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 R5 400 a year for all individuals. The secondary rebate is increased to R3 100 a year for individuals aged 65 years or older. The rates of tax in respect of the 2002/03 tax year and those proposed for the 2003/04 tax year are set out in Table C1.

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

2002/03		2003/04	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
0 – 40 000	18% of each R1	0 – 70 000	18% of each R1
40 001 – 80 000	R7 200 + 25% of the amount above R40 000	70 001 – 110 000	R12 600 + 25% of the amount above R70 000
80 001 – 110 000	R17 200 + 30% of the amount above R80 000	110 001 – 140 000	R22 600 + 30% of the amount above R110 000
110 001 – 170 000	R26 200 + 35% of the amount above R110 000	140 001 – 180 000	R31 600 + 35% of the amount above R140 000
170 001 – 240 000	R47 200 + 38% of the amount above R170 000	180 001 – 255 000	R45 600 + 38% of the amount above R180 000
240 001 and above	R73 800 + 40% of the amount above R240 000	255 001 and above	R74 100 + 40% of the amount above R255 000
Rebates		**Rebates**	
Primary	R4 860	Primary	R5 400
Secondary	R3 000	Secondary	R3 100
Tax threshold		**Tax threshold**	
Below age 65	R27 000	Below age 65	R30 000
Age 65 and over	R42 640	Age 65 and over	R47 222

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, 2003/04 (taxpayers younger than 65)

Taxable income (R)	2002 rates (R)	Proposed rates (R)	Tax reductions (R)
30 000	540	-	540
35 000	1 440	900	540
40 000	2 340	1 800	540
45 000	3 590	2 700	890
50 000	4 840	3 600	1 240
55 000	6 090	4 500	1 590
60 000	7 340	5 400	1 940
65 000	8 590	6 300	2 290
70 000	9 840	7 200	2 640
75 000	11 090	8 450	2 640
80 000	12 340	9 700	2 640
85 000	13 840	10 950	2 890
90 000	15 340	12 200	3 140
100 000	18 340	14 700	3 640
120 000	24 840	20 200	4 640
150 000	35 340	29 700	5 640
180 000	46 140	40 200	5 940
200 000	53 740	47 800	5 940
500 000	172 940	166 700	6 240
800 000	292 940	286 700	6 240
1 000 000	372 940	366 700	6 240

Table C3: Income tax payable, 2003/04 (taxpayers age 65 and older)

Taxable income (R)	2002 rates (R)	Proposed rates (R)	Tax reductions (R)
47 000	1 090	–	1 090
50 000	1 840	500	1 340
55 000	3 090	1 400	1 690
60 000	4 340	2 300	2 040
65 000	5 590	3 200	2 390
70 000	6 840	4 100	2 740
75 000	8 090	5 350	2 740
80 000	9 340	6 600	2 740
85 000	10 840	7 850	2 990
90 000	12 340	9 100	3 240
100 000	15 340	11 600	3 740
120 000	21 840	17 100	4 740
150 000	32 340	26 600	5 740
180 000	43 140	37 100	6 040
200 000	50 740	44 700	6 040
500 000	169 940	163 600	6 340
1 000 000	369 940	363 600	6 340

Figure C1: Average tax rates under age 65

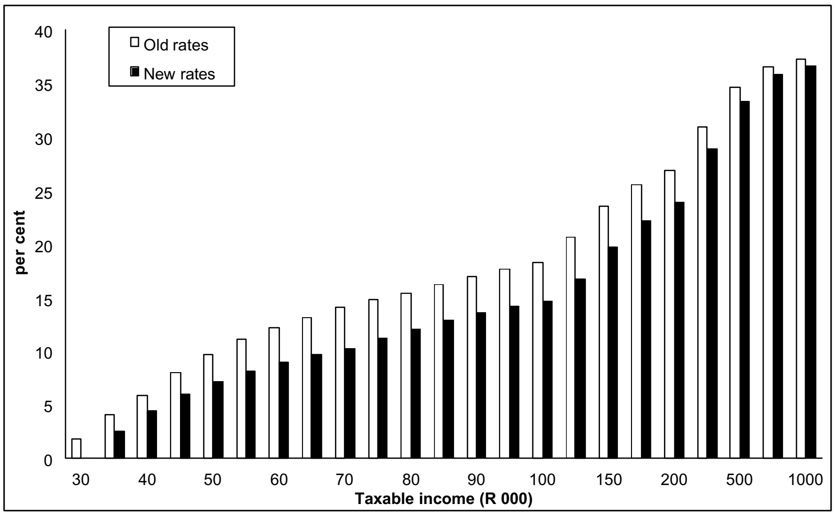


Figure C2: Average tax rates age 65 and older

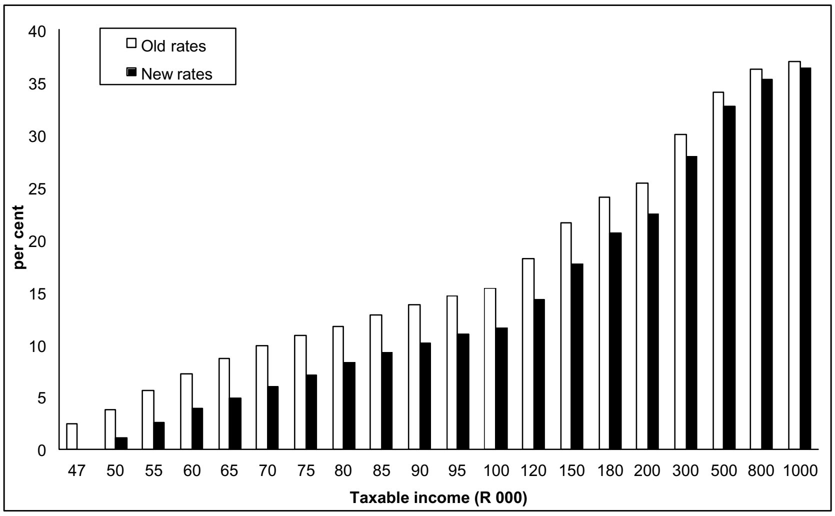
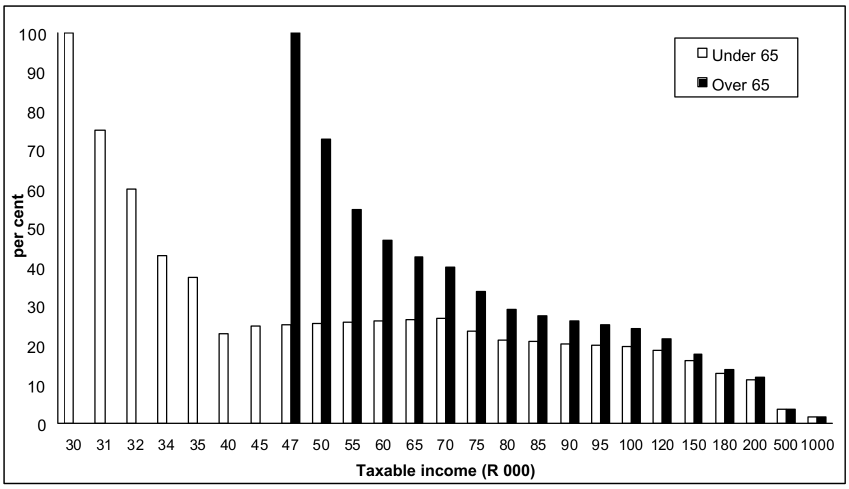


Figure C3: Nominal declines in average tax rates



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.

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 taxation agreements provide a solid platform for the growth in international trade and investment by providing a certain tax framework.

In the 2002/03 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, Greece, 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, the Seychelles, Singapore, the Slovak Republic, Swaziland, Sweden, Switzerland, Thailand, Tunisia, Uganda, the United Kingdom, the United States of America, Zambia and Zimbabwe. An agreement with the United Kingdom, signed in October 1946, extends also to Grenada and Sierra Leone.
- Limited sea and air transport agreements exist with Brazil, Portugal and Spain.
- Comprehensive agreements have been ratified in South Africa with New Zealand and Nigeria.
- Comprehensive agreements have been signed but not ratified with Belarus, Rwanda and the Sultanate of Oman.
- Comprehensive agreements have been negotiated or renegotiated, but not signed, with Botswana, Bulgaria, Estonia, Ethiopia, Gabon, Germany, Ghana, Kuwait, Latvia, Lithuania, Malawi, Malaysia, Morocco, Mozambique, the Netherlands, Portugal, Qatar, Spain, Swaziland, Tanzania, Turkey, Ukraine, the United Arab Emirates, 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, Brazil, Saudi Arabia 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.
- Agreements have been ratified in South Africa with Algeria, the Czech Republic, Mozambique, the Netherlands and Zambia.
- Agreements have been negotiated but not signed with Angola, Iran and Norway.
- 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 of 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 (26 February 2003) to the extent shown in Table C6.

Table C4: 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
104.10	22.03	Beer made from malt	2563c/l of absolute alcohol	2563c/l of absolute alcohol	2819.3c/l of absolute alcohol	2819.3c/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: such as mixtures of wine and water, etc.)				
.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	80.7c/l	80.7c/l	89.6c/l	89.6c/l
.40		Fortified still wine	182.5c/l	182.5c/l	200.75c/l	200.75c/l
.50		Other still fermented beverages, unfortified	130.5c/l	130.5c/l	143.55c/l	143.55c/l
.60		Other still fermented beverages, fortified	231.4c/l	231.4c/l	254.54c/l	254.54c/l
.70		Sparkling wine	227.6c/l	227.6c/l	252.6c/l	252.6c/l
.80		Other fermented beverages (excluding sorghum beer)	275.2c/l	275.2c/l	302.72c/l	302.72c/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 volume; spirits, liqueurs and other spirituous beverages:				
.10		Wine spirits, manufactured in the Republic by the distillation of wine	3 671c/l of absolute alcohol	-	4 038.1c/l of absolute alcohol	-
.15		Spirits, manufactured in the Republic by the distillation of any sugar cane product	3 671c/l of absolute alcohol	-	4 038.1c/l of absolute alcohol	-
.25		Spirits, manufactured in the Republic by the distillation of any grain product	3 671c/l of absolute alcohol	-	4 038.1c/l of absolute alcohol	-
.29		Other spirits, manufactured in the Republic	3 671c/l of absolute alcohol		4 038.1c/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 575c/l of absolute alcohol or 1 537c/l		3 942.1c/l of absolute alcohol or 1 695c/l
.70		Spirits of any nature in imported liqueurs, cordials and similar spirituous beverages containing added sugar, with or without flavouring substances		3 575c/l of absolute alcohol		3 942.1c/l of absolute alcohol
104.30	24.02	Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes				

Tariff item	Tariff heading	Description	Present rate of duty		Proposed rate of duty	
			Excise	Customs	Excise	Customs
.10		Cigars	76 670c/kg net	76 670c/kg net	106 600c/kg net	106 600c/kg net
.20		Cigarettes	175.40c/10 cigarettes	175.40c/10 cigarettes	194.25c/10 cigarettes	194.25c/10 cigarettes
104.35	24.03	Other manufactured tobacco and manufactured tobacco substitutes, “homogenised” or “reconstituted” tobacco extracts and essences				
.10		Cigarette tobacco	10 297c/kg	10 297c/kg	12 447c/kg	12 447c/kg
.20		Pipe tobacco	5 251c/kg net	5 251c/kg net	5 824c/kg net	5 824c/kg net

Miscellaneous amendments

In addition to the Budget Proposals described in Chapter 4 of this Budget Review, the 2003 Revenue Laws Amendment Bill will contain a number of miscellaneous amendments to the various tax acts. These amendments stem from various problem areas identified with current legislation as detected over the course of the year through internal review and public comment. Some of these areas eliminate perceived loopholes while others ensure that tax legislation does not inadvertently hinder legitimate non-tax motivated transactions. These amendments are expected only to have a small revenue impact for the fiscus and are accordingly not listed in Chapter 4. The purpose of this full listing of lesser amendments is to provide taxpayers with certainty with regard to expected legislative changes during the upcoming year.

Miscellaneous amendments to the Income Tax Act

- Conversion of share block interests to sectional title: Current law will be modified to ensure that homeowners can convert their share block interests to sectional title interests. This change may also involve changes to the Stamp Duty Act.
- Clarification of the law involving insolvent estates: Current law will be clarified as to when an insolvent estate will be deemed to be one and the same with respect to a person before insolvency (or when the insolvency order of sequestration has been set aside).
- Clarification of the law involving mineral environmental reclamation trusts: Under current law, an entity (usually a trust) established to satisfy certain regulatory mining obligations is exempt from income tax and eligible to receive deductible contributions from the mining company. Current law will be clarified to ensure that this entity can only be dedicated for environmental reclamation purposes as originally intended by the legislature.
- Clarification of the interaction between actual and deemed dividends: The interaction between actual and deemed dividends triggering Secondary Tax on Companies (STC) may currently result in double taxation with respect to the same profits available for distribution. Other co-ordination problems also exist between the actual and deemed dividend regimes. These matters will accordingly be clarified.
- Provide parity for indebted importers in respect of foreign currency exchange differences: Under current law, an importer borrowing foreign funds to acquire merchandise for sale within South Africa is subject to inconsistent foreign currency treatment. The currency exchange differences on the borrowed funds are disregarded while the profit (including any currency gain) on the merchandise is fully taken into account. This unintended consequence of the 2002 tax legislation will be corrected.

- Administration – penalties/interest on withholding of royalties paid to foreign residents: Penalty and interest provisions for the failure to withhold tax on royalties will be aligned with the main Act.
- Use of unutilised farm development expenditures as an offset: Current law will be modified so that farmers can claim unutilised development expenditures as an offset against capital gains upon sale or cessation of farm activities.
- Clarification of the law in respect of part disposals: The 2002 legislation contained a number of adjustments on the part disposals rules that are still in need of further adjustment.
- Administration - electronic issue of notices and assessments: As part of the detail of the e-filing legislation introduced in prior years, current law will be modified to allow for electronic notices and assessments.
- Administration – place of filing: Current law will be clarified to explicitly state that the Commissioner will have authority to prescribe the required place of filing of returns and other required forms.
- Exemption of section 10(1)(d)-entities: Propose that the period within which these entities may apply for exemption be extended.

Residual capital gains tax implementation issues

The tax on Capital Gains was implemented with effect from 1 October 2001, applying to capital gains/losses economically accruing on or after that date. This regime contains three basic methods for addressing these implementation date issues (the valuation method, the time apportionment method, and the 20-per cent proceeds method). These methods and other implementation concerns continually raise issues that demand prompt Government response. It is accordingly proposed that the Minister be provided with regulatory authority to remedy these concerns.

Residual corporate reorganisation issues

A new comprehensive corporate reorganisation regime was introduced in late 2001. In response to taxpayer comments in 2002, this regime was modified and clarified. In order to remedy any remaining minor issues, the National Treasury and SARS will request public comments with respect to the corporate reorganisation regime (and collateral related amendments). This request will occur via the website with the closing date for comments ending 30 June 2003. Comments requested are those that involve clarification of ambiguities, removal of inconsistencies, and changes to reflect the corporate reorganisation regime's initial intent. It is not the intent of Government to allow this opportunity to be used as mechanism for reversing prior policy decisions or for addressing new policy directions. Any changes in this regard will only be made during the upcoming year and only if time permits.

Miscellaneous amendments to the Value-Added Tax (VAT)

- *Approvals by the Sectoral Education and Training Authorities (SETAs):* The services of educational institutions are exempt from VAT if constituted under an Act of Parliament and/or approved by the Department of Education. The Department of Education has recently delegated the approval of certain educational institutions to the SETAs. The proposal will accordingly accommodate this delegation.
- *Goods imported into licensed warehouses for re-export:* VAT is payable on the importation of goods. However, goods placed in a licensed South African warehouse and subsequently exported are wholly disregarded. In order to promote the use of licensed South African

warehouses for export, it is proposed that these re-exported goods be zero-rated like other exports. This zero-rating will allow exporters credits for related input costs.

- *Transfers outside South Africa without sale:* The supply of goods to legally independent entities outside the Republic of South Africa is zero-rated, and the South African "export" of goods to foreign operations of the same company are similarly zero-rated. It has come to Government's attention that certain taxpayers are attempting to interpret the word "export" as a transfer of legal title without an actual physical transfer of goods. It is accordingly proposed to eliminate any perceived definition of "export" as relating solely to the transfer of legal title.
- *Fixed properties acquired by financial institutions upon foreclosure*: The VAT Act allows for notional input tax credits with respect to second-hand goods, but anti-avoidance rules generally apply to the acquisition of previously used fixed property from non-vendors that limits these notional input tax credits to the Transfer Duty paid upon acquisition. These anti-avoidance rules create an unintentional disparity for financial institutions acquiring properties on auction (with the extra cost being passed on to the defaulting debtor). It is accordingly proposed that the Transfer Duty limitation be eliminated for financial institutions in the case of fixed property foreclosures.
- *Hospital care*: Under current law, the definition of entertainment is wide enough to cover hospital care (including hospital accommodation and meals), thereby creating a VAT charge. It is accordingly proposed that the definition of entertainment be modified to eliminate this inadvertent result.
- *Foreign educational institutions*: Under current law, the services provided by foreign educational institutions could conceivably give rise to a VAT charge as an imported service. It is proposed that these services be exempted to bring them in line with local educational institutions.
- *Capital expenditures and conversion to VAT vendor status (or increase of taxable supplies):* Certain expenditures incurred by vendors in acquiring a capital asset do not attract VAT input credits. However, a taxpayer incurring capital expenditures and subsequently obtaining VAT registration status (or increase of taxable supplies), receives VAT input credits for capital expenditures under the conversion formula. It is accordingly proposed that the conversion formula be modified to eliminate this anomaly.
- *Administration - Rounding fractional payments:* Under current law, VAT payments are rounded to the nearest 1 cent. This rounding is no longer feasible with the possible discontinuance of 1 and 2 cent coins in the near future. It is accordingly proposed that rounding to the nearest 5 cents be permitted.
- *Administration - Penalties for unauthorised use of invoices with respect to the VAT export incentive schemes:* Under current law, it is a criminal offence for parties to make unauthorised use of tax invoices with respect to the VAT export incentive schemes. It is proposed that civil penalty provisions be added in this regard in order to provide the Commissioner with a less burdensome alternative for remedying this abusive practice.
- *Administration – Processing errors:* Recent changes have been made to the Income Tax Act in order to allow for quick and easy correction of administrative processing errors. It is proposed that these changes be added to the VAT Act.

Miscellaneous amendments to the Customs and Excise Act

- *Duty at source*: With the implementation of Duty at Source being extended during the first quarter of 2003, provision is being made for possible amendments of sections dealing with the implementation of Duty at Source as a result of feedback from industry and officials.

- *Industrial development zones*: The gradual implementation of Industrial Development Zones in South Africa may necessitate legislative changes to facilitate the smooth implementation of policy objectives.
- *Biofuels*: Possible provisions to allow for the mixing of diesel and biodiesel to encourage the production and use of environmentally friendly transport fuels.
- *Time periods of extinctive prescription*: Time periods to be reviewed.
- *Entering premises in terms of the Act and procedures to detain goods under customs control*: Provide clear guidelines that will be in line with the Constitution and other legislation to regulate the said activities.
- *Protection of customs and excise officers*: To introduce measures to ensure the safety of custom officers.
- *Determination of the value of exported goods*: Clarify circumstances under which the Commissioner may determine a value for exported goods if an exporter incorrectly declared the value or the value cannot be ascertained by the exporter.
- *Procedure to levy a penalty*: Amend section 91 to promote fairness when penalties are to be imposed.
- *Release of goods detained or seized*: To allow the Commissioner to release goods without payment of a penalty in terms of section 93 in instances where there was no criminal intent to evade duties.
- *Disputed ownership of goods*: To allow the Courts, as opposed to the Commissioner, to settle disputes between two or more persons regarding ownership of goods.
- *Administrative appeals*: Following the amendment of section 3(3), consequential amendments to section 95A will be provided to allow for an appeal of a decision of a committee.
- *Electronic communication*: The introduction of the Electronic Communications and Transaction Act necessitates a review of the provisions of section 101A.
- *Siyakha initiatives*: Consequential amendments.
- *Recovery of debts*: Amend section 114 to incorporate provisions of the VAT Act to facilitate the recovery of debts due in respect of duties and other monies.
- *SACU agreement*: Consider possible amendments to the Customs and Excise Act in light of the new SACU agreement.

Miscellaneous amendments to the Stamp Duties Act

- *Removal of miscellaneous unlisted company debts:* Stamp duties (as well as UST and MST) no longer apply to most forms of company issued debt. However, certain interest-bearing debentures, debenture stock, debenture bonds, linked units and other securities of a company have inadvertently remained within the financial transaction tax net. It is accordingly proposed that these items be removed from the financial transaction tax net to the extent these instruments are not convertible into shares.
- *Debtors and mortgage bonds:* In order to facilitate the mortgage bond market, the 2002 legislation removed all Stamp Duties when creditors cede their interests in bonds. Subject to anti-avoidance concerns, consideration is being given to whether the substitution of debtors should also be exempt from Stamp Duty as a matter of parity in all or certain situations.
- *Administration - penalty stamps:* Taxpayers who violate the Stamp Duty regime will be subject to an additional stamp duty penalty in lieu of the current penalty stamp duty.

Miscellaneous amendments to the Skills Development Levy

- *Clarification of levy base:* Application of the Skills Development Levy has proven problematic for certain industries as the application of the levy base is not practical. Consideration will be given toward remedying these concerns.
- *Approval required for certain public benefit organisations:* Consider an amendment to ensure that public benefit organisations that provide funds to other public benefit organisations must also be approved by the Commissioner before the exemption from Skills Levy will apply.

Miscellaneous amendments to the Unemployment Insurance Contributions Act

- *Conforming legislation for expected amendments to the Unemployment Insurance Act*: The Unemployment Insurance Contributions Act will be aligned with amendments to the Unemployment Insurance Act (for example, in respect of domestic servants).

Miscellaneous amendments for General Administration

- *Tax court rules*: Minor procedural adjustments to the tax court rules will be made during the course of the year.

Technical corrections

In addition to the miscellaneous amendments above, the 2003 Revenue Laws Amendment Bill will contain ongoing technical corrections of various kinds. These technical corrections will address typing and grammatical issues, incorrect headings, misplaced cross-references, differences between the English and Afrikaans text, obsolete provisions and cross references, legislation clearly at odds with legislative intent, obvious ambiguities and omissions, incorporating regulations into law, and problems relating to the effective date of prior tax acts. Other than possible issues surrounding effective dates, changes of these kinds are not intended to have any policy or revenue impact. Any changes made in this regard will be made during the upcoming year only if time permits.

Tax expenditures in South Africa

The IMF visited the country in March 2002 and issued the Observance of Standards and Codes: Fiscal Transparency Report. In terms of this review process, South Africa has given an undertaking to introduce a basic tax expenditure statement with further development towards a comprehensive quantitative statement on revenues foregone once the information management systems at SARS are fully developed.

Tax expenditures can be defined as any tax preference, including exemptions that exclude income from the tax base or allowances that are deductions from gross income or a reduction in a rate of tax or tax deferrals that delay the payment of tax. The statement covers all national government taxes. The detail of the main tax expenditures with the policy rationale and intended beneficiaries is provided in Table C5.

Table C5: Tax expenditures in South Africa

Source	**Rationale for tax expenditure and intended beneficiaries**
Personal income tax expenditures	
• Rating formula on lump sum benefits • Exemption of R30 000 in respect of certain lump sum payments • Exemption of war pensions • Exemption of disability pensions • Exemption of any capital annuity amount payable to a purchaser or the deceased estate or insolvent estate or spouse	The rating formula is aimed at giving relief to taxpayers whose income in any tax year is inflated by extraordinary amounts by applying an average rate of tax. The exemption of R30 000 applies to persons who have reached the age of 55 years or the termination of the person's services in specific circumstances.
• Exemption of compensations paid in terms of the Workmen's Compensation Act or the Compensation for Occupational Injuries and Diseases Act • Exemption of allowances payable in terms of the Unemployment Insurance Act	Compensations paid for injuries at work and to the unemployed are exempt from income tax.
• Exemption of interest and certain dividends below prescribed limits	Incentivising the propensity to save, interest and taxable dividends in total up to R10 000 are exempted for individuals below 65 years and R15 000 for individuals 65 years and older. Foreign dividends and interest limited to R1 000.
• Exemption of dividends received by any person	Dividends received by any person are exempt from tax to avoid tax at both the company and shareholder level.
• Exemption of a *bona fide* scholarship or bursary	*Bona fide* scholarships and bursaries to enable any person to study at a recognised educational or research institution are exempt.
• Deduction for current contributions to a pension fund limited to the greater of R1 750 or 7,5 per cent of remuneration or retirement-funding employment • Deduction for arrear contributions to a pension fund limited to R1 800 per person per annum • Deduction for current contributions to Retirement Annuity Funds limited to the greatest of 15 per cent of income from non-retirement-funding income or R3 500 less any amount allowed in terms of current contributions to a pension fund or R1 750	The deduction is granted to employees and self-employed persons within certain limits to encourage saving for retirement, in order to provide for their retirement needs thereby reducing the need for State assistance.
• Deductions for medical, dental and physical disability expenses to the extent that it exceeds the greater of 5 per cent of the taxpayer's taxable income for persons under 65 years and no limit for persons 65 years and older. Handicapped persons may deduct all qualifying medical expenditure to the extent that it exceeds R500 for the year	Individual taxpayers 65 years and older may claim all medical expenses while taxpayers under 65 years may claim all medical expenses above 5 per cent of their taxable income to ensure that the ability to pay principle is upheld when taxpayers incur unavoidable expenses.

Source	**Rationale for tax expenditure and intended beneficiaries**
• Deductions for donations made to public benefit organisations are limited to the greater of 5 per cent of the taxable income of the taxpayer or R1 000	*Bona fide* donations in cash or in kind to a public benefit organization or institution which carriers on any approved public benefit activity are allowed as a deduction in respect of welfare and humanitarian or health care or education and development purposes.
• Individuals, 'special trusts', deceased and insolvent estates pay normal income tax on 25 per cent of the capital profits made • Exclusions from capital gains tax are primary residences, personal use assets, retirement benefits, long-term insurance, debt defeasance, disposal of small business assets, exercise of options, compensation for personal injury, illness or defamation, gambling, games, and competitions, unit trusts funds, donations and bequests to public benefit organisations, exempt persons and assets used to produce exempt income	Individuals, 'special trusts', deceased and insolvent estates pay normal income tax on 25 per cent of the capital gains realised. The relatively low inclusion rate for capital gains was intended to *inter alia* compensate for the lack of inflationary indexing and to be used as a proxy to tax real gains in assets. As a general tax relief measure certain private use assets are excluded from capital gain tax for individuals. Other windfalls, such as domestic gambling proceeds are also excluded from capital gains tax because they are subject to other taxes such as VAT and provincial gambling tax.
Corporate income tax expenditures	
• Contributions by an employer to pension, provident and benefit funds up to 20 per cent of the approved remuneration of employees	An employer may deduct contributions made on behalf of employees to pension, provident and benefit fund to encourage saving for retirement.
• Deduction of a housing allowance by the employer for the employee of 50 per cent of the expenditure, limited to R6 000 per dwelling	An employer that lends money to any person or incurs expenditure in connection with the construction of a dwelling to be occupied by his employees is granted a deduction.
• Deduction of premiums paid on Key-Man insurance policies	An employer may deduct premiums paid on an insurance policy taken out over the life of an employee or director of that employer or company.
• Special depreciation allowances for machinery or plant used directly in a process of manufacture or a similar process • Special depreciation allowances for machinery, implements, utensils for the purpose of the lessee's trade as hotelkeeper • Special depreciation for machinery or plant used by agricultural co-operative for storing or packing pastoral, agricultural or other farm products of its members • Special depreciation allowances for aircraft brought into use for the purpose of trade • Five year write-off of new machinery not qualifying for three year write-off • Special deduction of 100 per cent of the cost of plant and machinery brought into use by a small business corporation	Accelerated depreciation for assets to encourage fixed investment and economic growth. The special deduction for small business corporations is to enable investment from own sustainable cash flow resources.

Source	**Rationale for tax expenditure and intended beneficiaries**
• Deduction for a strategic industrial project – preferred status 100 per cent of the cost of its industrial assets limited to R600 million or non-preferred status 50 per cent of the cost of industrial assets limited to R300 million	An incentive package to stimulate industrial investment by granting additional allowances. A total amount of R3 billion has been set aside for this tax expenditure.
• Companies, close corporations, and ordinary trusts pay normal income tax on 50 per cent of the capital profits made	The relatively low inclusion rate for capital gains was intended to compensate for the lack of inflationary indexing and to be used as a proxy to tax real gains in assets.
• Deduction for learnership agreements	To encourage job creation with lowering the cost of hiring new employees. Additional tax allowance of up to R50 000 per learner will be allowed to employers that offer approved learnership programmes.
Value-added tax	
Exempt supplies include: • The supply of financial services • The supply of residential accommodation • The supply of road transport • The supply of rail transport • Trade union subscriptions • The sale or letting of land outside the Republic • The supply of services to members in the course of management of a sectional title body corporate, a share block company and any housing development scheme for the aged • The supply by the State or any institution of a public character of certain education services • The supply of crèche or after-school for children • The letting of leasehold land for the purpose of constructing a residential dwelling • The supply by an association not for gain of any donated goods.	No input credit can be claimed in relation to the making of exempt supplies. Enterprises that make only exempt supplies do not make taxable supplies and therefore cannot register as a vendor for VAT purposes and therefore cannot reclaim input tax on any input costs (supplies received). Exemptions from VAT are generally applied to financial services as it is difficult to determine the value added. Also, in South Africa exemptions are broadly applied to essential services to the public that with a few exceptions, are non-profit making or are Government subsidised. The exclusion of an enterprise from the VAT regime is partially beneficial, insofar as VAT is not charged on supplies made, but as no VAT can be reclaimed on input costs, such unclaimed VAT is necessarily included in the charge for supplies made.

Source	**Rationale for tax expenditure and intended beneficiaries**
Zero-rated supplies of goods: • The supply of animal feed, animal remedy, fertilizer, pesticide, plants and seed for farming purposes • The supply of basic foodstuffs: brown bread, maize meal, samp, mealie rice, dried mealies, dried beans, lentils, pilchards or sardinella, milk powder, rice, vegetables, fruit, vegetable oil, cultured milk, brown wheaten meal, eggs, edible legumes • The supply of illuminating paraffin • The supply of petrol and diesel fuel • The supply of goods that are exported	Zero is a rate of tax and supplies of zero-rate goods are taxable supplies. An enterprise that makes only zero-rate supplies may register as a VAT vendor and may reclaim VAT on input costs (supplies received). Consequently vendors that make only zero-rated supplies do not charge VAT on supplies made and normally receive VAT refunds. The zero-rating of primary agriculture, basic foodstuffs and illuminating paraffin is intended to provide relief to the poor. The zero-rating of petrol and diesel fuel is in place as these products are subject to fuel levies. The zero-rating of exports is in line with international practice of the "destination principle" – where VAT is intended to be levied in the jurisdiction where consumption occurs.
Zero-rated supplies of services include: • The supply of transport of passengers and goods to and from an export country • The supply of certain services rendered to non-residents who are outside the country • The insuring of passengers and goods for export • The arranging of international transport • The supply of services rendered outside the Republic to a user in the Republic – excluding telecommunication services • The supply of welfare activities, such as the provision of food, meals, board, lodging, clothing, or other necessaries, comforts or amenities to aged or indigent persons, children, or physically or mentally handicapped persons	Zero is a rate of tax and supplies of zero-rate services are taxable supplies. An enterprise that makes only zero-rate supplies may register as a VAT vendor and may reclaim VAT on input costs (supplies received). Consequently vendors that make only zero-rated supplies do not charge VAT on supplies made and normally receive VAT refunds. Consistent with the principles behind the zero-rating of the export of goods, certain exported services are also zero-rated. The zero-rating of supplies by welfare organisations are intended to provide relief to the poor.
Estate duty and Donation tax	
Estate duty: • Deduction of R1,5 million of the dutiable value of an estate for individuals Donation tax • Donations tax is not payable on the value of casual gifts that does not exceed R5 000 in total per annum • Donation tax is not payable on the value of all property donated by a natural person as does not during any year of assessment exceed R30 000	To maintain progressivity of the tax and the general commitment by Government to alleviate the overall tax burden for the average person, the abatement amount for estate duty has been fixed at R1,5 million. In general, Donations tax is an essential element in maintaining the integrity of the overall tax system. A small concession is therefore appropriate for taxpayers that wish to dispose of assets from time to time, without undermining the broader tax base.