C

Summary of tax proposals

Direct tax proposals

Personal income tax rate and bracket structure

It is proposed to retain the single rate scale for individuals. The primary rebate is increased to R4 860 a year for all taxpayers. The secondary rebate is retained at R3 000 a year for individuals age 65 years or older. The rates of tax in respect of the 2001/02 tax year and those proposed for the 2002/03 tax year are set out in table C1.

Table C.1: Personal income tax rate and bracket adjustments

2001/02		2002/03	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
0 – 38 000	18% of each R1	0 – 40 000	18% of each R1
38 001 – 55 000	R6 840 + 26% of the amount above R38 000	40 001 – 80 000	R7 200 + 25% of the amount above R40 000
55 001 – 80 000	R11 260 + 32% of the amount above R55 000	80 001 – 110 000	R17 200 + 30% of the amount above R80 000
80 001 – 100 000	R19 260 + 37% of the amount above R80 000	110 001 – 170 000	R26 200 + 35% of the amount above R110 000
100 001 – 215 000	R26 660 + 40% of the amount above R100 000	170 001 – 240 000	R47 200 + 38% of the amount above R170 000
215 001 and above	R72 660 + 42% of the amount above R215 000	240 001 and above	R73 800 + 40% of the amount above R240 000
Rebates		**Rebates**	
Primary	R4 140	Primary	R4 860
Secondary	R3 000	Secondary	R3 000
Tax threshold		**Tax threshold**	
Below age 65	R23 000	Below age 65	R27 000
Age 65 and over	R39 154	Age 65 and over	R42 640

The proposed tax schedule eliminates the effects of inflation on income tax liabilities and results in a reduced tax liability for taxpayers at all income levels. These tax reductions are set out in tables C2 and C3.

Table C2: Income tax payable, 2002/03 (taxpayers younger than 65)

Taxable income (R)	2001 rates (R)	Proposed rates (R)	Tax reductions (R)
27 000	720	-	720
28 000	900	180	720
29 000	1 080	360	720
30 000	1 260	540	720
35 000	2 160	1 440	720
40 000	3 220	2 340	880
45 000	4 520	3 590	930
50 000	5 820	4 840	980
55 000	7 120	6 090	1 030
60 000	8 720	7 340	1 380
65 000	10 320	8 590	1 730
70 000	11 920	9 840	2 080
80 000	15 120	12 340	2 780
90 000	18 820	15 340	3 480
100 000	22 520	18 340	4 180
120 000	30 520	24 840	5 680
150 000	42 520	35 340	7 180
200 000	62 520	53 740	8 780
300 000	104 220	92 940	11 280
400 000	146 220	132 940	13 280
500 000	188 220	172 940	15 280
600 000	230 220	212 940	17 280
700 000	272 220	252 940	19 280
800 000	314 220	292 940	21 280
900 000	356 220	332 940	23 280
1 000 000	398 220	372 940	25 280

Table C3: Income tax payable, 2002/03 (taxpayers age 65 and older)

Taxable income (R)	2001 rates (R)	Proposed rates (R)	Tax reductions (R)
45 000	1 520	590	930
50 000	2 820	1 840	980
55 000	4 120	3 090	1 030
60 000	5 720	4 340	1 380
65 000	7 320	5 590	1 730
70 000	8 920	6 840	2 080
80 000	12 120	9 340	2 780
90 000	15 820	12 340	3 480
100 000	19 520	15 340	4 180
120 000	27 520	21 840	5 680
150 000	39 520	32 340	7 180
200 000	59 520	50 740	8 780
300 000	101 220	89 940	11 280
400 000	143 220	129 940	13 280
500 000	185 220	169 940	15 280
600 000	227 220	209 940	17 280
700 000	269 220	249 940	19 280
800 000	311 220	289 940	21 280
900 000	353 220	329 940	23 280
1 000 000	395 220	369 940	25 280

Figure C1: Average tax rates under age 65

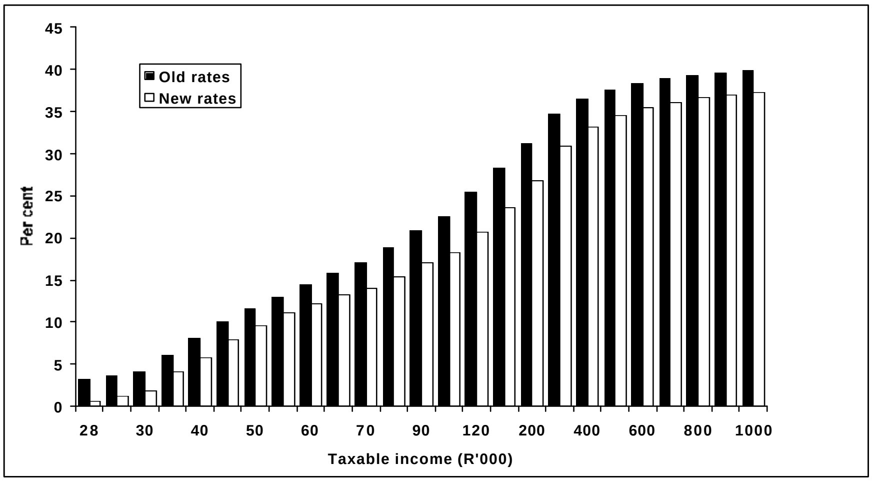


Figure C2: Average tax rates age 65 and older

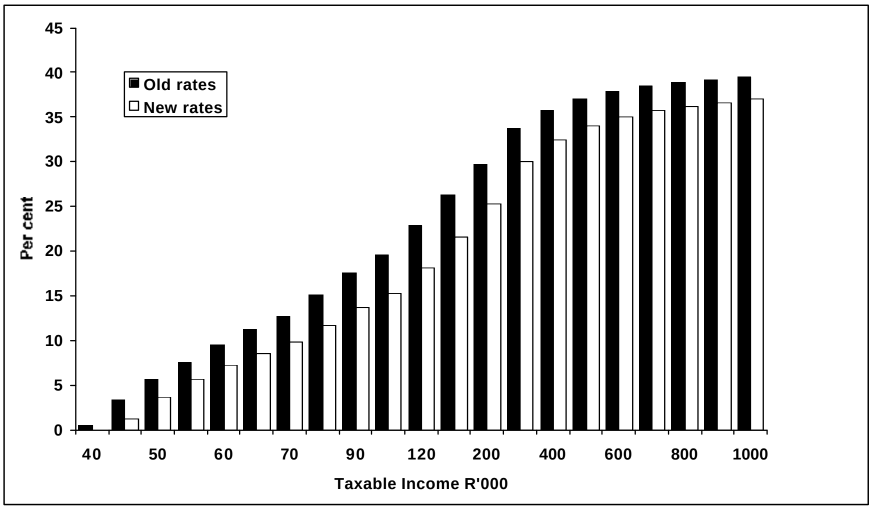
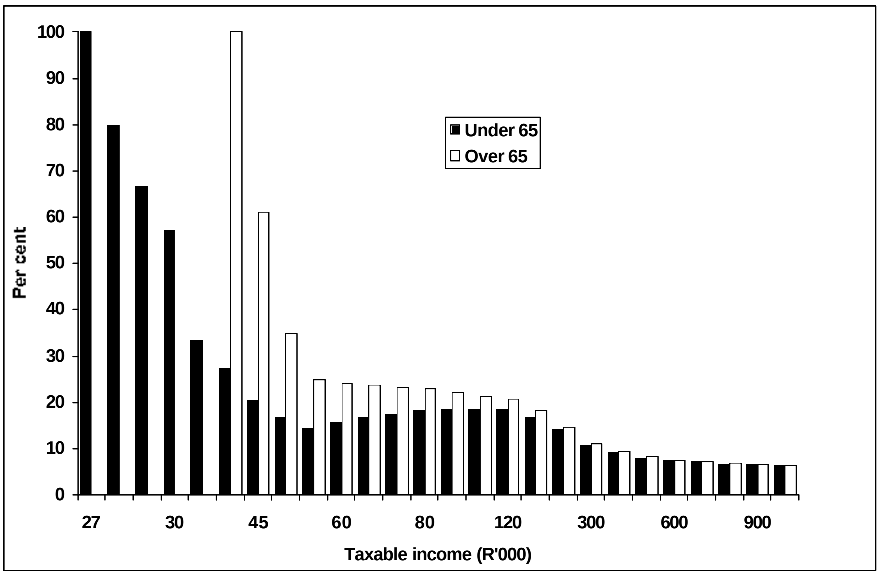


Figure C3: Nominal declines in average tax rates



The average tax rates (tax as a percentage of taxable income) for individuals are illustrated in figures C1 and C2. Average tax rates decline for all income groups under the proposed tax rate structure. Figure C3 illustrates the decline in average tax rates for individuals at different income levels.

2000/01 Legislative programme

Taxation Laws Amendment Act, 2000

- Taxation of foreign dividends
- Revised regime for public benefit organisations
- Capital allowance for pipelines, railway lines and transmission lines
- Air passenger tax on international travel
- Closing loopholes in the corporate and employment fields

Revenue Laws Amendment Act, 2000

- Residence basis of taxation
- Africa Growth and Opportunities Act framework

Taxation Laws Amendment Act, 2001

- Capital gains tax

Revenue Laws Amendment Act, 2001

- Strategic investment incentive
- Bringing directors of private companies within the PAYE system
- Accelerated capital allowances for small manufacturing corporations
- Capital allowance for airport infrastructure
- Duty at source
- Licensing, registration and accreditation of persons doing customs business
- Various enabling provisions to enable better control over goods for customs purposes

Second Revenue Laws Amendment Act, 2001

- Refinement of capital gains tax legislation
- Group re-organisation relief
- Customs and excise administration of industrial development zones

Wage incentive

The wage incentive will take the form of an additional tax allowance to employers that offer approved learnership programmes. Draft legislation has been released for public comment and will be introduced this year. In essence, the learnership incentive will be as follows:

- A R25 000 deduction will be allowed to an employer when a learnership agreement is signed.
- A further R25 000 deduction will accrue to the employer when the learner successfully completes the learnership (consisting of one level of the National Qualifications Framework (NQF) of at least 120 credits).
- Where a learnership spans more than one level of the NQF, the successful completion of each intermediate level will be regarded as equivalent to the completion of a learnership followed by the signature of a new learnership agreement. This means that a total deduction of R50 000 will be allowed to the employer on the completion of each level.
- The learnership incentive will be available for all learnerships entered into from 1 October 2001 and will be available for a five-year period.

Strategic investment incentive

To qualify for the strategic investment incentive, a project must meet a number of necessary conditions, including that the project:

- Must consist of a minimum investment of R50 million
- Minimises displacement of existing production and jobs
- Must be commercially viable
- May not benefit from certain other incentive schemes.

A project meeting these criteria may be awarded an additional allowance of either 50 per cent or 100 per cent of the value of its qualifying assets depending on the score it achieves according to the point scoring system set out in table C.4.

Table C.4: Point-scoring system for strategic investment incentives

Factor		Points
A. Upgrading industry		
i. New product or process		= 1 point
ii. Key component of a cluster		= 1 point
iii. Value-added process		= 1 point
B. Business linkages		
i. SMME purchases	10% of total purchases	= 1 point
	20% of total purchases	= 2 points
ii. Infrastructure	5% of cost of the investment	= 1 point
C. Direct and indirect employment creation		
	3 full-time jobs per R1 million of qualifying assets	= 1 point
	4 full-time jobs per R1 million of qualifying assets	= 2 points
	5 full-time jobs per R1 million of qualifying assets	= 3 points
	6 full-time jobs per R1 million of qualifying assets	= 4 points

Public benefit organisations

In the 2000 Budget, Government announced measures for a more coherent tax environment for public benefit organisations. In addition to raising the thresholds for tax-deductible donations by individuals, two major changes were introduced. The range of institutions that could receive tax-deductible donations was broadened and Government released a list of public benefit activities in which an organisation must be involved to obtain tax-exempt status.

The lists are not static and will evolve to reflect the needs and realities of the non-profit sector and to conform to Government's broader social strategy. The National Treasury and SARS have met with stakeholders and begun a process to revise the lists, broadening the range of institutions that enjoy tax preferences.

Interest and dividend income exemption

The domestic interest and dividend income exemption is currently R4 000 for taxpayers under 65 years of age and R5 000 for taxpayers age 65 and over. It is recommended that the domestic interest and dividend income exemption be raised to R6 000 for taxpayers under the age of 65 and to R10 000 for taxpayers age 65 and over from 1 March 2002.

In the past, this exemption has applied to interest and dividends from both South African and foreign sources. It is proposed that from 1 March 2002, foreign interest and dividends will only be exempt up to R1 000 out of the total exemption.

Transfer duty

Transfer duty is levied on the acquisition of property in South Africa. It is proposed to adjust the transfer duty rates as set out in table C.5 for property acquired on or after 1 March 2002. Many individuals seek to avoid the transfer duty by keeping property in various entities, such as companies. Measures will be introduced to curb this practice.

Table C.5 Proposed rates of transfer duty

Property value	Rates of tax
R0 - R100 000	0%
R100 001 - R300 000	5% on the value above R100 000
R300 001 and above	R10 000 plus 8% on the value above R300 000

Taxation of deemed foreign income

To underpin enforcement of the taxation of foreign income, it is proposed to subject deemed foreign income to income tax where the taxpayer does not account properly for assets that are invested abroad. Failure to report foreign assets adequately will, as from the 2003 tax year, result in the inclusion in taxable income of a ‘deemed’ amount of income based on the undisclosed foreign assets. The official interest rate will be used to calculate the deemed income.

Review of monetary thresholds

Long service and bravery awards

The tax system contains a *de minimis* exemption from income tax of R2 000 for bravery and long service awards. It is proposed that this amount be increased to R5 000 with effect from 1 March 2002.

Donations tax

Donations by individuals and companies not considered to be public companies are subject to donations tax of 20 per cent. There is an exemption for casual donations and gifts of R25 000 for individuals and R5 000 for companies not considered to be public companies. It is proposed that these thresholds be increased to R30 000 and R10 000, respectively, in respect of donations made on or after 1 March 2002.

Estate duty

In calculating the dutiable value of an estate for estate duty purposes, individuals are allowed a basic deduction of R1 million. It is proposed that this be increased to R1,5 million in respect of deaths occurring on or after 1 March 2002.

Bursaries and scholarships

Bursaries and scholarships for further education are in certain circumstances exempt from income tax in the hands of employees. There are certain conditions to this exemption, including:

- The employee should not accept a reduced salary as a result of the bursary
- The employee’s salary should not exceed R50 000 a year
- The bursary should not exceed R1 600.

It is recommended that these thresholds be raised to R60 000 and R2 000 with effect from 1 March 2002.

Elimination of threshold for medical deductions

In calculating their tax liabilities, individual taxpayers are allowed to deduct medical expenses to the extent they exceed the greater of 5 per cent of taxable income or R1 000. It is proposed that the R1 000 threshold be removed from 1 March 2002.

Limitation of employee deductions

Income tax legislation allows individuals to deduct certain specified expenses, such as pension contributions, as well as expenses of a general nature that are incurred in the production of income. Where such expenses are claimed, the quantification of the expenses and the split between non-deductible personal use and deductible business use, results in a significant administrative burden for both SARS and the taxpayers concerned.

It is proposed to simplify the taxation system of employment income by limiting employee deductions to the following:

- Business travel deduction against car allowances
- Certain medical expenses
- Contributions to pension and retirement annuity funds
- Donations to certain public benefit organisations
- Specific expenditure against allowances of holders of public office
- Wear and tear allowances on equipment.

This limitation will not apply where an employee's remuneration is wholly or mainly derived in the form of commissions based on sales or turnover and will come into effect on 1 March 2002.

Eliminate accommodation costs in subsistence allowance

Currently, where an employee is away from the office on business, the employer may pay an allowance for subsistence, without that amount being taken into account in determining taxable income of the employee. Where actual expenses are not claimed, an employee may receive R150 a day to defray the cost of accommodation, meals and other incidental costs, or R65 a day for personal subsistence and incidental costs, where the employee is personally responsible for meeting these costs. The taxpayer is deemed to have spent these amounts on subsistence and incidental expenses.

It is proposed to eliminate the deemed R150 a day expenditure provision and limit the deemed expenses provision to the subsistence and incidental cost allowance of R65 a day from 1 March 2002.

Fringe benefits tax: occasional free service

Employers are allowed to provide employees with occasional services to the value of R500 that is not included in the income of the employee as a fringe benefit. It is proposed to eliminate this exemption from 1 March 2002.

Administrative reforms: individual taxpayers

Single tax year for all individuals

Since 1962, when the current Income Tax Act came into force, certain farmers, fishers and diamond diggers remained outside the provisional tax system and had a June year-end, rather than the general February year-end. It is proposed that these taxpayers be brought in line with all other taxpayers and that the 2002/03 tax year for taxpayers with June tax years begin on 1 July 2002 and end on 28 February 2003.

Raising provisional tax threshold

Individuals below the age of 65 who earn taxable non-employment income of more than R2 000 a year must register as provisional taxpayers. It is proposed that this threshold be increased to R10 000 from 1 March 2002.

Direct tax proposals: Companies and trusts

Accelerated depreciation

It is proposed to introduce an accelerated depreciation allowance. New manufacturing assets acquired within 3 years from 1 March 2002 will be depreciated over four years. Forty per cent of the cost will be deducted in the first year and 20 per cent of the cost for the subsequent 3 years. These allowances will only be available for new plant and machinery which have not been used before by any person and which are acquired and brought into use in the taxpayer's manufacturing business from 1 March 2002.

Currently, any asset costing R1 000 or less may be written off in the year in which it is acquired. It is proposed to raise this threshold to R2 000 for assets acquired on or after 1 March 2002.

Tax relief for small businesses

Extending small business corporation benefits

Small business corporations can benefit from a graduated tax rate of 15 per cent on the first R100 000 of taxable income and may write off investment expenditure in the year in which it is incurred. It is proposed that the threshold for the 15 per cent rate be raised to R150 000.

Currently, these benefits are limited to businesses with an annual turnover of less than R1 million. It is proposed to raise this threshold to R3 million to ensure a larger number of small businesses enjoy these benefits.

Easing the compliance burden

SARS will focus on reducing the compliance burden for small businesses. This will include reviewing the application of the penalty provisions according to proportionality principles to ease the burden on first time offenders, simplifying the tax forms and reducing the number of returns that must be filed. In addition, a VAT retail method will be investigated. This will facilitate the calculation of small businesses' VAT obligations by providing a formula to calculate the ratio of zero-rated VAT sales to full-rate sales based on recorded sales.

Immediate expensing of intellectual property

Companies investing in intellectual property are able to deduct the cost of the investment in the year the expenses are incurred where the total cost is no more than R3 000. It is proposed that this amount be raised to R5 000 in respect of expenditure incurred on or after 1 March 2002.

Taxation of trusts

It is proposed that trusts, other than trusts mentioned below, be taxed at a flat rate of 40 per cent with effect from 1 March 2002. Special trusts and testamentary trusts established for the benefit of minor children will be taxed at the individual tax rates with effect from 1 March 2002.

Other administrative reforms

The introduction of more frequent provisional tax payments, beginning with specific classes of taxpayers, will be investigated during the year. This investigation will take cognisance of international trends and the possibility of aligning various payments made by taxpayers to SARS in order to minimise or reduce compliance costs and to improve the cash flow to the State.

Further tax reform programme

Taxation of retirement saving

Drawing on the recommendations of the Katz Commission, the Tax on Retirement Funds was introduced in 1996, pending a holistic review of the taxation of retirement saving in South Africa.

The Minister of Finance committed in the 2001 *Medium Term Budget Policy Statement* that the taxation of retirement saving would be reviewed in the course of 2002, with a view to developing policy reform proposals for the 2003 Budget. The Minister of Finance will shortly announce a task team to develop a policy paper on reform to the taxation of retirement saving, which should be released for wider consultation during 2002.

Banking sector

In 2001, SARS issued a questionnaire to the banking industry to identify the techniques through which banks are able to reduce their tax liabilities. The response by the industry has highlighted the categories of income or transactions that result in reduced tax liabilities, including:

- Differences between the mark-to-market treatment of derivative financial instrument transactions for accounting purposes and the tax treatment thereof
- Local and foreign dividends received
- Structured asset-based financing, such as financial leasing
- Income accrued for accounting purposes but not for tax purposes
- Incidences where income is characterised as income of a capital nature
- Income earned from non-South African sources.

During the coming year, the following areas will be investigated with a view to developing appropriate policy responses for consideration in the 2003 Budget.

- Taxation of derivative financial instruments
- Taxation of financial leases

International tax agreements

International tax agreements are important for encouraging investment and trade flows between nations. By reaching agreement on the allocation of taxing rights between residence and source countries of international investors, double tax agreements provide a solid platform for the growth in international trade and investment by providing a certain tax framework.

In the 2001/02 fiscal year, considerable progress was once again made in reaching agreements with other countries for the avoidance of double taxation in respect of income accruing to South African taxpayers from foreign sources or to foreign taxpayers from South African sources. The present position is as follows:

- Comprehensive agreements are in place with Algeria, Australia, Austria, Belgium, Botswana, Canada, Croatia, Cyprus, the Czech Republic, Denmark, Egypt, Finland, France, Germany, Hungary, India, Indonesia, Iran, Ireland, Israel, Italy, Japan, Korea, Lesotho, Luxembourg, Malawi, Malta, Mauritius, Namibia, the Netherlands, Norway, Pakistan, the People's Republic of China, Poland, Romania, the Russian Federation, Singapore, the Slovak Republic, Swaziland, Sweden, Switzerland, Thailand, Tunisia, Uganda, the United Kingdom, the United States of America, Zambia and Zimbabwe. The treaty with the United Kingdom extends also to Grenada, the Seychelles and Sierra Leone.
- Limited sea and air transport agreements exist with Brazil, Greece, Portugal and Spain.
- Comprehensive agreements have been ratified in South Africa with Greece and Nigeria.
- Comprehensive agreements have been signed but not ratified with New Zealand and the Seychelles.
- Comprehensive agreements have been negotiated or renegotiated, but not signed, with Belarus, Botswana, Bulgaria, Estonia, Ethiopia, Gabon, Germany, Kuwait, Latvia, Lithuania, Malawi, Malaysia, Morocco, Mozambique, the Netherlands, Oman, Portugal, Rwanda, Spain, Swaziland, Tanzania, Turkey, Ukraine, the United Arab Emirates, the United Kingdom, Zambia and Zimbabwe. Where treaties are being renegotiated, the existing treaties remain effective until a new agreement is finalised.
- Comprehensive agreements are being negotiated or renegotiated but have not been finalised with Bangladesh, Qatar and Sri Lanka.
- A number of other countries have expressed the desire to negotiate double taxation agreements with South Africa.

Agreements for mutual administrative assistance between customs administrations

These agreements cover all aspects of assistance, including exchange of information, technical assistance, surveillance, investigations and visits by officials.

- Agreements are in place with France, the United Kingdom and the United States of America.
- An agreement has been ratified in South Africa with Algeria.
- Agreements have been signed but not ratified with the Czech Republic and the Netherlands.
- Agreements have been negotiated but not signed with Mozambique, Norway and Zambia.
- A number of other countries have expressed the desire to negotiate similar agreements.

Indirect tax proposals

Specific excise duties

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 (20 February 2002) to the extent shown in table C6.

Table C6: 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	34.7c/kg	34.7c/kg	34.7c/kg	34.7c/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)	6c/l	6c/l	0c/l	0c/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)	6c/l	6c/l	0c/l	0c/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)	6c/l	6c/l	0c/l	0c/l
104.10	22.03	Beer made from malt	2 373c/l of absolute alcohol	2 373c/l of absolute alcohol	2 563c/l of absolute alcohol	2 563c/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)	7,82c/l	7,82c/l	7,82c/l	7,82c/l
.10		Unfortified still wine	74.7c/l	74.7c/l	80.7c/l	80.7c/l
.40		Fortified still wine	169c/l	169c/l	182.5c/l	182.5c/l
.50		Other still fermented beverages, unfortified	120.8c/l	120.8c/l	130.5c/l	130.5c/l
.60		Other still fermented beverages, fortified	214.3c/l	214.3c/l	231.4c/l	231.4c/l
.70		Sparkling wine	206.9c/l	206.9c/l	227.6c/l	227.6c/l
.80		Other fermented beverages (excluding sorghum beer)	254.8c/l	254.8c/l	275.2c/l	275.2c/l
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				

Tariff item	Tariff heading	Description	Present rate of duty		Proposed rate of duty	
			Excise	Customs	Excise	Customs
		volume; spirits, liqueurs and other spirituous beverages:				
.10		Wine spirits, manufactured in the Republic by the distillation of wine	3 337c/l of absolute alcohol	-	3 671c/l of absolute alcohol	-
.15		Spirits, manufactured in the Republic by the distillation of any sugar cane product	3 337c/l of absolute alcohol	-	3 671c/l of absolute alcohol	-
.25		Spirits, manufactured in the Republic by the distillation of any grain product	3 337c/l of absolute alcohol	-	3 671c/l of absolute alcohol	-
.29		Other spirits, manufactured in the Republic	3 337c/l of absolute alcohol		3 671c/l 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		3 241c/l of absolute alcohol or 1 394c/l		3 575c/l of absolute alcohol or 1 537c/l
.70		Spirits of any nature in imported liqueurs, cordials and similar spirituous beverages containing added sugar, with or without flavouring substances		3 241c/l of absolute alcohol		3 575c/l of absolute alcohol
104.30	24.02	Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes				
.10		Cigars	66 420c/kg net	66 420c/kg net	76 670c/kg net	76 670c/kg net
.20		Cigarettes	158.4c/10 cigarettes	158.4c/10 cigarettes	175.4c/10 cigarettes	175.4c/10 cigarettes
104.35	24.03	Other manufactured tobacco and manufactured tobacco substitutes, “homogenised” or “reconstituted” tobacco extracts and essences				
.10		Cigarette tobacco	7 167c/kg	7 167c/kg	10 297c/kg	10 297c/kg
.20		Pipe tobacco	4 677c/kg net	4 677c/kg net	5 251c/kg net	5 251c/kg net

Air passenger departure tax

It is proposed that the air passenger departure tax remain at the current levels.

Fuel levy

Mindful of the impact of the depreciation of the rand on the pump price of fuel, it is proposed to leave the general fuel levy on petrol and diesel unchanged.

Fuel levy on environmentally friendly fuels

Two types of environmentally friendly alternative diesel fuels from biomass have reached technical maturity and acceptance in international fuel markets. These are biodiesel from vegetable oils and ethanol fuels. Given the long-term benefits of biodiesel, it is proposed to apply more favourable fuel tax treatment to these products, easing the cost disadvantages it currently faces over fossil fuels.

The following policy framework is proposed:

- Biodiesel and other environmentally friendly alternative diesel fuels should be subject to 70 per cent of the levy on mineral fuels.

- Renewable environmentally friendly alternative diesel fuels used in vehicles on public roads should be subject to the full Road Accident Fund levy.
- When renewable environmentally friendly alternative diesel fuels are used in the same activities that currently enjoy concessions, e.g. for some off-road purposes, the same concession should apply.
- Renewable environmentally friendly alternative diesel fuels should enjoy the same VAT zero-rating as diesel and petrol from fossil fuels
- The 4c a litre excise duty in terms of the SACU agreement should apply.

This tax dispensation will be introduced during the course of 2002/03.

Extension of offshore diesel fuel concession

It is proposed to extend the full diesel fuel concession to offshore vessels conducting research in support of the marine industry, coastal patrol vessels and a vessel that is employed to service fibre optic telecommunication cables along the coastlines of Southern Africa. In addition, it is proposed to extend only the RAF levy component of the diesel fuel concession to harbour vessels operated by Portnet and to in-port bunker barge operators. These proposals will be effective from 3 April 2002.

Other charges and levies

Lloyd’s insurance premium levy

Presently, a charge of 2,5 per cent is levied on all premiums paid on insurance business underwritten in South Africa by Lloyd’s of London. It is proposed that the levy be withdrawn in respect of premiums paid on or after 1 January 2002.

Removal of securities taxes on certain warrant transactions

The JSE Securities Exchange regulates the warrant markets and requires that warrant issuers ‘make a market’ in warrants by placing buy and sell orders for the warrants they issue.

To facilitate the development of this market by eliminating certain transaction costs that are absent in many competing markets, it is proposed that from 1 April 2002 all warrant issuers be exempt from Marketable Securities Tax (MST) and Uncertificated Securities Tax (UST) on the repurchase of warrants they issue.

Elimination of certain stamp duties

Remove duty on listed debt instruments

To encourage the development of the private bond market and to ensure fair treatment between finance raised on the traded markets and finance arranged through financial institutions, it is recommended that the stamp duty and Uncertificated Securities Tax on the issue of listed debt instruments be removed in respect of the issue of these instruments from 1 April 2002.

Remove duty on the cession of mortgage bonds

When a home mortgage is transferred from one institution to another, stamp duty is levied on the value of the mortgage transferred. It is proposed that the stamp duty on the cession of mortgages be removed in respect of the cession of mortgages from 1 April 2002.

Other duties eliminated

There are a number of other duties that raise very little revenue, yet require administrative and audit resources. It is proposed that duties in respect of the following instruments and transactions be eliminated from 1 April 2002:

- Insurance policies against accident, bodily injury, incapacity or sickness
- Insurance contracts referred to in the Export Credit and Foreign Investments Reinsurance Act, 1957
- Cession of insurance policies.

Social security tax changes

Road Accident Fund levy

The Road Accident Fund provides insurance for victims of road accidents, which are paid for from a dedicated levy on petrol and diesel.

It is proposed to increase the Road Accident Fund levy by 2 cents a litre to 18,5 cents a litre, which is necessary to meet the increasing cost of claims from motor accidents. This increase will be effective from 3 April 2002.

Technical corrections and miscellaneous amendments

In the 2000 Budget, a number of far-reaching tax changes were announced and implemented during 2000 and 2001. As with any major tax changes, there will be a number of areas where technical corrections are required. Technical corrections that clarify wording, remove inconsistencies, address ambiguities and provide clarification will accordingly be included in amendments to the 2002 legislation.

Various miscellaneous amendments to the taxation laws are also being considered for potential inclusion in the 2002 legislation. These miscellaneous amendments involve changes to tax administration as well as isolated issues involving tax policy. Below is a list of the miscellaneous amendments being investigated for possible inclusion in the 2002 legislation. This list also includes some of the technical corrections already identified:

Income Tax

- Section 1: Amend the definition of “dividend” to include profits of a capital nature for liquidation distributions.
- Section 1: Clarify that “gross income” includes grants received from SETAs.
- Section 1: Review the definition of “local authority”.
- Section 1: Extend the definition of “person” to include certain governmental bodies.
- Section 1: Introduce the definition of “recognised exchange” for purposes of “foreign equity instrument”.
- Section 10(1)*(t)*(xv): Withdraw exemption.
- Section 11: Textual corrections.
- Section 18: Reduce medical deduction by amounts received from medical savings accounts.
- Section 18A: Incorporate public benefit activities determined by the Minister in the Act.
- Potentially amend the restrictions against the transfer of financial instruments and financial instrument holding companies in the corporate restructuring and controlled foreign entity rules.

- Section 30: Incorporate public benefit activities determined by the Minister in the Act.
- Section 64B(5)*(f)*(iiA): Accommodate the amendment to the definition of “holding company”.
- Section 76: Additional tax on default on submitting a statement of assets and liabilities and penalties where a return is not rendered or where a taxpayer has an assessed loss.
- Section 77: Delete obsolete reference.
- Section 81: Amend to provide that the Commissioner may alter an assessment where a dispute has been settled in terms of the provisions of the Act and not limit this to settlements in terms of alternative dispute resolution procedures.
- Fourth Schedule: Amend “personal service company” and “personal service trust” by adding a reference to services rendered by connected persons.
- Clarify position of foreign funds established by law.
- Eighth Schedule: Incorporate foregn currency regulations in the Act.

Customs and excise

- Extend definition of “manufacture”.
- Section 3: Clarify the provisions with regard to the delegation of duties and powers of the Commissioner or an official under his control.
- Section 4: Provide for warrants for search and seizure in certain investigations.
- Sections 17 and 43: Extend provisions relating to sales of goods in State Warehouse.
- Sections 18 and 64D: Extend and adjust provisions relating to removals in bond.
- Insert provisions relating to powers and functions of officers under Counterfeit Goods Act.
- Insert provisions disqualifying schemes to avoid duties.
- Section 75: Concessions in respect of diesel fuels.
- Section 95A: Extend existing internal dispute resolution provisions.
- Section 98 and 99: Extend licencing provisions to all types of agents.
- Sections 101 and 102: Extend specific requirement for keeping prescribed books and documents.
- Section 114: Clarify provisions relating to liens.

VAT

- Section 1: Amendment to the definition of "welfare organisation".
- Section 12: Exemption of the supply of accommodation by an employer to employees.
- Schedule 1: Exemption: Imported goods: Textual amendments to correspond with the Customs and Excise Act.
- Further regulate payments by way of electronic transfer.

Stamp duties

- Propose introduction of additional duty to replace penalty stamps.

Marketable securities tax

- Insert provision to provide for retention of documents.

Skills Development Levies

- Review exemption relating to religious and charitable institutions to bring in line with public benefit organisation provisions in the Income Tax Act.
- Investigate different rate and basis for certain industries.
- Clarify the treatment of certain payments made to directors of private companies.

Unemployment Insurance Contributions

- Clarify the treatment of contributions by directors of private companies.

General

- Review of penalty provisions and the application thereof.
- Amendments required by Siyakha and Duty-at-Source initiatives.
- Introduce provisions to determine penalties where no return is rendered or where the taxpayer has an assessed loss.
- Repeal certain laws of former self-governing territories.
- Amend Revenue Acts where assessments are involved to provide that Commissioner may correct assessments in the case of administrative errors.
- Clarify provisions relating to jurisdiction of courts.
- Exempt section 10(1)*(c*A*)* entities from certain other taxes in alignment with public benefit organisations.
- Amendments to the taxation laws may also include legislation in terms of substantive tax law and tax administration that prevents tax fraud, evasion and avoidance. In terms of substantive tax law, these amendments will be limited to situations requiring an immediate legislative response to newly discovered tax motivated transactions or newly issued decisions of the courts that are contrary to the intent of existing law. None of these amendments will have any meaningful economic impact on non-tax related practices.