4

Revenue trends and tax proposals

Strong revenue growth – following comprehensive tax policy reforms and administrative restructuring – once again allows Government to lower the tax burden substantially.

Personal income tax relief of R15 billion will raise the take-home pay of wage earners and encourage consumer spending and saving.

Accelerated depreciation allowances promote investment in long-term productive capacity of the economy, building on the strategic investment programme announced last year.

Further small business tax relief encourages job creation and entrepreneurship.

Specific excises are adjusted to complement Government's social and health policies.

Overview

In this year's Budget, Government provides substantial tax relief for individuals and companies and reduces the burden of financial transactions taxes, thereby reducing the cost of doing business in South Africa.

Since 1994, tax policy - supported by deep structural changes to tax administration, compliance culture and collection - have consistently delivered revenue growth that enabled the fiscus to reduce the deficit, while expanding public services. The programme of fiscal discipline, sound fiscal management, focused spending programmes and continual tax relief remain hallmarks of this Government.

Strong growth in tax revenue allows for growth-enhancing tax proposals

Robust growth in tax revenue has contributed to the continued strong fiscal position that provides the platform for further tax reforms proposed in this Budget. Government remains committed to a tax reform programme that improves the efficiency of the South African economy and contributes materially to investment and job creation.

As indicated in the 2001 *Medium Term Budget Policy Statement,* this year heralds a period of consolidation after the far-reaching income tax changes that have been introduced since 2000.

Tax relief to encourage work, saving and investment

The substantial income tax relief proposed in this Budget will benefit individual taxpayers across the income spectrum, ensuring real income tax cuts for all taxpayers, with the emphasis on low and middle-income taxpayers. In addition, reforms to the corporate tax system enhance the competitive position of a broad spread of businesses in the South African economy.

Specific excises contribute to public health policy

The value-added tax, with its stable revenue stream, remains the cornerstone of South Africa's indirect tax system. Specific excise tax proposals contribute to the efficacy of public health policy by raising the taxes on tobacco products and alcoholic beverages. The proposed increases also take account of economic developments in these sectors and the ongoing threat of cross-border smuggling.

Main tax proposals

Tax relief

- Income taxes on individuals are reduced by R15 billion
- Interest income exemption is raised to R6 000 for taxpayers under age 65 and to R10 000 for taxpayers age 65 and over
- Accelerated depreciation allowances will encourage manufacturing investment and job creation
- The graduated tax rate for small businesses is extended, ensuring more companies benefit
- Transfer duties are cut by R300 million, making it easier for South Africans to acquire property
- Fuel levy is kept constant
- A levy is introduced on environmentally friendly alternative diesel fuels at 70 per cent of the general fuel levy, together with zero-rating for VAT purposes
- Excise taxes on soft drinks are removed
- Some financial transactions taxes are removed to improve the efficiency of South Africa's financial markets.

Tax increases

- Taxes on tobacco products are raised by an average of 12 per cent
- Taxes on alcoholic beverages are increased by between 8 and 10 per cent
- Road Accident Fund levy is raised by 2c a litre.

Consolidated revenue estimates

Table 4.1 sets out the consolidated national budget revenue for 2000/01 to 2004/05.

Table 4.1 Consolidated national revenue, 2000/01 – 2004/05

	2000/01	2001/02		2002/03	2003/04	2004/05
	Preliminary	Budget	Revised	Medium-term estimates		
R million	outcome	estimate	estimate			
Total tax revenue	220 274	236 843	252 205	268 506	291 863	316 392
Less: SACU payments	*-8 396*	*-8 205*	*-8 205*	*-8 259*	*-8 755*	*-9 280*
Non-tax revenue[1]	3 714	4 800	4 447	4 970	5 600	6 100
Main budget revenue	**215 592**	**233 438**	**248 447**	**265 217**	**288 708**	**313 211**
Percentage of GDP	*23,7%*	*23,6%*	*25,1%*	*24,5%*	*24,5%*	*24,5%*
Social security funds						
Tax revenue	6 492	7 183	7 333	8 600	9 125	9 571
Non-tax revenue	575	1 221	656	620	558	547
Total social security revenue	**7 067**	**8 404**	**7 990**	**9 219**	**9 683**	**10 118**
National revenue	**222 659**	**241 842**	**256 437**	**274 436**	**298 391**	**323 329**
RDP fund receipts and technical co-operation	1 028	800	967	800	800	800
Consolidated national revenue[2]	**223 687**	**242 642**	**257 404**	**275 236**	**299 191**	**324 129**

1 Includes non-tax current revenue, grants, capital revenue, and recoveries of loans and advances.

2 Transfers between funds have been netted out.

Consolidated revenue 6,1 per cent more than budget estimate

Consolidated national revenue consists of main budget revenue, social security fund revenue and RDP fund receipts and technical cooperation grants. Consolidated revenue is estimated to be R257,4 billion in 2001/02, which is 6,1 per cent more than the 2001 Budget estimate. Between 2001/02 and 2004/05, consolidated revenue is expected to grow at an annual average rate of 8 per cent.

Tax administration

Fundamental restructuring at SARS

Transforming the tax and customs administration is an important part of tax reform in South Africa. The South African Revenue Service (SARS) has been undergoing fundamental changes in its operations and structures in tandem with the substantial tax and trade policy changes that have been implemented since 1994.

New compliance climate in South Africa

SARS continues to implement the substantial structural changes announced in the 2000 and 2001 Budgets and has introduced a new assertiveness in its approach to compliance with the tax and customs laws. This is beginning to create a new compliance climate and greater awareness of tax obligations among South Africa's citizens.

Implementation of Siyakha transformation initiative

Extension of pilot project to Western Cape and Gauteng

The process of reform has not been restricted to legislation and its implementation. SARS has also implemented a fundamental reform of its business operations through the *Siyakha* ("we are building") transformation process. This entailed the concentration of capacity in the core business functions of processing, service, compliance and customs administration, and the consolidation of common collection processes across tax types. The roll-out was initiated with a pilot project in KwaZulu-Natal in October 2001 and will be extended to the Western Cape and Gauteng during 2002.

Customs

Reorganisation to improve trade control and protect the public

SARS has been reorganising the customs division in order to improve trade control and better protect the public from trade in dangerous substances. Management skills have been sharpened and systems transformed. Collection teams have been set up to administer the customs functions from beginning to end.

Anti-smuggling efforts focus on clothing, electronics and liquor industries

Customs has stepped up its anti-smuggling operations and targeted inspections, with special emphasis on the clothing, electronics and liquor industries. Other initiatives in customs include the introduction of centralised registration and refunds, mobile units and a valuation database. A risk-based audit approach has been introduced and differentiated service levels will be implemented through an accredited client scheme.

Enforcement strategy and special initiatives

Special projects to improve compliance

SARS has also implemented a new enforcement strategy geared to raising levels of compliance with tax and customs laws. This strategy places emphasis on targeting areas of high risk and practices that encourage aggressive tax avoidance or evasion. The Woodmead project, which is conducting integrated audits and investigations, has been successful in ensuring that taxpayers comply with their tax obligations. Attention has also been given to specific priority sectors in the economy.

Informal economy

SARS is planning to extend tax awareness and compliance efforts to sections of the informal economy. Tax education initiatives will be intensified and taxpayers who voluntarily approach SARS to meet their tax obligations will be sympathetically received.

Registration of tax consultants

Many individual and business taxpayers receive advice and assistance from tax consultants and advisors. Although the final responsibility for the contents of a tax return legally rests with the taxpayer, the return is completed on the advice of the tax consultant or advisor, who bears limited responsibility for the advice given. In order to promote better compliance and ensure that taxpayers receive advice consistent with the tax legislation, SARS will initiate discussion on the regulation of tax consultants and advisors in South Africa, with appropriate sanctions in the event of non-compliance with tax legislation.

Separate tax administration legislation

Re-evaluating the process of rewriting the Income Tax Act

The process of rewriting the Income Tax Act will be re-evaluated by SARS and the National Treasury, as the fundamental policy initiatives that led to the suspension of the process in 2000 have been legislated for. A key issue that will be investigated is the introduction of separate tax administration legislation dealing with the administrative issues currently covered by, and often duplicated in, a number of tax Acts.

Table 4.2 Main budget estimates and revenue outcome, 2000/01 and 2001/02

	2000/01			2001/02			2000/01–2001/02
R million	Budget estimate	Preliminary Outcome	Deviation	Budget estimate	Revised estimate	Deviation	(%) change
Taxes on income and profits, including:	**121 303**	**126 145**	**4 842**	**131 582**	**149 600**	**18 018**	**18,6**
Personal income tax	87 821	86 478	-1 343	90 122	91 000	878	5,2
Company tax	24 583	29 492	4 909	29 960	44 000	14 040	49,2
Secondary tax on companies	2 100	4 031	1 931	4 200	6 700	2 500	66,2
Tax on retirement funds	5 800	5 220	-580	6 300	6 500	200	24,5
Other	1 000	924	-76	1 000	1 400	400	51,5
Taxes on payroll and workforce	**1 400**	**1 257**	**-143**	**2 800**	**2 750**	**-50**	**118,7**
Taxes on property	**3 338**	**3 979**	**641**	**4 709**	**4 452**	**-257**	**11,9**
Domestic taxes on goods and services, including:	**79 443**	**79 104**	**-339**	**86 740**	**84 342**	**-2 398**	**6,6**
Value-added tax	52 858	54 455	1 598	60 350	58 600	-1 750	7,6
Excise duties	10 210	9 820	-389	10 625	10 361	-264	5,5
Levies on fuel	15 970	14 495	-1 475	15 310	14 988	-322	3,4
Other	406	333	-73	455	393	-62	18,2
Taxes on international trade and transactions	**6 500**	**8 227**	**1 727**	**9 427**	**9 211**	**-216**	**12,0**
Stamp duties and fees	**1 700**	**1 562**	**-138**	**1 585**	**1 850**	**265**	**18,5**
Total tax revenue	**213 684**	**220 274**	**6 589**	**236 843**	**252 205**	**15 362**	**14,5**
Non-tax current revenue	3 851	3 592	-259	4 676	4 323	-353	20,4
Capital revenue	386	10	-376	30	30	–	199,9
Recoveries of loans and repayments	875	112	-763	93	93	–	-16,9
Less: SACU payments	*-8 396*	*-8 396*	-	*-8 205*	*-8 205*	–	*-2,3*
Main budget revenue	**210 400**	**215 592**	**5 192**	**233 438**	**248 447**	**15 009**	**15,2**

National budget revenue

Table 4.2 highlights the budget estimates and projected revenue outcomes for the major revenue instruments for 2000/01 and 2001/02. Tables 2 and 3 in Annexure B set out more detail on the revenue estimates.

Preliminary outcome, 2000/01

Preliminary outcome for main budget revenue of R215,6 billion

In the 2000 Budget, it was estimated that main budget revenue would be R210,4 billion. In the 2001 Budget, this was revised upwards to R213,4 billion. Preliminary results show that the actual receipts for 2000/01 are R215,6 billion or 2,5 per cent more than the original budget estimate.

Significant deviations from the original estimates include:

- Personal income tax down by R1,3 billion
- Company tax up by R4,9 billion
- Secondary tax on companies up by R1,9 billion
- Value-added tax up by R1,6 billion
- Fuel levy down by R1,5 billion
- Trade taxes up by R1,7 billion.

Revised estimates for 2001/02

The revenue estimates are revised upwards to take account of changes in macroeconomic conditions from the budget forecasts and improvements in revenue administration.

In the 2001 Budget, main budget revenue was anticipated to be R233,4 billion, after taking account of the tax proposals.

The original estimates were revised in the October *Medium Term Budget Policy Statement* to take account of revenue trends during the first part of the fiscal year and changes to macroeconomic assumptions. Main budget revenue was revised to R238,2 billion.

Main budget revenue estimate is R248,4 billion

The current estimate of main budget revenue for 2001/02 is R248,4 billion, 6,4 per cent more than the budget estimate, mainly as a result of increases in the company taxes and the secondary tax on companies.

Taxes on income and profits

Taxes on individuals raise R91 billion

Taxes on income and profits are estimated to be 13,7 per cent higher than the original budget estimate. Personal income tax is estimated to raise R91 billion, which is R878 million more than the original budget estimate.

Company taxes 47 percent over budget

Company tax revenues grew exceptionally in 2001/02. The revised estimate for company tax is R44 billion, which is R14 billion more than budgeted. This marked increase is attributable to several factors, including:

- The rapid rise in profits in the mining and other export sectors, due to the increase in the price of platinum and the depreciation of the rand.
- Broadening of the tax base to include foreign source income.
- Changes to the taxation of long-term assurance companies.
- Improved enforcement and compliance in the banking sector.
- Adjustments to ensure provisional tax payments are more closely related to taxable profits.

STC up 60 per cent

Revenue from the secondary tax on companies has grown strongly in 2001/02, reflecting increases in the distribution of corporate profits. This estimate is increased from R4,2 billion in the 2001 Budget to R6,7 billion.

Taxes on payroll

The Skills Development Levy is expected to raise R2,75 billion, which is R50 million lower than the budget estimate.

Domestic taxes on goods and services

Revenue from value-added tax is expected to be R58,6 billion, or 2,9 per cent below budget estimates. This is attributable to slower than anticipated growth in domestic consumption expenditure.

Value-added tax R1,8 billion below budget estimates

The revised estimate of revenue from excise duties of R10,4 billion is R264 million less than the budget estimate. This reflects shifts in household consumption away from excisable products, partly in response to the higher taxes on these products.

R10,4 billion from excise duties

The estimate of revenue from the fuel levy of R15 billion is R322 million lower than the original budget estimate. This is brought about by slower than anticipated growth in fuel sales against the background of rapidly increasing prices.

Slower than anticipated growth in fuel consumption

Taxes on international trade and transactions

Customs duties are the largest component of taxes on international trade and transactions. Changes in revenue from customs duties are largely driven by fluctuations in import volumes in response to the international prices of imported goods and the depreciation of the currency. The revised estimate for customs duties is R9,2 billion, which is R216 million lower than the budget estimate.

Customs duty of R9,2 billion

Table 4.3 Main budget revenue, 1998/99 – 2004/05

R million	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
	Actual collections		Preliminary outcome	Revised estimate	Medium-term estimates		
Taxes on income and profits	108 022	116 149	126 145	149 600	155 740	171 450	187 700
Taxes on payroll and workforce	–	0	1 257	2 750	2 950	3 150	3 370
Taxes on property	2 830	3 808	3 979	4 452	4 585	5 070	5 520
Domestic taxes on goods and services	66 271	72 286	79 104	84 342	92 848	99 123	106 402
Taxes on international trade and transactions	6 053	6 778	8 227	9 211	10 613	10 870	11 100
Stamp duties and fees	1 489	1 619	1 562	1 850	1 770	2 200	2 300
Total tax revenue	**184 664**	**200 641**	**220 274**	**252 205**	**268 506**	**291 863**	**316 392**
Non-tax current revenue	3 655	4 603	3 592	4 323	4 850	5 468	5 950
Capital revenue	27	42	10	30	30	32	35
Recoveries of loans and repayments	780	74	112	93	90	100	115
Grants	456	–	–	–	–	–	–
Less: SACU payments	*-5 577*	*-7 197*	*-8 396*	*-8 205*	*-8 259*	*-8 755*	*-9 280*
Main budget revenue	**184 005**	**198 162**	**215 592**	**248 447**	**265 217**	**288 708**	**313 211**
Per cent of GDP	24,4%	24,1%	23,7%	25,1%	24,5%	24,5%	24,5%
Gross domestic product	*753 829*	*821 144*	*910 500*	*990 000*	*1 082 800*	*1 178 900*	*1 277 500*

Revenue trends, 1998/99 – 2004/05

Table 4.3 sets out actual revenue collections for 1998/99 and 1999/00, the preliminary outcome for 2000/01 and estimates for 2001/02 to 2004/05. More detail is provided in tables 2 and 3 of Annexure B.

10,5 per cent growth in main budget revenue from 1998/99 – 2001/02

Between 1998/99 and 2001/02, main budget revenue grew at an annual average rate of 10,5 per cent, or 3,2 per cent in real terms. This strong growth is largely attributable to growth in taxes on income and profits, which grew at an annual average rate of 11,5 per cent and 4,1 per cent in real terms and comprise about 60 per cent of main budget revenue. Taxes on domestic goods and services grew at an annual average rate of 8,4 per cent and taxes on international trade by 15 per cent, reflecting the normalisation of South Africa's relations with the rest of the world.

Taking account of revenue trends, tax policy changes and macroeconomic projections, main budget revenue is anticipated to grow at an annual average rate of 8 per cent over the medium term, or 2,3 per cent real growth.

Table 4.4 Estimates of revenue before tax proposals, 2002/03

R million	2001/02 Revised estimate	2002/03 Before tax proposals	Percentage change
Taxes on income and profits	**149 600**	**171 104**	**14,4**
Personal income tax	91 000	105 000	15,4
Company tax	44 000	51 204	16,4
Secondary tax on companies	6 700	6 500	-3,0
Tax on retirement funds	6 500	6 900	6,2
Other	1 400	1 500	7,1
Taxes on payroll and workforce	**2 750**	**2 950**	**7,3**
Taxes on property	**4 452**	**4 915**	**10,4**
Domestic taxes on goods and services	**84 342**	**92 189**	**9,3**
Value-added tax	58 600	66 200	13,0
Excise duties	10 361	10 404	0,4
Levies on fuel	14 988	15 170	1,2
Other	393	415	5,5
Taxes on international trade and transactions	**9 211**	**10 613**	**15,2**
Stamp duties and fees	**1 850**	**1 900**	**2,7**
Total tax revenue	**252 205**	**283 671**	**12,5**
Non-tax current revenue	4 323	4 850	12,2
Capital revenue	30	30	–
Recoveries of loans and repayments	93	90	-3,6
Less: SACU payments	*-8 205*	*-8 259*	*0,7*
Main budget revenue	**248 447**	**280 382**	**12,9**

Estimates of revenue before tax proposals

Table 4.4 sets out the estimates of revenue before the tax proposals, taking account of the macroeconomic assumptions set out in chapter 2 and the existing tax structure. These estimates are set out in more detail in the *Estimate of National Revenue.*

Before tax proposal main budget revenue estimate of R280,4 billion

Before any tax changes, main budget revenue is estimated to be R280,4 billion. Personal income tax and corporate income tax increase by 15,4 per cent and 16,4 per cent, respectively. Value-added tax is estimated to grow in line with growth in household consumption expenditure and is estimated to raise R66,2 billion in 2002/03. Other taxes on goods and services grow modestly, based on anticipated changes in consumption of fuel and other excisable products.

Outstanding tax reform: 2001 Budget

In the 2001 Budget, a number of significant tax policy changes were announced. These included continuing tax reforms from the 2000 Budget and initiatives to be introduced after investigation and consultation with stakeholders.

Wage incentive

Inter-departmental task team developed wage incentive

Last year, R600 million was set aside for the development of tax measures to encourage job creation by reducing the cost of hiring new workers and of offering learnerships. An inter-departmental task team was established to review a range of potential wage incentives and identify the most appropriate tax measures in South Africa's socio-economic circumstances.

Tax allowances to be granted for learnerships

The task team ultimately proposed that the tax incentive 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 later this year. In essence, the learnership incentive will operate as follows:

- A R25 000 deduction will be allowed to an employer when a learnership agreement is signed.
- A further R25 000 deduction will be allowed 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 deduction of R50 000 will be allowed to the employer on the completion of each level.
- The learnership incentive will include all learnerships entered into from 1 October 2001 and will be available for a five-year period.

Strategic investment programme

R3 billion tax foregone over four years for SIP

An amount of R3 billion of foregone tax revenue over four years was allocated in the 2001 Budget to encourage investment projects with significant direct and indirect benefits for the South African economy. This complements the range of incentives announced by the Department of Trade and Industry in 2000 to raise investment in South Africa, which fell from 17 per cent of GDP in 1998 to 14,9 per cent of GDP in 2000.

Focus on projects that raise competitiveness and employment creation

Given the significance of this programme, the Department of Trade and Industry, the National Treasury and SARS devoted considerable time to developing criteria to ensure that these public resources are allocated to projects that significantly raise the competitiveness of the economy and reduce unemployment. Measures are also in place to ensure sound governance of the programme and accountability to Parliament.

Minimum criteria to qualify for the incentive

To qualify for the programme, a project must meet a number of minimum 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, such as the National Industrial Participation Program.

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 4.5.

Table 4.5: 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.

PBA lists guide activities qualifying for tax privileges

These lists were published in the Government *Gazette* in July 2001, after extensive consultation. Tax-deductible donations may be made to organisations primarily involved in caring for children and the aged, HIV/AIDS care and education. The range of activities an organisation must be engaged in to enjoy tax-exempt status is much broader and includes (in addition to the activities for receiving tax-deductible donations) welfare, health, education, land and housing, cultural, religious, environmental, research and sporting activities. The guiding principles adopted in developing these lists were that there must be clear social benefits for less well off members of society and there are limits to competition with ordinary businesses.

Broadening the PBO lists

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.

Overview: 2002 tax proposals

Tax policy to stimulate economic activity

The improvement in tax collection, brought about by enhanced compliance measures and base-broadening policy reforms, provides scope for tax proposals that contribute to Government's overall fiscal policy, giving immediate stimulus to aggregate demand, while building economic capacity over the medium term.

Table 4.6 provides the anticipated revenue effects of the tax proposals set out in this Budget. These proposals reduce tax revenue by R15,2 billion from the estimate before tax changes.

Fiscal year 2002/03 will be a period of consolidation

Over the past two years, a number of far-reaching tax changes have been introduced, including residence-based taxation of income and the capital gains tax. These measures broaden the tax base and improve the overall tax structure. Fiscal year 2002/03 heralds a period of consolidation in tax policy, providing more certainty to taxpayers and a stable platform for investment and economic expansion.

Table 4.6 Summary effects of tax proposals

R million	Effect of tax proposals	Revenue gain (+) Revenue loss (-)
Tax revenue		283 671
Non-tax revenue		4 970
Less: SACU payments		-8 259
Main budget revenue, before tax proposals		**280 382**
Budget 2002/03 proposals	**-15 165**	
Direct tax proposals	**-15 824**	
Personal income tax:	**-14 855**	
Adjust personal income tax rate structure	-15 000	
Single tax year for individuals	10	
Increase provisional taxpayer threshold	-60	
Limitation of employee deductions	85	
Limit deemed cost deduction for subsistence and travel	15	
Remove exclusion of R500 occasional free services	5	
Taxation of trusts at a flat rate of 40 per cent	90	
Corporate income tax:	**-335**	
Accelerated depreciation for manufacturing assets	-290	
Increase *de minimis* 100 per cent write off	-5	
Extend small business corporations tax relief	-40	
Financial transaction taxes:	**-430**	
Exempt certain warrant repurchases from MST and UST	-80	
Remove stamp duty and UST on the issue of debt instruments	-20	
Remove stamp duty on the cession of mortgage bonds	-10	
Remove stamp duty on certain insurance policies	-5	
Withdraw levy on Lloyd's insurance premiums	-15	
Adjust transfer duty rate structure	-300	
Increase monetary thresholds:	**-204**	
Raise domestic interest and dividend exemption	-163	
Threshold for immediate intellectual property deduction	-5	
Threshold for exemption for bravery/long-service awards	-2	
Threshold on donation and estate duty exemptions	-30	
Threshold on exemption for bursaries and scholarships	-4	
Indirect tax proposals	**659**	
Specific excise taxes: Net Impact	*663*	
- Increase in duties on beer (8%)	223	
- Increase in duties on fortified wine (8%)	3	
- Increase in duties on sparkling wine (10%)	1	
- Increase in duties on unfortified wine (8%)	19	
- Increase in duties on cider (8%)	19	
- Increase in duties on spirits (10%)	90	
- Increase in excise duties on tobacco products (50% incidence)	443	
- Remove duties on soft drinks (-6c/l)	-135	
Extend fuel rebate for offshore vessels	-4	
Main budget revenue (after tax proposals)		**265 217**

Direct tax proposals: Individuals

Personal income tax

The personal income tax is South Africa's most important revenue source, comprising 36,6 per cent of main budget revenue in the 2001/02 revised estimates. Adjustments to the personal income tax rates and brackets are a powerful fiscal policy tool for Government to stimulate economic activity and build long-term economic capacity.

Rate adjustments reward work and saving

The proposed tax relief will increase the disposable income of employees, easing the pressure on wage costs to firms, as well as the pressure on household budgets that may arise from higher than anticipated inflation following the depreciation of the currency. In addition, reduced taxes on income raise the reward from working and saving.

R15 billion tax cuts

Personal income tax relief of R15 billion is proposed, making individual taxpayers the primary beneficiaries of income tax base broadening and improved tax administration. The proposed rate schedule is set out in table 4.7.

Table 4.7 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 main amendments are:

- The primary rebate is raised to R4 860, increasing the income tax threshold by R4 000 to R27 000, or by 17,4 per cent.
- The tax threshold for taxpayers age 65 and over is raised to R42 640, or 8,9 per cent more than the current level.
- Rates and brackets are adjusted to provide relief across the entire income spectrum.

Tax relief concentrated in lower and middle-income range

As indicated in the 2001 *Medium Term Budget Policy Statement*, the bulk of the R15 billion tax relief is concentrated in the lower- and middle-income categories where the majority of taxpayers find themselves. Of the total relief, 57 per cent accrues to taxpayers earning less than R150 000 a year, 37 per cent accrues to taxpayers earning between R150 000 and R300 000 a year and 6 per cent to taxpayers earning more than R300 000 a year.

The tax reductions are set out in more detail in Annexure C.

Interest and dividend income exemption

Exemptions increased to R6 000 and R10 000

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. This exemption provides important tax relief for low and middle-income taxpayers and retired persons living on fixed interest income. To complement the income tax rate reductions proposed in this Budget, 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.

Limit exemption for income from foreign investments

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. The intention is to encourage taxpayers to make their savings available for capital formation in South Africa.

This tax proposal will result in a revenue loss of R163 million.

Transfer duty

Transfer duty is levied on the acquisition of property

Transfer duty is levied on the acquisition of fixed property in South Africa. Currently, for property acquired by natural persons, the rates are:

- 1 per cent on the value up to R70 000
- 5 per cent on the value from R70 000 up to R250 000
- 8 per cent on the value above R250 000.

To provide relief to low-income groups, the acquisition of certain property is exempt from transfer duty. These exemptions include:

Residential property exemption

- The acquisition of a dwelling house or residential apartment held under sectional title with a value of R70 000 or less
- The acquisition of unimproved land to erect a dwelling house with a value of R30 000 or less.

Revising rate structure for relief and equity

To further encourage the acquisition of property and to ensure a more equitable distribution of the transfer duty burden, it is proposed to restructure the rates and brackets. The new rate structure is set out in table 4.8.

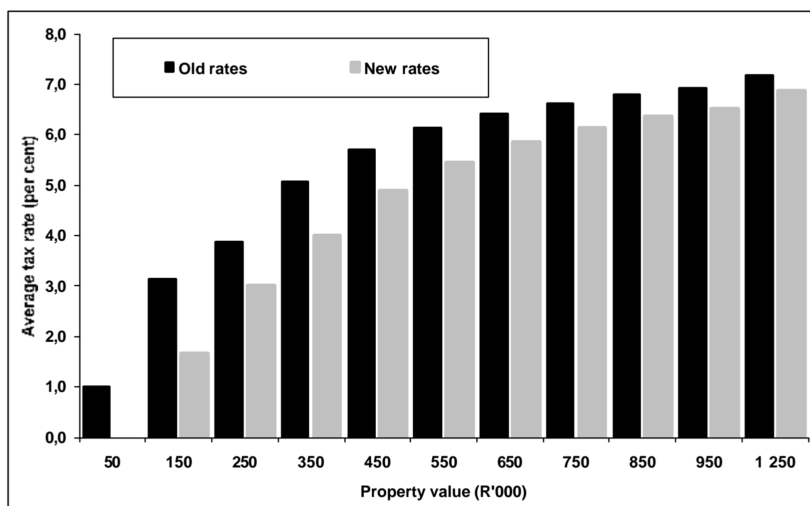
Table 4.8 Proposed rates of transfer duty

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

No duty will be payable on property with a value of less than R100 000. The average duty on property with a value of R150 000 will fall from 3,1 per cent to 1,7 per cent, the duty on property with a value of R300 000 falls from 4,6 per cent to 3,3 per cent. The schedule of rate cuts is illustrated in figure 4.1.

The new rate structure will apply to the acquisition of property from 1 March 2002 and, based on current property transaction trends, will cost R300 million.

Figure 4.1 Transfer duty average tax rates



Anti-avoidance measures to underpin relief

Many individuals seek to avoid the transfer duty by keeping property in various entities, such as companies. While the capital gains tax takes steps to address this, further measures will be introduced to curb this practice.

Taxation of deemed foreign income

With the relaxation of exchange controls since 1997, South African individuals and companies have been able to invest some of their assets outside South Africa. This easing of regulations has been accompanied by important changes to the South African income tax system. First, the source-based income tax regime was extended in 1997 with the introduction of 'deemed-source' rules for certain passive income. A full residence-based income tax was introduced on 1 January 2001.

SA residents require tax clearance to invest abroad

To get permission to invest abroad, South Africans require a tax clearance certificate from SARS, a copy of which is placed on the

taxpayer's file for future reference. At this stage, SARS is able to monitor the reporting of foreign-source income against this document.

Deemed income inclusion for failure to account for foreign assets

To underpin enforcement of the taxation of foreign income, it is proposed to subject deemed foreign income to income tax where a taxpayer does not account properly for assets that are invested abroad. Failure to report foreign assets adequately will, from the 2003 year of assessment, 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

The Income Tax Act contains a number of monetary thresholds that need to be adjusted from time to time to take account of the effects of inflation. It is proposed that the following thresholds be adjusted.

Bravery and long service awards

R5 000 tax-free bravery and long service 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

Higher thresholds for tax-exempt donations

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 from 1 March 2002.

Estate duty

R1,5 million estate duty exemption

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 from 1 March 2002.

Bursaries and scholarships for employees and their relatives

Increase exemption for 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. These include:

- 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.

Eliminate medical deduction threshold

Remove R1 000 threshold

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. The R1 000 threshold will be removed from 1 March 2002.

These proposals will result in a revenue loss of R36 million.

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. Normal salaried employees have very few expenses that relate to the production of their employment income, as it is usual practice for employers to provide the necessary facilities. Where such expenses are claimed, the quantification of the expenses and the split between non-deductible personal use and deductible business use result in significant administrative burdens for both SARS and the taxpayers concerned.

Limiting deductions to simplify the tax system

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

- Business travel deduction against car allowance
- 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 come into effect on 1 March 2002. It will not apply where an employee's remuneration is wholly or mainly derived in the form of commissions based on sales or turnover.

This measure will raise additional revenue of R85 million.

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 the 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 accommodation, meals, personal subsistence and incidental expenses.

Limit subsistence allowance to R65

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. Taxpayers may still be

reimbursed by employers for actual expenses incurred for subsistence and accommodation for business purposes. This measure will come into effect from 1 March 2002 and will raise R15 million.

Fringe benefits tax: occasional free service

Elimination of R500 occasional free service allowance

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 from 1 March 2002, as part of an effort to ensure consistency in the taxation of fringe benefits.

It is anticipated that this will raise R5 million.

Administrative reforms: Individual taxpayers

The following reforms to enhance the efficiency and effectiveness of the administration of the income tax law are proposed.

Single year for all taxpayers

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. Less than 1 000 taxpayers remain in this position. It is proposed that these taxpayers be brought into the standard arrangement and that the 2002/03 tax year for taxpayers with June tax years begin on 1 July 2002 and end on 28 February 2003.

This proposal will result in additional revenue of R10 million in 2002/03.

Raising provisional tax registration 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, which will significantly ease the administration and compliance costs for individual taxpayers.

The cost of this proposal will be R60 million in 2002/03.

Reviewing SITE

The current SITE system will be reviewed during the year. In the short term, SARS will place greater emphasis on ensuring that employers generate accurate records of employees. This will enable SARS to update its database to facilitate more accurate revenue estimation and will assist in the quantification of the tax gap. The possibility of registering all taxpayers with SARS will be explored.

Direct tax proposals: Companies and trusts

Accelerated depreciation

Accelerated depreciation for a broad range of manufacturing investment

Sustainable economic growth depends critically on investment in fixed capital to build long-term capacity and raise productivity. To complement the strategic investment programme and other initiatives of the Department of Trade and Industry, it is proposed to introduce an accelerated depreciation allowance. New manufacturing assets

acquired within three years from 1 March 2002 will be depreciated over four years. Forty per cent of the cost of the asset will be deducted in the first year and 20 per cent of the cost for the subsequent three years. These allowances will only be available to taxpayers in respect of assets used directly in their manufacturing businesses.

De minimis immediate expensing raised to R2 000

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.

It is anticipated that these proposals will cost R295 million in 2002/03.

Short-term stimulus for long-term capacity

These measures will provide a broad-based stimulus to investment spending in the short term, adding capacity to improve the longer-term prospects of the South African economy. The accelerated allowance in the first year also eases the impact of the recent depreciation of the currency on new investment, protecting the competitiveness of South African firms.

Tax relief for small businesses

15 per cent tax on first R150 000 of taxable income

Small business development is a key element of Government's strategy for economic growth and job creation. The proposals in this Budget build on the tax concessions granted in the 2000 and 2001 Budgets. 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 made. It is proposed that the threshold for the 15 per cent rate be raised to R150 000.

R3 million turnover threshold for small business relief

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.

These changes will take effect from years of assessment ending on or after 1 April 2002.

Administrative relief to reduce compliance costs

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.

These proposals will result in a net revenue loss of R40 million in 2002/03.

Immediate expensing of intellectual property

Raising threshold to R5 000

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.

This proposal will result in a reduction in revenue of R5 million.

Taxation of trusts

40 per cent tax rate on certain trusts

Trusts have a role in estate planning to preserve assets, particularly for the benefit of minor children, and for special trusts that cater for people suffering from mental illnesses or disabilities. However, it is important to protect the company and individual income tax bases by preventing tax avoidance through the inappropriate use of trusts. In this context, it is proposed that trusts, other than trusts mentioned below, be taxed at a flat rate of 40 per cent. Special trusts and testamentary trusts established for the benefit of minor children will be taxed at the individual tax rates.

This proposal will result in additional revenue of R90 million in 2002/03.

Other administrative reforms

Reviewing the number of provisional tax payments

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 reduce compliance costs and to improve the cash flow to the State.

Further tax reform programme

Taxation of retirement saving

Most countries in the world have special tax regimes for the contractual retirement saving industry. The immediate question that arises is whether contractual savings should benefit from greater fiscal privilege than discretionary savings.

In South Africa, contributions to retirement funds are generally deductible from income. Retirement funds are subject to tax on gross interest, net rental and foreign dividend income at a rate of 25 per cent and retirement income is generally taxed as ordinary income (except for a limited tax-free lump sum benefit).

Proposed holistic review 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. This review was deferred until the finalisation the residence-based income tax and the tax on capital gains.

The Minister of Finance undertook in the 2001 *Medium Term Budget Policy Statement* to review the taxation of retirement saving, with a view to developing policy reform proposals for the 2003 Budget.

Policy position paper during 2002

There have been a number of forums (including the Katz Commission, the Smith Committee and the National Retirement Consultative Forum) that have considered these issues and made recommendations for reform. 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 the 2001 Budget, concern was raised at the low effective tax rate in the banking sector and it was indicated that this would be reviewed over the course of the year. Shortly after the budget, the Minister and Deputy Minister, together with senior National Treasury and SARS officials, met with the chief executives of the major banks to consider the factors contributing to the considerable deviation of the effective rate of the sector from the statutory rate.

SARS questionnaire identifies sources of reduced taxes

SARS issued a questionnaire to the banking industry to identify the techniques through which the 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 in currency, commodities and equities for accounting purposes and their tax treatment
- Local and foreign dividends received
- Structured asset-based financing, such as financial leasing
- Income accrued for accounting purposes but not for tax purposes
- Characterisation of income as of a capital nature
- Income earned from non-South African sources.

Some of these issues have been addressed through the introduction of tax on foreign dividends, capital gains tax and the residence-based income tax.

Better enforcement has yielded revenue

In addition, improved enforcement of current law has enabled SARS to challenge many tax avoidance schemes, which has realised additional revenue of R792 million in 2001/02.

During the coming year, the taxation of derivative financial instruments and of financial leases will be investigated with a view to developing appropriate policy responses for consideration in the 2003 Budget.

Indirect tax proposals

Indirect taxes comprise 40 per cent of main budget revenue

Indirect taxes constitute about 40 per cent of main budget revenue, which has been relatively stable since 1990. The main components of indirect tax revenue are the VAT, fuel levy and specific excise duties, which account for about 80 per cent of indirect tax revenue. The remainder is comprised of trade taxes, financial transactions taxes and other levies.

Excise duties on alcoholic beverages

Specific excises contribute to health and social objectives

Specific excises on alcoholic beverages are an important source of Government revenue and contribute to broader health and social policy objectives. To develop a consistent and predictable framework for the taxation of alcoholic beverages, the National Treasury drafted a discussion document, *The Taxation of Alcoholic Beverages in South Africa*, which was discussed at a one-day workshop last year with key stakeholders in industry, regulatory authorities and the non-governmental sector. This was an effort to consider a long-term view with regard to specific excise policy on alcoholic beverages.

Duties on alcohol rise by 8 to 10 per cent

Government proposes to set the excise duties on alcoholic beverages as fixed percentages of the retail prices. These percentage targets will be phased in over three years. The proposed adjustments in excise for 2002/03 are:

- Spirits and sparkling wine – 10 per cent
- Beer, cider and natural and fortified wine – 8 per cent

Policy on specific excise duties on alcoholic beverages

In almost every country, the manufacturing, sale and consumption of alcoholic beverages have for centuries been subject to government interventions, regulations and special taxation (excise duties, in addition to sales taxes).

Excise duties on alcoholic beverages are justified as both an instrument to raise general tax revenue for Government and as a means to control the consumption of such beverages due to their potential harmful effects on society.

The National Treasury has over the past seven years attempted to streamline the taxation of alcoholic beverages in South Africa to be in line with international benchmarks and to enhance the internal consistency of excise duties on all types of alcoholic beverages. These efforts have culminated in a departmental report, *The Taxation of Alcoholic Beverages in South Africa*, addressing the structure of the excise duty regime, the level of duties and the impact on the level of consumption. This report was extensively discussed with most of the stakeholders in the alcoholic beverages market at a one-day workshop in Pretoria on 6 December 2001.

Those concerned about the negative health, safety and social effects of alcohol abuse argue that the tax burden on alcoholic beverages should be increased significantly above current levels. However, proposals to increase the duty must be balanced against the potential dangers of increased levels of smuggling and illicit brewing. Short of a policy of prohibition, the excise tax regime for alcoholic beverages should also consider the impact thereof on the alcoholic beverage industry and employment. One important finding of international and the local review is that there is a need to increase the capacity of the revenue authorities and the police to combat smuggling and illicit brewing.

No change to duty on sorghum beer

The excise burden on commercially produced sorghum beer and sorghum beer powder is relatively low. It is proposed to keep the excise duty on sorghum beer and beer powder constant in nominal

terms during 2002/03. The National Treasury and the Departments of Health and Social Development will undertake further research during 2002 to arrive at an informed policy position with respect to future of excise duties on sorghum beer. Developing policy in this area is complicated by the wide spectrum of untaxed substitute products for sorghum beer from which home brews can be fermented. Raising the tax on sorghum beer and beer powder at this stage could result in a number of unintended consequences, such as increased health risks from the consumption of alternative products.

The tax increases on alcoholic beverages will raise R355 million in additional revenue in 2002/03.

Duty on soft drinks and mineral water

Abolish duty on soft drinks

The excise duties on soft drinks have been scaled down over the last four years. The duties will be abolished with effect from 1 April 2002. The estimated revenue loss will amount to R135 million.

Tobacco products

The policy to maintain a total consumption tax burden (VAT plus excise duty) of 50 per cent of the retail-selling price of the most popular brand for each category of tobacco products is retained. Based on this and the latest available prices it is proposed to increase the excise duties as follows:

- Cigarettes – 10,7 per cent
- Cigarette tobacco – 43,7 per cent
- Pipe tobacco – 12,3 per cent
- Cigars – 15,4 per cent.

This will raise additional revenue of R443 million in 2002/03.

These current and proposed excise duties are summarised in table 4.9 and set out in more detail in Annexure C.

Air passenger departure tax

The departure tax was introduced in November 2000. The current tax is R50 per fee-paying passenger travelling to SACU countries (Botswana, Lesotho, Namibia and Swaziland) and R100 per fee-paying passenger travelling to all other countries.

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

Table 4.9 Changes in specific excise duties

Product	Current excise duty rate	Proposed excise duty	Estimated additional revenue R million	Nominal change in excise duty (%)	Real change in excise duty (%)
Malt beer	R23,73/ litre of absolute alcohol	R25,63/ litre of absolute alcohol	222.62	8	1.3
	(40,34c/ average 340ml can)	(43,57c/ average 340ml can)		8	1.3
Sorghum beer	7,82c/ litre	7,82c/ litre	0	0	-6.7
Sorghum flour	34,7c/ kg	34,7c/ kg	0	0	-6.7
Unfortified wine	74,7c/ litre	80,7c/ litre	18.60	8	1.3
Fortified wine	169,0c/ litre	182,5c/ litre	3.06	8	1.3
Sparkling wine	206,90c/ litre	227,6c/ litre	1.27	10	3.3
Mineral water and soft drinks	6,0c/ litre	0c/ litre	-135.00	-100	-106.7
Ciders and alcoholic fruit beverages	120,80c/ litre	130,5c/ litre	19.24	8	1.3
Spirits	R33,37/ litre of absolute alcohol	R36,71/ litre of absolute alcohol	90.27	10	3.3
	R10,76/ average 750ml bottle	R11,84/ average 750ml bottle		10	3.3
Cigarettes	316,80 c/ 20 cigarettes	350,8c/ 20 cigarettes	399.72	10.7	4.0
Cigarette tobacco	358,34c/ 50g	514,8c/ 50g	0.52	43.7	37.0
Pipe tobacco	116,93c /25g	131,3c /25g	42.47	12.3	5.6
Cigars	1527,66c /23g	1763,4c /23g	0.46	15.4	8.7

Fuel levy

The indirect tax on fuel consists of four components:

- The general fuel levy, which accrues to the National Revenue Fund
- The Road Accident Fund levy, which is dedicated to meeting claims from victims of road accidents
- A customs and excise levy, which forms part of the SACU customs pool
- An equalization fund levy, the proceeds of which have been used in the past to smooth the monthly fluctuations in the domestic fuel price due to changes in international crude oil prices.

A small levy has been imposed on diesel sales since 2001 to fund the marking and dyeing of illuminating paraffin to combat the illegal mixing of diesel and illuminating paraffin.

The components of the total fuel levy are set out in table 4.10.

Table 4.10 Total combined fuel levy on leaded petrol and diesel

As at June (cents/l)	1998		2001	
	93 Octane petrol	Diesel	93 Octane petrol	Diesel
General fuel levy	86,6	76,1	98,0	81,0
Road Accident Fund	14,5	10,3	16,5	16,5
Customs and excise	4,0	4,0	4,0	4,0
Equalization Fund	0,4	0,5	–	–
Illuminating paraffin marker	–	–	–	0,2
Total	**105,5**	**90,9**	**118,5**	**101,7**
Retail price: Gauteng	232,0	203,0	401,0	347,0
Taxes as a % of retail price	**45,5**	**44,8**	**29,6**	**29,3**

The general fuel levy as a tax instrument ranks fourth in terms of its contribution towards main budget revenue after income tax, VAT and corporate income tax. Proceeds from the general fuel levy accounted for R14,5 billion or 6,7 per cent of main budget revenue in 2000/01. This percentage increased from 5,0 per cent in 1988/89 to a peak of 8,5 per cent in 1992/93 and has since gradually declined to its current level.

Figure 4.2 Fuel prices November 1996 to January 2002

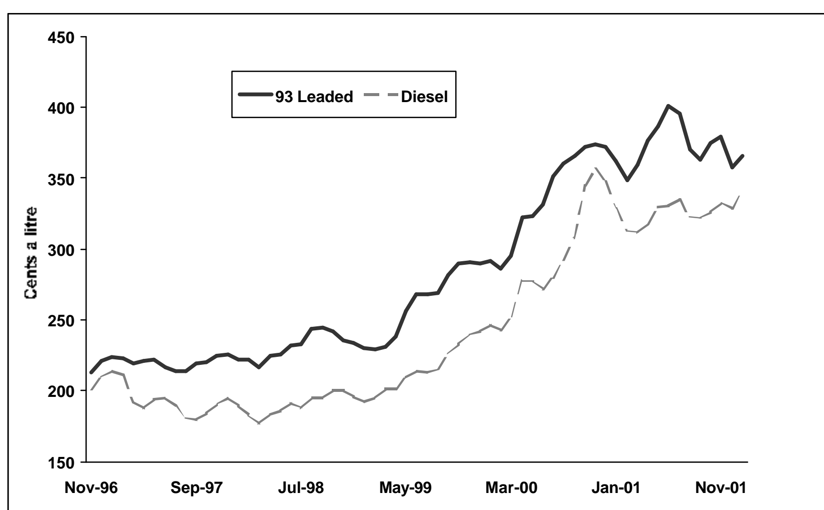


Figure 4.2 illustrates the fuel price movements since November 1996. The fluctuations in the price are largely determined by changes in the international price of crude oil and the exchange rate between the rand and the US$. Prices of 93 unleaded petrol in Gauteng rose from R3,49 a litre in February 2001 to peak at R4,01 a litre in June 2001, before falling again in the second half of the year. Table 4.10 indicates that the tax incidence (burden) on fuel has decreased from an average of 45 per cent of the retail selling price in 1998 to around 30 per cent in 2001.

No change to general 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

Biodiesel: an alternative to fossil 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. Biodiesel currently enjoys advantages over ethanol fuels in that it can be produced more economically, provides more energy, is a cleaner-burning fuel and is compatible with existing engines and commercial fuel distribution systems.

Economic advantages of biodiesel

Biodiesel contains a number of advantages for the domestic economy.

- Producing biodiesel locally would reduce dependence on the import of fossil fuels, easing pressure on the balance of payments.
- Biodiesel should in due course gain a competitive advantage over fossil fuels, as its relative production costs decline.
- Production of biodiesel has important backward linkages into the rural economy, contributing to job creation and rural incomes.

Given the long-term benefits of biodiesel, a favourable fuel tax treatment is proposed, easing the cost disadvantages it currently faces over fossil fuels.

Advantageous tax framework

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

Diesel fuel concession for more marine users

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 Road Accident Fund levy component of the diesel fuel concession to harbour vessels operated by Portnet and to vessels used by in-port bunker barge operators. These proposals will be effective from 3 April 2002. The estimated revenue loss of extending the diesel fuel concession as proposed will

amount to R4,1 million to the fiscus and R2,4 million to the Road Accident Fund.

Other charges and levies

Lloyd's insurance premium levy

Currently 2,5 per cent levy on Lloyd's insurance premiums

At present, 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. This charge was originally introduced in 1943 to admit Lloyd's to the local market and ensure it faced a similar fiscal environment as local competitors.

Withdraw Lloyd's levy

There have been significant changes to the local insurance market since 1943 and the levy on Lloyd's is no longer appropriate. It is proposed that the levy be withdrawn. Based on the volume of business Lloyd's currently conducts in South Africa, it is estimated that the cost to the fiscus of this proposal would be R15 million. The proposal will apply in respect of premiums paid on or after 1 January 2002.

Removal of securities taxes on certain warrant transactions

Warrants are option instruments traded on the JSE and account for about 20 per cent of equity trades

Warrants are derivative instruments traded on the JSE Securities Exchange that entitle a holder to buy or sell the underlying investment (a share in a company or group of companies, an index or a commodity) at a specific price either at a specific time or before a specified date. Warrants are issued by financial institutions or approved issuers and, if exercised, it is the issuing institution that must either sell to or buy from the warrant holder the underlying investment. Warrant trades now make up about 20 per cent of trades conducted on the JSE.

Warrant issuers act as market makers

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

MST and UST exemption to facilitate the warrant market

To facilitate the development of this market by eliminating certain transaction costs that are absent in many competing markets, it is proposed that warrant issuers be exempt from Marketable Securities Tax (MST) and Uncertificated Securities Tax (UST) on the repurchase of warrants they issue. Registered brokers are already exempt from the MST and UST and this proposal would ensure parity of treatment between brokers and other warrant issuers that are not registered brokers in respect of warrants they issue.

This proposal will apply from 1 April 2002 and will result in a revenue loss of R80 million.

Elimination of certain stamp duties

Stamp duties are collected on certain instruments and raised an estimated R1,9 billion in 2001/02. In previous budgets, certain stamp duties have been removed to free administrative resources and ease

the compliance burden associated with certain transactions, thereby making aspects of the South African financial and legal system more efficient. It is proposed to continue this process by removing further duties.

Remove duty on listed debt instruments

In 2001, the stamp duty on bills of exchange and promissory notes was removed. This had unintended consequences for listed debt instruments, which are traded on the Bond Exchange, as the issue of listed debt instruments is still subject to stamp duty and Uncertificated Securities Tax.

In recent years, there has been a resurgence of private listed debt, as companies have sought to take up the space created by Government's reduced reliance on domestic borrowing and raise finance through the Bond Exchange. 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. This has hindered competition in the home loan market and has reduced the scope for asset securitisation in this market. 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 other duties that raise little revenue, yet require administrative and audit resources. It is proposed that duties in respect of the following instruments or 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.

These proposals will result in a revenue loss of R35 million.

Social security tax changes

Road Accident Fund levy

The Road Accident Fund provides insurance for victims of road accidents and is funded through a dedicated levy on petrol and diesel. The Fund is currently engaged in internal reforms to ensure disciplined management of its resources and sustainability of its finances. This will limit the scope for fraud in the claims process and ensure the intended beneficiaries of the Fund receive benefits to which they are entitled.

2c a litre increase in Road Accident Fund levy

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 will raise an additional R310 million for the Road Accident Fund and will be effective from 3 April 2002.

Unemployment Insurance Fund

New administration framework for UIF

Following an analysis of the administration of the current unemployment insurance system and the report by the Minister of Labour in 1998, Cabinet approved the reform of the Unemployment Insurance Fund. The Unemployment Insurance Act, 2001, deals with the administrative side of the system, i.e. the establishment of the Unemployment Insurance Fund and the determination and payment of benefits.

SARS to collect UIF contributions

The Unemployment Insurance Contributions Bill, 2001 regulates the collection of contributions to the Unemployment Insurance Fund from employers. The Commissioner for SARS will be responsible for the administration of the provisions of this Bill and the collection of the contributions from employers who are registered with SARS for purposes of employees' tax or the Skills Development Levy. Other employers will pay the contributions directly to the Unemployment Insurance Commissioner.

The Unemployment Insurance Contributions Bill, 2001, was introduced in the National Assembly late last year and will be dealt with during the first session of Parliament.

Regional tax cooperation

Southern African Customs Union

Customs and excise revenue collected in the South African Customs Union (SACU) is shared according to a formula that has been in place since 1969. It was indicated in the 2001 Budget that the formula was to be restructured to reflect principles agreed in September 2000 by the SACU Ministers of Trade and Ministers of Finance.

Agreement to guide SACU arrangements

In October 2001, SACU Ministers of Finance and Trade concluded an agreement to guide a new institutional and revenue agreement for SACU, which will come into force after being signed and ratified by member states.

New formula to ensure stable revenue flow

The new formula will consider excise and customs revenue separately to ensure a more stable flow of revenue to BLNS countries, as these countries reduce customs duties in line with WTO commitments.

As noted in table 4.3, South Africa's SACU outlays are R8,2 billion in 2001/02 and are anticipated to rise to R8,3 billion in 2002/03. Over the medium term, SACU payments are forecast to rise by about 4 per cent a year.

SADC Tax Subcommittee

Development of draft Memorandum of Understanding

The SADC Tax Subcommittee, which is chaired by South Africa, was established on 5 July 2000 to identify and develop areas of cooperation in tax administration and policy aimed at building stable and efficient tax systems that will facilitate trade and investment, while securing regional tax bases. Over the past year, the primary focus of the Subcommittee's work has been the development of a Memorandum of Understanding. It is anticipated that it will be signed by member states during 2002 and will be incorporated into the SADC Protocol on Trade and Investment, to be signed in 2004.

After the proposed Memorandum is signed, the Subcommittee will focus on implementing its agreed objectives, including:

- Developing a tax database for the region
- Capacity building to develop the professionalism and expertise of tax officials
- Formulating a common approach to the use of tax incentives and developing guidelines for eliminating harmful tax practices in the region
- Identifying areas for potential coordination of indirect taxes including excise duties and value-added tax, with particular emphasis on eliminating tax barriers to intra-SADC trade.

Capacity building workshops

Capacity building is a cornerstone of the Tax Subcommittee's responsibilities. Over the past year, workshops have been held on revenue estimation and quantitative analysis of tax policy, double taxation agreements, tax incentives and value-added taxation. Delegates at these workshops have gained valuable insight and been able to share experiences with other member countries, which is critical for providing a sound tax platform in the region. Further workshops are planned on mining taxation and other topics relevant to members.

Southern Africa Tax Institute

The Southern African Tax Institute will be established during 2002 as an independent institute devoted to training, research and technical assistance in the areas of tax policy and tax administration. Its initial focus will be on the 17 countries in sub-Saharan Africa and the courses will be based on the Harvard International Tax Programme, adapted to African conditions.

The Institute's board of advisors has selected the University of Pretoria as the administrative centre of the Institute, while several other institutions including Rand Afrikaans University, the University of South Africa, the University of the Witwatersrand, and the University of Dar es Salaam will participate. The first course for officials is being offered mid 2002.