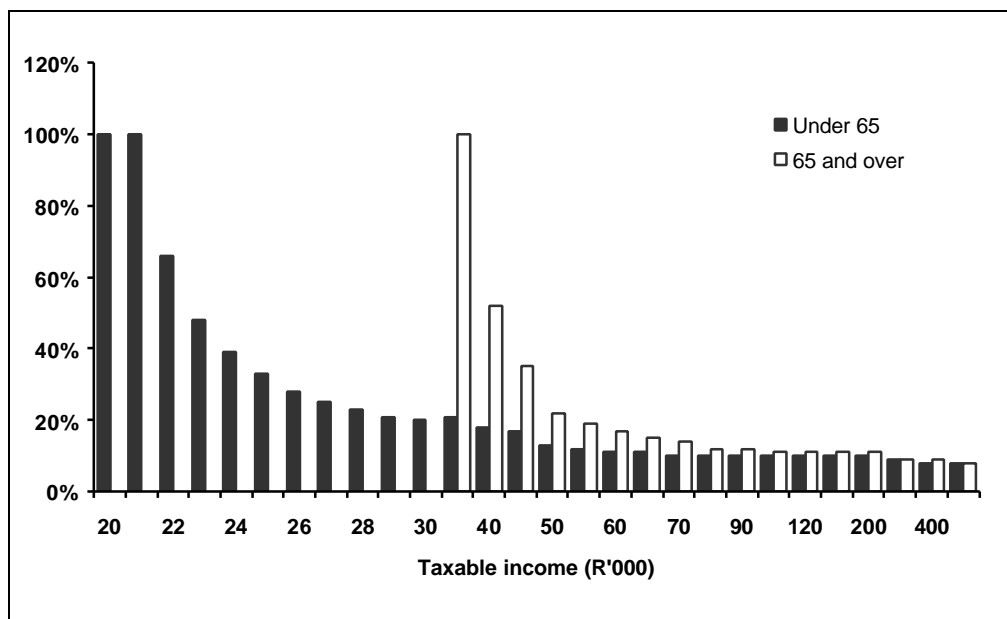
**Figure C1 Average tax rates for taxpayers under age 65**



**Figure C2 Average tax rates for taxpayers age 65 and over**



**Figure C3 Percentage tax reduction under proposed rates**



### Income tax on trusts

Special trusts are taxed in accordance with the tax rates applicable to natural persons. It is proposed that trusts other than special trusts be taxed at the rates set out in Table C4.

**Table C4 Tax rates for trusts**

1999/00		2000/2001	
Taxable income (R)	Rates of tax	Taxable income (R)	Rates of tax
0 – 100 000	35% of each R1	0 – 100 000	32% of each R1
100 001 and above	R35 000 + 45% of the amount above R100 000	100 001 and above	R32 000 + 42% of the amount above R100 000

### Interest income exemption

The Income Tax Act of 1962 currently allows an exemption for the first R2 000 a year of interest income accruing to an individual. It is proposed to raise this exemption level to R3 000 a year for all taxpayers under the age of 65 and R4 000 for taxpayers age 65 and over.

### Skills development levy

A skills development levy at a rate of 0,5 per cent of payroll will be introduced with effect from 1 April 2000.

### Tax relief for non-profit organisations

It is proposed that the provisions in section 10 of the Income Tax Act of 1962 be revised and provision be made for a new definition of “public benefit organisation”, which would qualify for tax exemption. A comprehensive list of acceptable public benefit activities will have to be developed and included in the Act.

Should a non-profit organisation wish to trade extensively, such activities must be conducted in a separate legal entity, which will be subject to the normal tax principles. In order to prevent problems in respect of occasional business transactions entered into by non-profit organisations, it is proposed that trading activities (not related to the core public benefit activity) be permitted to a limited degree. Where income vests to a non-profit organisation from a taxable trust, consideration will be given to making such income taxable in the hands of the trust.

Similar provisions contained in other revenue laws may require consequential changes.

Should a non-profit organisation engage in activities contrary to the conditions for which the exemption was granted, penalty provisions may apply, including the withdrawal of the exempt status and/or a monetary penalty.

It is furthermore proposed that the organisations qualifying for tax-deductible contributions be extended to include:

- Pre-primary schools that offer an approved educare programme
- Primary schools that are public benefit organisations
- Approved public benefit organisations whose activities are directed towards the prevention of HIV infection or the provision of care to individuals whose livelihoods have been impoverished by Aids

- Children's homes, which are approved public benefit organisations, providing care to abandoned, abused or orphaned children
- Approved public benefit organisations whose activities are mainly directed towards the care of destitute aged persons.

It is proposed that the deduction in respect of individuals and companies be limited to 5 per cent of taxable income or R1 000, whichever is the greater.

### **Taxing foreign dividends**

It is proposed that with effect from years of assessment commencing on or after 1 January 2001, a residence basis of taxation be adopted. It is further proposed that foreign dividends be included in the taxable income of South African residents with immediate effect.

All dividends from foreign registered or incorporated companies will form part of the income of South African residents. This measure will apply to all foreign dividends:

- which accrue to or are received by residents on or after 23 February 2000
- which accrued to a resident before 23 February 2000, but are received by the resident on or after 23 February 2000.

The provisions of sections 9D of the Income Tax Act of 1962 are to be extended to include foreign dividends.

The provisions contained in section 64C of the Income Tax Act of 1962, which deem certain amounts to be dividends declared by a company will also apply and any amount deemed to have been distributed by a company registered or incorporated outside the Republic will also be taxable as a foreign dividend.

For purposes of this measure a "resident" means any person who in the case of:

- a natural person, is ordinarily resident in the Republic
- a person other than a natural person, is registered or effectively managed in the Republic.

Foreign dividends received or accrued from certain designated countries will not be taxable where:

- the income from which the dividend was distributed is taxed at a rate of tax of at least 27 per cent (90 per cent of the normal tax rate in the Republic)
- the shareholding or interest of the resident in the company declaring or paying the dividend exceeds 10 per cent.

The designated countries will be treaty partners of the Republic, which the Minister of Finance has identified by notice in the *Gazette* as countries:

- where the tax on income is determined on a basis which is substantially the same as that of the Republic
- which have a standard rate of tax on income of companies equivalent to at least 90 per cent of the rate of tax on income in the Republic.

A provisional list of countries that will qualify is set out in the text box below. As soon as the enabling legislation has been promulgated, a final list will be published in the *Gazette*.

**Provisional list of designated countries**

Australia, Austria, Belgium, Canada, Croatia, Czech Republic, Denmark, Egypt, Finland, France, Germany, Grenada, India, Israel, Italy, Japan, Lesotho, Malawi, Namibia, Netherlands, Norway, Pakistan, Poland, Romania, Sierra Leone, Slovak Republic, Swaziland, Sweden, Thailand, Tunisia, United Kingdom, United States of America, Zambia, Zimbabwe.

A foreign dividend will not be taxable to the extent that the income from which the dividend is distributed to a shareholder is or will be:

- included in the income of the shareholder in terms of section 9D of the Income Tax Act of 1962
- taken into account in the determination of the taxable income of the company declaring the dividend.

A resident will be able to claim foreign tax paid by the resident on the dividend as a credit to the extent that South African tax is payable on the foreign dividend.

A resident company will not be able to claim the foreign dividend as a credit in the determination of its liability for secondary tax on companies.

It is also proposed that the increase in the interest exemption be extended to include foreign dividend earnings that would otherwise be taxable. In essence, individuals under the age 65 will receive a R3 000 exemption for dividend and interest income (including taxable income from unit trusts and foreign source dividends). The exemption for taxpayers 65 years of age and over will be R4 000 a year. In order to minimise administrative and compliance costs the exemption will first apply in respect of taxable dividends and thereafter to any interest income.

Specific provisions will be included in the legislation to provide that where any dividend, which was received by or accrued to the taxpayer, may not be remitted to the Republic due to currency or other restrictions or limitations imposed in terms of the laws of the country from which the dividend is received or accrues, the dividend will only be deemed to be received by or to have accrued to the taxpayer during the year of assessment during which such dividend may be remitted to the Republic.

So much of any foreign dividend received by or accrued to a unit portfolio constituting a company for tax purposes, which is or will be distributed by the unit portfolio as a dividend to the unit holders, will be exempt from tax in the hands of the unit portfolio. The dividend distributed to the unit holders will be taxable in their hands, to the extent that such dividend represents the distribution of the foreign dividend received by or accrued to the unit portfolio.

Retirement funds and insurers will also be taxed on their foreign dividends.

**Depreciation of permanent structures**

It is proposed that the depreciation allowances be extended to include oil and gas pipelines, railway lines, as well as electricity and telephone transmission lines. The depreciation allowance will, however, only be available in respect of new and unused structures, which are used directly by the owner thereof for transmission or transportation in the carrying on of its primary and principal business. The tax allowance will therefore not be available to taxpayers whose primary and principal business is not the utilisation of the permanent structure, with special reference to taxpayers in the financial sector.

The following write-off periods are proposed, in respect of:

- Pipelines used for the transmission of natural oils and gas and refined by-products of such natural oils – 10 years
- Electricity and telephone transmission lines – 20 years
- Railway tracks - 20 years.

The depreciation allowance will be granted to taxable entities in respect of all new and unused structures contracted for and the construction of which commenced on or after 23 February 2000, and to the extent that it is used in the production of income. In terms of the normal tax principles, the depreciation allowance will only commence in the year that the structures are first brought into use by the owner thereof.

### **Graduated company tax rate for small business corporations**

A graduated tax rate structure for small business corporations is proposed. The lower rate structure will apply in respect of companies where:

- the entire shareholding of, or interest in, the company is during the entire year of assessment held by shareholders all of whom are natural persons;
- the gross income for the year of assessment does not exceed R1 million;
- not one of the shareholders at any time during the year of assessment, held any shares or had any interest in any other company (other than a listed company or unit portfolio);
- not more than 20 per cent of the company's gross income consists collectively of investment income and income from personal services; and
- such company is not an "employment company" as defined below.

Personal service means any service which is performed personally by any person who holds an interest in the company or close corporation, in the field of accounting, actuarial science, architecture, auctioneering, auditing, broadcasting, broking, commercial arts, consulting, education, engineering, entertainment, health, information technology, journalism, law, management, performing arts, real estate, sport, surveying, translation, valuation or veterinary science.

Investment income includes income in the form of interest, rentals, annuities, royalties, dividends and income derived from trading and investing in financial instruments, marketable securities or immovable property.

The tax of the small business corporation will be determined at the rate of 15 per cent on the first R100 000 of taxable income, and 30 per cent on the taxable income exceeding R100 000.

The new rate structure will apply in respect of years of assessment commencing on or after 1 April 2000.

### **Tax treatment of "repatriation" of surplus pension fund assets**

Although the current provisions of the Income Tax Act of 1962 provide for the recoupment of contributions repatriated from a pension fund to an employer, specific provisions will be introduced to tax the full amount of any funds repatriated to the employer, in the hands of the employer.

It is proposed that specific provisions be introduced to provide that any assessed loss of the employer may not be set-off against any amount of such surplus assets which is included in the taxable income of the employer.



The provisions will take effect on 23 February 2000 and will apply to all surplus assets repatriated, which are received by or accrue to an employer on or after that date.

### **Closing tax loopholes**

A number of legislative amendments are proposed to address certain tax avoidance schemes.

Firstly, it is proposed that a provision be inserted in the Income Tax Act of 1962 to provide that where any person has incurred any expenditure, which is allowable as a deduction in terms of the provisions of section 11(a), (b), (c) and (d) of the Income Tax Act of 1962, the amount allowed to be deducted in any year of assessment shall be limited to the expenditure relating to goods supplied, services rendered or benefits received during the relevant year of assessment.

The deductible amount in relation to a year of assessment is to be determined by applying a ratio to the expenditure actually incurred by the taxpayer. The ratio is to be determined by dividing the number of months during the relevant year of assessment during which the goods are supplied, services are rendered or benefits are enjoyed by the total number of months during which the goods are to be supplied, services are to be rendered or benefits are to be enjoyed in respect of the expenditure. Where the ratio does not reasonably reflect the correct allocation of the expenditure, provision will be made for an alternative basis of allocation.

However, expenditure will be allowed as a deduction in the year of assessment during which the expenditure was incurred where:

- all the goods, services or the full benefits are to be supplied, rendered or enjoyed within 6 months after the end of the year of assessment during which the expenditure was incurred; or
- the aggregate of all amounts which would otherwise be limited by these provisions, does not exceed R50 000.

The timing of expenditure regulated in terms of sections 24I to 24L of the Income Tax Act of 1962 will not be affected by the proposal.

The provisions will come into operation on 23 February 2000, and apply in respect of any expenditure incurred on or after that date.

Secondly, where a taxpayer has:

- incurred expenditure for the acquisition of trading stock which was disposed of by him during any year of assessment in the ordinary course of his trade for any consideration; and
- not included the full amount of such consideration during that year of assessment in gross income,

any deduction which may during such year and any subsequent year of assessment, be allowed under the provisions of section 11(a) or (b) or section 22 of the Income Tax Act of 1962 in respect of such expenditure, shall be limited to the extent that such consideration accrues to him during such year or subsequent year of assessment.

Where, however, it is during any year of assessment shown by the taxpayer that by reason of some involuntary occurrence, the consideration will not at any stage accrue to him, the deduction of the full amount of the expenditure actually paid for the trading stock less any amount already allowed as a deduction, will be allowed in such year of assessment.

These amendments will come into operation on 23 February 2000, and shall apply in respect of trading stock disposed of on or after that date.

It is proposed that legislation be introduced to provide that any amount received by or accrued to any natural person or "employment company", as defined below, as compensation for any restraint of trade imposed on such person, be taxable in the hands of that person.

Similarly any amount paid or payable to any other person as compensation for any restraint of trade imposed on such other person will be allowed as a deduction. This amount will be allowed to be deducted over the number of years in respect of which the restraint is in force or three years, whichever is the longer period.

These provisions will come into operation on 23 February 2000, and will apply in respect of any restraint of trade payment incurred or which accrued on or after that date. Anti-avoidance measures will be considered to allocate an appropriate portion of the proceeds on the sale of a business to a restraint of trade.

### **“Employment company”**

Provisions are proposed to discourage the use of corporate entities to provide a service to a client, with the sole aim of converting income that would otherwise be taxed as employment income into company income, which is taxed at a lower rate.

The main characteristics of the proposals are the following:

- the remuneration payable to such an “employment company” by the client will be subject to employees’ tax;
- the allowable deductions of an “employment company” for tax purposes will be limited to the amount of the remuneration paid to the shareholders, members or other employees of the company for services rendered; and
- the income of an “employment company” will be taxed at a rate of 35 per cent, and any declaration of a dividend will be subject to secondary tax on companies.

The proposals will apply to an “employment company”, which is:

- any company that is a labour broker as defined in the Fourth Schedule to the Income Tax Act of 1962 (other than a labour broker in respect of which a certificate of exemption has been issued in terms of the Schedule); or
- any company (to be known as a personal business company) where any service rendered on behalf of the company to its client is rendered personally by any person who is a connected person in relation to such company, and:
  - the person rendering the service would be regarded as an officer or employee of the client, had such service been performed directly to the client, i.e. otherwise than through the company; or
  - the person rendering the service is subject to the control or supervision of the client as to the manner in which the duties are performed or as to the hours of work; or
  - the amounts paid or payable for the person’s services consist of or include earnings of any description which are payable on regular daily, weekly, monthly or other intervals; or
  - where more than 80 per cent of the income of the company derived during the year of assessment from services rendered, consists of income received directly or indirectly from one client, or associated person in relation to the client, of the company.

A company will, however, not be regarded as a personal service company where such company employs more than 3 full time employees (other than a shareholder or trader) during the year of assessment, none of whom are connected persons in relation to such shareholder or member.

It is proposed that the provisions:

- relating to the limitation of the deductions and the determination of the rate of tax apply in respect of years of assessment commencing on or after 1 April 2000; and
- which provide that the remuneration paid to the “employment company” be subject to employees tax, apply with effect from 1 August 2000.

Further amendments will also be introduced in the Fourth Schedule to the Income Tax Act of 1962 to set out the additional criteria for determining whether a labour broker is an independent contractor for purposes of granting an exemption certificate to such labour broker. Consideration is being given to refusing a certificate of exemption where:

- more than 80 per cent of the income of the labour broker which relates to services rendered consists of, or is expected to consist of, income received directly or indirectly from one client, or associated person in relation to the client, of such labour broker; or
- one or more of the employees of such labour broker have contractually or otherwise been specified or required by one or more of the clients of such labour broker to render a service to such client or clients.

Concern has also been expressed about the incorporation of professional practices in order to take advantage of the lower corporate tax rate. This trend will be monitored by SARS to determine the impact thereof on the tax base and whether further legislative responses are required to address the matter.

## **Indirect tax proposals, 2000**

### **Domestic taxes on goods and services**

It is proposed that the excise and customs duties in section A of Part 2 of Schedule No. 1 to the Customs and Excise Act, 1964, on the goods described below and classified under the tariff items or sub-items set out below, be amended with immediate effect (23 February 2000) to the extent shown in Table C5.

Table C5 Specific excise duties

Tariff item	Tariff heading	Description	Present rate of duty		Proposed rate of duty	
			Excise	Customs	Excise	Customs
104.00		Prepared foodstuffs; beverages, spirits and vinegar; tobacco				
104.01	19.01	Malt extract; food preparations of flour, meal, starch or malt extract, not containing cocoa powder or containing cocoa powder in a proportion, by mass, of less than 50 per cent, not elsewhere specified or included; food preparations of goods of headings nos. 04.01 to 04.04, not containing cocoa powder or containing cocoa powder in a proportion, by mass, of less than 10 per cent, not elsewhere specified or included:				
.10		Preparations, based on sorghum flour, put up for making beverages	33c/kg	33c/kg	33c/kg	33c/kg
104.05	22.01	Waters, including natural or artificial mineral waters and aerated waters, not containing added sugar or other sweetening matter nor flavoured; ice and snow				
	22.02	Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured, and other non-alcoholic beverages (excluding fruit or vegetable juices of heading no. 20.09):				
.10		Mineral waters, including spa waters and aerated waters, put up in closed bottles or other closed containers ready for drinking without dilution (excluding beverages packed in plastic tubes or similar containers and which are normally consumed in a frozen state)	12,00c/l	12,00c/l	8,00c/l	8,00c/l
.20		Lemonade and flavoured mineral waters, including flavoured spa and aerated waters, put up in closed bottles or other closed containers ready for drinking without dilution (excluding beverages packed in plastic tubes or similar containers and which are normally consumed in a frozen state)	12,00c/l	12,00c/l	8,00c/l	8,00c/l
.30		Non-alcoholic beverages not elsewhere specified or included in this tariff item, put up in closed bottles or other closed containers ready for drinking without dilution (excluding beverages packed in plastic tubes or similar containers and which are normally consumed in a frozen state)	12,00c/l	12,00c/l	8,00c/l	8,00c/l
104.10	22.03	Beer made from malt	2 122c/l of absolute alcohol	2 122c/l of absolute alcohol	2 239c/l of absolute alcohol	2 239c/l of absolute alcohol
104.15	22.04	Wine of fresh grapes, including fortified wines; grape must, other than that of heading no. 20.09				
	22.05	Vermouths and other wine of fresh grapes flavoured with plants or aromatic substances				
	22.06	Other fermented beverages (for example, cider, perry and mead):				
.05		Sorghum beer (excluding beer made from preparations based on sorghum flour)	745c/100l	745c/100l	745c/100l	745c/100l
.10		Unfortified still wine	6 436c /100l	6 436c /100l	6 790c /100l	6 790c /100l
.40		Fortified still wine	14 559c /100l	14 559c /100l	15 360c /100l	15 360c /100l
.50		Other still fermented beverages, unfortified	10 804c /100l	10 804c /100l	11 398c /100l	11 398c /100l
.60		Other still fermented beverages, fortified	19 159c /100l	19 159c /100l	20 213c /100l	20 213c /100l
.70		Sparkling wine	17 830c /100l	17 830c /100l	18 811c /100l	18 811c /100l
.80		Other fermented beverages (excluding sorghum beer)	22 788c /100l	22 788c /100l	24 041c /100l	24 041c /100l
104.20	22.07	Undenatured ethyl alcohol of an alcoholic strength by volume of 80 per cent volume or higher; ethyl alcohol and other spirits, denatured, of any strength				
	22.08	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80 per cent volume; spirits, liqueurs and other spirituous beverages:				
.10		Wine spirits, manufactured in the republic by the distillation of wine	287 550c /100l of absolute	-	303 365c /100l of absolute	-

Tariff item	Tariff heading	Description	Present rate of duty		Proposed rate of duty	
			Excise	Customs	Excise	Customs
			alcohol		alcohol	
.15		Spirits, manufactured in the republic by the distillation of any sugar cane product	287 550c /100l of absolute alcohol	-	303 365c /100l of absolute alcohol	-
.25		Spirits, manufactured in the republic by the distillation of any grain product	287 550c /100l of absolute alcohol	-	303 365c /100l of absolute alcohol	-
.29		Other spirits, manufactured in the republic	287 550c /100l of absolute alcohol	-	303 365c /100l of absolute alcohol	-
.60		Imported spirits of any nature, including spirits in imported spirituous beverages (excluding liqueurs, cordials and similar spirituous beverages containing added sugar) and in compound alcoholic preparations of an alcoholic strength exceeding 1,713 per cent alcohol by volume	-	277 937c /100l of absolute alcohol or 119 513c /100l		293 752c /100l of absolute alcohol or 126 313c /100l
.70		Spirits of any nature in imported liqueurs, cordials and similar spirituous beverages containing added sugar, with or without flavouring substances	-	277 937c /100l of absolute alcohol		293 752c /100l of absolute alcohol.
104.30	24.02	Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes				
.10		Cigars	32 717c/kg net	32 717c/kg net	56 989c/kg net	56 989c/kg net
.20		Cigarettes	122,5c/10 cigarettes	122,5c/10 cigarettes	141,5c/10 cigarettes	141,5c/10 cigarettes
104.35	24.03	Other manufactured tobacco and manufactured tobacco substitutes, "homogenised" or "reconstituted" tobacco extracts and essences:				
.10		Cigarette tobacco	4 580c/kg	4 580c/kg	6 412c/kg	6 412c/kg
.20		Pipe tobacco	2 493,95c /kg net	2 493,95c /kg net	3 893c/kg net	3 893c/kg net

It is proposed that the rates of duty be applicable to the goods concerned which have not been entered for home consumption at the time these taxation proposals are tabled.

### Departure tax on international air travel

It is proposed that with effect from 1 August 2000, a departure tax on international air travel from South Africa will be introduced at a rate of R100 per passenger.

The tax will be payable by the airline carriers who will recover the cost from travellers as an integral element of the price of their tickets for international departures by air from South Africa.

### Diesel fuel rebate

It is proposed that the coastal shipping and fishing industries receive a full diesel rebate of the general diesel fuel levy, the Road Accident Fund Levy, and the Equalisation Levy. The commencement date for the levy rebate will be 1 June 2000.

### Fuel levy

It is proposed to increase the fuel levy on leaded and unleaded petrol by 5 cents a litre and 3 cents a litre on diesel, with effect from 5 April 2000.

## **Other proposed amendments to tax laws**

SARS is giving consideration to various amendments to the Income Tax Act of 1962, Customs and Excise Act, Value-Added Tax Act and other taxation laws during the course of this year. The following are some of the amendments being considered.

### **Income Tax Act of 1962**

#### **Section 8A**

- Review the taxation of share option schemes.

#### **Section 10**

- Final withdrawal of Eskom's tax exempt status
- Review exemption provisions of section 10(1)(s)
- Review exemption in respect of Namibian retirement funds.

#### **Section 22**

- Consider withdrawal of LIFO (last-in-first-out) option for valuing marketable securities.

#### **Section 29A**

- Review exemption in respect of long-term insurance business conducted in Namibia.

#### **Seventh Schedule**

- Review value of holiday accommodation provided by an associated institution.

#### **Objections and appeals**

- Consider measures to expedite objections and appeals.

#### **Tax on Retirement Funds**

- Change reference to new Long-term Insurance Act.

#### **Demutualisation Levies Act**

- Provide for income tax exemption.

#### **Stamp Duties Act**

- Review section 5 regarding the use of stamps in payment of duty.

#### **General**

- Review penalties, fines and additional tax provisions in all Acts
- Delete obsolete provisions
- Other amendments to prevent fraud, tax avoidance and tax evasion.

## **Tax proposals to be implemented in 2001**

### **Residence-based taxation**

With effect from years of assessment commencing on or after 1 January 2001, residents of the Republic will be taxed on their world-wide income. The term “resident” will be defined in the Income Tax Act of 1962.

Any income derived from a country other than the Republic will therefore be taxable in the hands of residents of the Republic. All the income of a controlled foreign entity will also be imputed to the residents in the proportion of their shareholding or interest in the entity.

The business profits which are derived from a permanent establishment of either a resident or a controlled foreign entity in certain designated treaty partner countries identified by the Minister will be excluded, if the foreign income is taxed at a rate of tax of at least 27 per cent (90 per cent of the normal tax rate in the Republic).

Any foreign taxes paid or payable on the foreign income without any right of recovery by any person, will be allowed as a credit against the tax payable in the Republic.

Retirement funds and long-term insurers will also be taxed on their foreign source income.

Foreign residents will continue to be taxed on their South African source income.

Deferring the implementation date will allow further consultation on the implementation of the revised income tax regime and provide SARS with an opportunity to draft appropriate legislation, modify its information technology systems and train its personnel.

### **Capital gains tax**

An outline of the proposed capital gains tax provisions is set out in a guide produced jointly by SARS and the Department of Finance to encourage debate around the details of the proposal. This document is on the web sites of SARS and the Department of Finance and will shortly be available at SARS offices.

