# 4

# Revenue trends and tax proposals

*Tax policy and enhanced revenue collections continue to contribute materially to improving growth prospects, development and employment creation through personal income tax relief, encouragement of investment, measures to boost household savings and reforms to stimulate enterprise development. The 2003 tax proposals provide for:*

- *Personal income tax relief of R13,3 billion, raising the minimum tax threshold to R30 000 and increasing the take-home pay of wage earners to encourage consumption and saving*
- *Reducing the Retirement Fund Tax to protect savings, especially for low-income wage earners*
- *Accelerated depreciation allowances for urban development zones, materially addressing urban decay and the supply of affordable housing to the urban poor*
- *Eliminating the dividend tax from foreign subsidiaries, thus encouraging capital inflows*
- *Reduced excise duties on passenger vehicles and abolition of duties on computers, easing their cost for business and personal uses*
- *Inflation-related adjustments to alcohol and tobacco taxes, in keeping with Government's social and health policies.*

## Overview

*Strong revenue growth creates room for stimulus measures*

In this year's Budget, Government continues to grant substantial tax relief for individuals. In addition, sound structural changes since 1994 have created fiscal space for introducing tax-driven stimulus measures that seek to grow the tax base, create sustainable employment opportunities and alleviate poverty.

Buoyancy in tax collections again creates the opportunity for the substantial tax relief measures proposed in this Budget. Ongoing personal income tax relief increases the minimum tax threshold further and adjusts the tax brackets to benefit mainly low and middle-income-taxpayers. The proposed package of domestic investment stimuli is informed by internationally accepted taxation principles and administrative concerns.

### Main tax proposals

The 2003 Budget tax proposals are as follows.

#### Tax relief

*Relief on personal income tax, interest income, retirement funds, transfer duties and incentives for businesses*

- Income tax on individuals is reduced by R13,3 billion
- The interest income exemption is raised to R10 000 for taxpayers under age 65 and to R15 000 for taxpayers age 65 and over
- The Retirement Fund Tax is reduced from 25 per cent to 18 per cent
- The transfer duty threshold is cut, costing R435 million and lowering the cost of acquiring property
- Accelerated depreciation allowances for urban development are proposed with a view to addressing urban decay
- Domestic business stimuli are introduced, reducing or removing the tax on the sale of movable business assets if the proceeds are reinvested
- Small enterprise support is provided through an additional deduction for start-up expenses of up to R20 000 and an increase to R5 million in the turnover limit for small businesses
- Certain government and of transfers to government agencies will be reviewed in terms of the Income Tax Act
- The list of public benefit organisations that qualify for deductible donations will be extended, to promote charitable activities
- The tax on foreign dividends from offshore subsidiaries is removed in order to encourage capital in-flows
- Tax exemptions for securities on-lending are extended
- *Ad valorem* excise duties on computers are abolished
- The excise duty formula on passenger vehicles is adjusted for inflation
- Stamp duties on insurance policies and fixed deposits are abolished.

#### Tax increases

*Tax increases include ring-fencing of secondary trade income and taxes on alcohol and tobacco products*

- The current exemption from tax on income arising in certain designated foreign countries will be repealed, and taxes on company expatriation will be extended in order to discourage offshore flows
- Losses from secondary trades (e.g. “weekend” businesses) will be ring-fenced in order to prevent losses from being claimed as an offset against other types of income
- The income tax exemption for gold share companies and the international headquarters company regime will be eliminated
- Transfer duty rules will be amended to prevent avoidance through ‘nominee transactions’

- The procedural law pertaining to tax collections will be enhanced to ensure that parties cannot escape their tax obligations
- Taxes on tobacco products are raised by an average of 11 per cent
- Taxes on alcoholic beverages are increased by between 10 and 11 per cent
- The general fuel levy is increased by an average of 4,3 cents per litre on petrol and 4 cents a litre on diesel
- The Road Accident Fund levy is raised by 3 cents a litre.

## Consolidated revenue estimates

Table 4.1 sets out consolidated national budget revenue for 2001/02 to 2005/06.

*Consolidated revenue 4,1 per cent more than budget estimate*

Consolidated national revenue consists of main budget revenue, social security fund revenue, RDP fund receipts and technical cooperation grants. It is estimated to be R286,6 billion in 2002/03, which is 4,1 per cent more than the 2002 Budget estimate. Between 2002/03 and 2005/06, consolidated revenue is expected to grow at an annual average rate of 9,4 per cent.

**Table 4.1 Consolidated national revenue: 2001/02–2005/06**

| R million | 2001/02 Actual outcome | 2002/03 Budget estimate | Revised estimate | 2003/04 | 2004/05 | 2005/06 |
|---|---|---|---|---|---|---|
| | | | | Medium-term estimates | | |
| Total tax revenue | 252 298 | 268 506 | 280 095 | 310 025 | 338 046 | 368 720 |
| *Less: SACU payments* | *-8 205* | *-8 259* | *-8 259* | *-9 723* | *-11 585* | *-12 361* |
| Non-tax revenue[1] | 4 169 | 4 970 | 3 910 | 4 156 | 4 494 | 4 851 |
| **Main budget revenue** | **248 262** | **265 217** | **275 745** | **304 459** | **330 955** | **361 210** |
| *Percentage of GDP* | *24,6%* | *23,7%* | *24,6%* | *24,7%* | *24,6%* | *24,6%* |
| **Social security funds** | | | | | | |
| Tax revenue | 7 159 | 8 600 | 8 709 | 10 514 | 11 186 | 11 911 |
| Non-tax revenue | 616 | 620 | 483 | 940 | 632 | 658 |
| **Total social security revenue** | **7 775** | **9 220** | **9 191** | **11 455** | **11 818** | **12 568** |
| **National revenue** | **256 037** | **274 437** | **284 937** | **315 914** | **342 773** | **373 778** |
| RDP fund receipts and technical co-operation | 1 423 | 800 | 1 666 | 1 500 | 1 500 | 1 500 |
| **Consolidated national revenue[2]** | **257 460** | **275 237** | **286 603** | **317 414** | **344 273** | **375 278** |

*1. Includes departmental revenue, sale of assets, recoveries of loans and advances, and grants.*

*2. Transfers between funds have been netted out.*

## National budget revenue

Table 4.2 highlights the budget estimates and projected revenue outcomes of the major revenue instruments for 2001/02 and 2002/03. Tables 2 and 3 in Annexure B set out the revenue estimates in more detail.

**Table 4.2 Main budget estimates and revenue outcome: 2001/02 and 2002/03**

| R million | 2001/02 Budget estimate | 2001/02 Actual outcome | 2001/02 Deviation | 2002/03 Budget estimate | 2002/03 Revised estimate | 2002/03 Deviation | 2001/02–2002/03 (%) change |
|---|---|---|---|---|---|---|---|
| **Taxes on income and profits, including:** | **131 582** | **147 310** | **15 728** | **155 740** | **162 500** | **6 760** | **10,3** |
| Personal income tax | 90 122 | 90 390 | 268 | 89 982 | 93 200 | 3 218 | 3,1 |
| Company tax | 29 960 | 42 354 | 12 394 | 50 858 | 54 850 | 3 992 | 29,5 |
| Secondary tax on companies | 4 200 | 7 163 | 2 963 | 6 500 | 6 300 | -200 | -12,0 |
| Tax on retirement funds | 6 300 | 6 191 | -109 | 6 900 | 6 900 | – | 11,5 |
| Other | 1 000 | 1 213 | 213 | 1 500 | 1 250 | -250 | 3,0 |
| **Taxes on payroll and workforce** | **2 800** | **2 717** | **-83** | **2 950** | **3 300** | **350** | **21,4** |
| **Taxes on property** | **4 709** | **4 628** | **-81** | **4 585** | **5 335** | **750** | **15,3** |
| **Domestic taxes on goods and services, including:** | **86 740** | **86 888** | **148** | **92 848** | **97 554** | **4 706** | **12,3** |
| Value-added tax | 60 350 | 61 057 | 707 | 66 200 | 70 600 | 4 400 | 15,6 |
| Excise duties | 10 625 | 10 573 | -52 | 11 067 | 11 302 | 235 | 6,9 |
| Levies on fuel | 15 310 | 14 923 | -387 | 15 166 | 15 200 | 34 | 1,9 |
| Other | 455 | 335 | -120 | 415 | 452 | 37 | 35,0 |
| **Taxes on international trade and transactions** | **9 427** | **8 680** | **-747** | **10 613** | **9 805** | **-808** | **13,0** |
| **Stamp duties and fees** | **1 585** | **1 767** | **182** | **1 770** | **1 600** | **-170** | **-9,5** |
| **State miscellaneous revenue** | **–** | **307** | **307** | **–** | **–** | **–** | |
| **Total tax revenue** | **236 843** | **252 298** | **15 455** | **268 506** | **280 095** | **11 588** | **11,0** |
| Departmental revenue | 4 657 | 4 088 | -569 | 3 910 | 3 589 | -321 | -12,2 |
| Transactions in assets and liabilities | 50 | 4 | -46 | 30 | 40 | 10 | |
| Recoveries of loans and repayments | 93 | 77 | -16 | 900 | 164 | -736 | |
| Grants | – | – | – | 130 | 117 | -13 | |
| *Less: SACU payments* | *-8 205* | *-8 205* | *–* | *-8 259* | *-8 259* | *–* | *0,7* |
| **Main budget revenue** | **233 438** | **248 262** | **14 824** | **265 217** | **275 745** | **10 529** | **11,1** |

### *Revenue outcome – 2001/02*

*Outcome for main budget revenue of R248,3 billion*

In the 2001 Budget, it was estimated that the main budget revenue would be R233,4 billion. At the time of the 2002 Budget, this was revised upwards to R248,4 billion. Audited results show that the actual receipts for 2001/02 are R248,3 billion, or 6,4 per cent more than the original budget estimate.

Significant deviations from the original estimates include:

- Company tax up by R12,4 billion
- Secondary tax on companies (STC) up by R3 billion
- Trade taxes down by R747 million.

### *Revised estimates for 2002/03*

*Increased inflation affects 2002/03 revenue estimate*

The revenue estimates for 2002/03 are revised upwards to take account of changes in macroeconomic conditions (inflation outlook, economic growth and currency fluctuations), budget forecasts and improvements in revenue administration. In the 2002 Budget, the main budget revenue was anticipated to be R265,2 billion after taking account of tax proposals.

*Main budget revenue estimate is R275,7 billion*

The original estimates were revised in the October 2002 *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 R273,3 billion. The current estimate is R275,7 billion, 4 per cent more than the budget estimate, mainly as a result of increases in income taxes and value-added tax. The primary factor driving higher revenue is higher inflation, which feeds into higher nominal GDP, rising wage settlements and increased consumption expenditure levels.

### *Taxes on income and profits*

*Taxes on individuals raise R93,2 billion*

Taxes on income and profits are estimated to be 4,3 per cent higher than the original budget estimate. Personal income tax is estimated to raise R93,2 billion, which is R3,2 billion more than the original budget estimate, mainly due to higher wage settlements.

*Company taxes 8 per cent over budget*

The revised estimate for company tax is R54,9 billion, which is R4,0 billion more than budgeted. This higher than anticipated outcome is the result of improved enforcement and compliance in the financial sector, adjustments to ensure provisional tax payments are more closely related to taxable profits and the rise in profits in the resource sector due to increased export volumes and improved rand commodity prices.

In contrast to 2002/03 collection trends, revenue from the secondary tax on companies is estimated to be R200 million less than budgeted.

### *Taxes on payroll*

The skills development levy is expected to raise R3,3 billion, R350 million higher than the budget estimate. The increase is mainly due to higher wage increases.

### *Domestic taxes on goods and services*

*R70,6 billion from value-added tax*

Revenue from value-added tax is expected to be R70,6 billion, or 6,6 per cent higher than the budget estimate. This difference is attributable to higher than anticipated growth in domestic consumption expenditure and higher than expected prices.

*R10,3 billion from specific excise duties*

The revised estimate of revenue from specific excise duties of R10,3 billion is marginally higher than the budget estimate.

*Fuel consumption in line with budget estimates*

The estimate of revenue from the fuel levy of R15,2 billion is only R34 million above the original budget estimate due to slightly higher than anticipated fuel sales.

### *Taxes on international trade and transactions*

*Customs duty of R9,5 billion*

Changes in revenue from customs duties are largely driven by the composition of imports, fluctuations in import volumes in response to the international prices of imported goods, and the value of the rand. The revised estimate for customs duties is R9,5 billion, which is R1 billion lower than the budget estimate.

## Main budget revenue estimates: 1999/00 – 2005/06

Table 4.3 sets out actual revenue collections for the period 1999/00 to 2001/02 and estimates for 2002/03 to 2005/06. More detail is provided in tables 2 and 3 of Annexure B.

*12 per cent growth in main budget revenue from 1999/00 – 2001/02*

Between 1999/00 and 2001/02, main budget revenue grew at an annual average rate of 12 per cent, or 4,5 per cent in real terms. This strong growth is largely attributable to growth in taxes on income and profits, which increased at an annual average rate of 12,6 per cent, or 5,1 per cent in real terms. Taxes on income and profits contribute about 60 per cent of main budget revenue. Taxes on domestic goods and services and international trade grew at annual average rates of 9,6 per cent and 13,2 per cent respectively.

Taking account of revenue trends, tax policy changes and macroeconomic projections, main budget revenue is anticipated to grow at an annual average rate of 9,4 per cent over the medium term, or 3,9 per cent real growth.

**Table 4.3 Main budget revenue: 1999/00–2005/06**

| R million | 1999/00 | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 |
|---|---|---|---|---|---|---|---|
| | Actual collections | | | Revised estimate | Medium-term estimates | | |
| Taxes on income and profits | 116 149 | 126 145 | 147 310 | 162 500 | 177 864 | 196 030 | 216 000 |
| Taxes on payroll and workforce | 0 | 1 257 | 2 717 | 3 300 | 3 600 | 3 900 | 4 300 |
| Taxes on property | 3 808 | 3 979 | 4 628 | 5 335 | 5 890 | 6 477 | 7 030 |
| Domestic taxes on goods and services | 72 305 | 79 093 | 86 888 | 97 554 | 109 614 | 117 639 | 126 340 |
| Taxes on international trade and transactions | 6 778 | 8 227 | 8 680 | 9 805 | 11 307 | 12 100 | 13 000 |
| Stamp duties and fees | 1 619 | 1 562 | 1 767 | 1 600 | 1 750 | 1 900 | 2 050 |
| State miscellaneous revenue | 727 | 72 | 307 | – | – | – | – |
| **Total tax revenue** | **201 386** | **220 334** | **252 298** | **280 095** | **310 025** | **338 046** | **368 720** |
| Departmental revenue | 3 825 | 3 498 | 4 088 | 3 589 | 4 031 | 4 014 | 4 350 |
| Recoveries of loans and | 74 | 112 | 77 | 164 | 75 | 425 | 441 |
| Transactions in assets and liabilities | 75 | 43 | 4 | 40 | 50 | 55 | 60 |
| Grants | – | – | – | 117 | – | – | – |
| *Less: SACU payments* | *-7 197* | *-8 396* | *-8 205* | *-8 259* | *-9 723* | *-11 585* | *-12 361* |
| **Main budget revenue** | **198 162** | **215 592** | **248 262** | **275 745** | **304 459** | **330 955** | **361 210** |
| Per cent of GDP | 24,2% | 23,6% | 24,6% | 24,6% | 24,7% | 24,6% | 24,6% |
| *Gross domestic product* | *819 365* | *913 220* | *1 007 810* | *1 120 100* | *1 234 600* | *1 344 300* | *1 466 600* |

**Revenue activation strategies by SARS**

The strong revenue collection over the past few years is a function of both macroeconomic conditions and efficiency improvements in the revenue raising machinery of SARS. Revenue raising measures are adjusted throughout the fiscal year with a view to narrowing the tax compliance gap, and taking into account resource limitations in the Revenue Service. It is difficult to foresee with a high degree of accuracy taxpayers' behavioural shifts in the face of revenue collection enhancement strategies. Forecasting tax revenues in a changing environment, characterised by improving compliance, is a formidable challenge.

SARS will further strengthen and accelerate its revenue activation strategies in respect of outstanding tax debt and a range of other initiatives in the year ahead. Focused attention will fall on specific revenue activation strategies for the major tax instruments. These include:

*Income tax*

- Broadening the tax base through a reduction in the number of unregistered taxpayers
- Reduction in outstanding returns and improved quality assurance of submitted tax returns
- Reduction in the outstanding tax debt
- Adjusting assessment procedures to ensure provisional tax payments are more in line with taxable profits
- More targeted audits.

*Value-added tax*

- Tax base broadening by reducing the number of unregistered vendors
- Reduction in outstanding returns and improved quality assurance of submitted returns
- Reduction in the outstanding tax debt.

*Customs duty*

- Enhanced physical inspection of goods
- Improved verification of information declared on bills of entry
- Targeted specific investigations.

## *2002 Budget tax proposals – implementation*

*2002 tax relief measures in support of economic growth, poverty relief and targeted economic stimulus*

In the 2002 Budget, a number of major tax relief measures in support of economic growth, poverty relief and targeted economic stimulus were announced. These included continuing with tax relief for individuals, accelerated depreciation for manufacturing assets and introducing a reduced general fuel levy on environmentally friendly alternative diesel fuels. A learnership incentive was introduced to support the skills development programme, and the adjudication of the Strategic Investment Projects commenced in April 2002.

### *Wage incentive*

*Inter-departmental task team developed wage incentive*

In 2001, 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 reviewed potential wage incentive options and identified a tax-driven learnership programme as most appropriate.

*Learnership agreements introduced in 2001*

The total number of learners registered by the end of September 2002 is 22 884. Of these, 2861 have already completed their learnership agreements. The number of registered unemployed learners is 2 490. The Clothing, Textile, Footwear and Leather SETA registered the highest number of learnerships.

### Strategic Investment Programme

*R2,4 billion total investment for SIP*

The Strategic Investment Programme introduced in 2001 is now fully operational. Eight major projects have already been approved representing a total investment of R2,4 billion with a tax expenditure of R513,6 million.

*42 per cent of applications approved by the end of November 2002*

The adjudication process at the end of November 2002 indicates that 42 per cent of the applications were approved, 11 per cent were rejected and 47 per cent have still to be considered. Six out of the eight projects are in the chemical industry with total investments of more than R1 billion. The other two projects constitute investments in the metals and agricultural processing sectors. A total of 1458 direct and 8 085 indirect jobs have been created.

## Estimates of revenue before tax proposals – 2003/04

Table 4.4 sets out the estimates of revenue before tax proposals, for 2003/04, taking account of the macroeconomic assumptions set out in Chapter 2, the new revenue activation strategies of SARS and the existing tax structure. These estimates are detailed in the *Estimate of National Revenue.*

*Before tax proposals, revenue is estimated at R319,5 billion*

Main budget revenue is estimated to be R319,5 billion, before any tax changes are proposed. Personal income tax and corporate income tax is estimated to increase by 18,2 per cent and 20,4 per cent, respectively. Value-added tax is projected to raise R80,7 billion.

**Table 4.4 Estimates of revenue before tax proposals: 2003/04**

| R million | 2002/03 Revised estimate | 2003/04 Before tax proposals | (%) change |
|---|---|---|---|
| **Taxes on income and profits** | **162 500** | **193 350** | **19,0** |
| Personal income tax | 93 200 | 110 140 | 18,2 |
| Company tax | 54 850 | 66 030 | 20,4 |
| Secondary tax on companies | 6 300 | 8 000 | 27,0 |
| Tax on retirement funds | 6 900 | 7 800 | 13,0 |
| Other | 1 250 | 1 380 | 10,4 |
| **Taxes on payroll and workforce** | **3 300** | **3 600** | **9,1** |
| **Taxes on property** | **5 335** | **6 325** | **18,6** |
| **Domestic taxes on goods and services** | **97 554** | **108 550** | **11,3** |
| Value-added tax | 70 600 | 80 700 | 14,3 |
| Excise duties | 11 302 | 11 607 | 2,7 |
| Levies on fuel | 15 200 | 15 700 | 3,3 |
| Other | 452 | 543 | 20,1 |
| **Taxes on international trade and transactions** | **9 805** | **11 307** | **15,3** |
| **Stamp duties and fees** | **1 600** | **1 950** | **21,9** |
| **Total tax revenue** | **280 095** | **325 082** | **16,1** |
| Departmental revenue | 3 589 | 4 031 | 12,3 |
| Transactions in assets and liabilities | 40 | 50 | 25,0 |
| Recoveries of loans and repayments | 164 | 75 | -54,3 |
| Grants | 117 | – | |
| *Less: SACU payments* | *-8 259* | *-9 723* | *17,7* |
| **Main budget revenue** | **275 745** | **319 516** | **15,9** |

### *2003 tax proposals – overview*

*Tax-driven growth and enterprise promotion*

Robust revenue performance allows for further tax relief for individuals and targeted tax measures aimed at supporting general business development and job creation.

Table 4.5 provides the anticipated revenue effects of the tax proposals set out in this Budget. These proposals reduce tax revenue by R15,1 billion – similar in magnitude to last fiscal year's tax relief measures.

**Table 4.5 Summary effects of tax proposals**

| R million | Effect of tax proposals | Revenue gain (+) Revenue loss (-) |
|---|---|---|
| **Tax revenue** | | 325 082 |
| **Departmental revenue** | | 4 156 |
| **Less: SACU payments** | | -9 723 |
| **Main budget revenue, before tax proposals** | | **319 516** |
| **Budget 2003/04 proposals** | **-15 057** | |
| | | |
| **Direct tax proposals** | **-15 821** | |
| **Personal income tax:** | **-13 427** | |
| Adjust personal income tax rate structure | -13 250 | |
| Increase interest and dividend exemption under 65 years | -137 | |
| Increase interest and dividend exemption age 65 years and older | -90 | |
| Losses from secondary trades to be ring-fenced | 50 | |
| | | |
| **Corporate income tax:** | **-2 060** | |
| Lower rate for Retirement Fund Industry | -1 850 | |
| Accelerated depreciation for urban development | -60 | |
| Increase turnover limit for small business corporations | -10 | |
| General business tax stimulus measures | -80 | |
| Extend deductible donations to PBOs | -60 | |
| | | |
| **Financial transaction taxes** | **-335** | |
| Adjust table for transfer duties | -435 | |
| Amend transfer duty nominee transactions | 300 | |
| Remove stamp duty on insurance policies and fixed deposits | -200 | |
| | | |
| **Indirect tax proposals** | **764** | |
| *Specific excise taxes: Net Impact* | 907 | |
| - Increase in duties on beer | 299 | |
| - Increase in duties on fortified wine | 4 | |
| - Increase in duties on sparkling wine | 2 | |
| - Increased duties on unfortified wine | 28 | |
| - Increase in duties on cider | 23 | |
| - Increase duties on spirits | 104 | |
| - Increase in excise duties on tobacco products (50% incidence) | 447 | |
| Increase in air departure tax | 30 | |
| Increase in fuel levy | 642 | |
| Remove ad valorem duties on computers | -572 | |
| Adjust ad valorem duties on passenger vehicles | -243 | |
| | | |
| **Main budget revenue (after tax proposals)** | | **304 459** |

## Direct tax proposals

### *Personal income tax*

#### *Rate and threshold adjustments*

*Again, tax cuts focus on personal income tax relief*

The personal income tax is South Africa's most important revenue source, comprising 34 per cent of main budget revenue in the revised estimate for 2002/03. Raising the threshold and adjustment to the personal income tax brackets to give real relief are proposed, especially for low and middle-income earners.

*Adjustments to raise disposal income*

The proposed tax relief will increase the real disposable income of employees, and will stimulate demand in the economy for goods and services and increase savings.

*R13,3 billion tax cuts*

Personal income tax relief of R13,3 billion is proposed, making individual taxpayers the primary beneficiaries of income tax base broadening and improved tax administration initiatives. The proposed rate schedule is set out in table 4.6.

**Table 4.6 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 main adjustments are:

- The primary rebate is raised to R5 400, increasing the income tax threshold by R3 000 to R30 000, or by 11,1 per cent
- The tax threshold for taxpayers age 65 and over is raised to R47 222, or 10,7 per cent more than the current level
- Brackets are adjusted to provide relief across the entire income spectrum.

*Tax relief concentrated in lower- and middle-income range*

Of the total relief, 56 per cent accrues to taxpayers earning less than R150 000 a year, 23 per cent to those earning between R150 000 and R250 000 a year and 21 per cent to those earning more than R250 000 a year.

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

### *Interest and dividend income exemption*

*Exemptions increased to R10 000 and R15 000*

The domestic interest and dividend income exemption is currently R6 000 for taxpayers under 65 years of age and R10 000 for taxpayers age 65 and over. It is a valued benefit to those who rely on their savings and to 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 R10 000 for taxpayers under the age of 65 and to R15 000 for taxpayers age 65 and over from 1 March 2003. This proposal will result in a revenue loss of R227 million.

*Limit exemption for income from foreign investments*

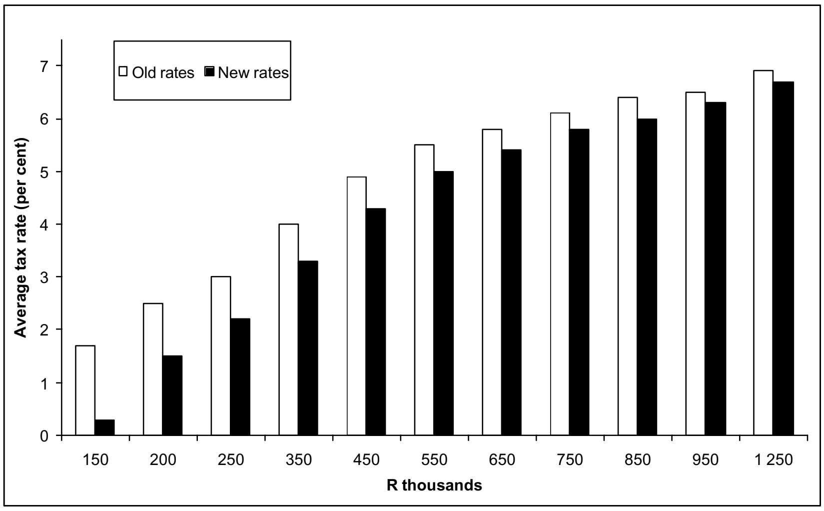
The current exemption on foreign interest and dividends of R1 000 as a maximum out of the total exemption is not adjusted. The intention is to encourage taxpayers to make their savings available for capital formation in South Africa.

## *Transfer duty*

*No transfer duty payable on property with a value of less than R140 000*

Transfer duty is levied on the acquisition of fixed property. To further encourage the acquisition of property, it is proposed that the graduated rate structure be adjusted by increasing the duty exempt level from R100 000 to R140 000. The new rate structure is set out in table 4.7, and changes to the average rate are illustrated in figure 4.1.

**Figure 4.1 Tax rate on transfer duties for properties of various prices**




*Duty on properties of R200 000 to R400 000 between 1,5 and 3,9 per cent*

No duty will be payable on property with a value of less than R140 000. The average duty on property with a value of R200 000 will fall from 2,5 per cent to 1,5 per cent, the duty on property with a value of R400 000 falls from 4,5 per cent to 3,9 per cent.

The new rate structure will apply to property acquired from 1 March 2003. Based on current property transaction trends, the adjustment will cost R435 million.

**Table 4.7 Proposed rates of transfer duty**

| Property value | Rates of tax |
|---|---|
| R0 - R140 000 | 0% |
| R140 001 - R320 000 | 5% on the value above R140 000 |
| R320 001 and above | R9 000 plus 8% on the value above R320 000 |

### *Tax on retirement funds*

*Retirement tax policy review began in 2002*

The tax treatment of retirement savings is currently under review. In early 2002, a task team was formed, including representatives from the National Treasury, SARS and the Financial Services Board. Its efforts culminated in an open three-day conference in September 2002 with local industry, various Government stakeholders as well as South African and international experts. The conference resulted in an internal report of preliminary findings.

*Legislative tax reform for retirement savings in 2004*

As noted in the 2002 *Medium Term Budget Policy Statement*, reform of the tax treatment of retirement savings is scheduled for 2004. This year, a detailed discussion document on the reform proposals and the underlying policy considerations will be released. The process will encourage open consultation with various stakeholders so that the final legislation represents a fully deliberated product.

*Proposed change in rate of the retirement fund tax*

In the interim, it is proposed that the retirement fund tax rate should be reduced to 18 per cent. Several factors lie behind this decision. When the tax was first introduced at a 17 per cent rate in 1996, followed by an increase to 25 per cent in 1998, prominent considerations included the argument for tax neutrality vis-à-vis other savings vehicles– articulated by the Katz Commission. Evidence has more recently emerged, however, that the burden of this tax on savings of lower and middle-income individuals is disproportionate. Government is also mindful of the recommendation of the then Joint Standing Committee on Finance, that any tax on retirement funds "be accompanied by a firm commitment to reduce the overall tax burden on individuals, especially those in lower income tax brackets".

*Significant personal income tax relief since 1996 has benefited low and middle-income earners*

This has consistently been a feature of the annual tax proposals. However, it remains an important objective of public policy that individuals should face a compelling inducement to provide adequately for retirement. Changed conditions in the investment and savings markets, including the lower trend in capital market interest rates, have weakened this inducement. Many members of contractual savings plans that are subject to the 25 per cent Retirement Fund Tax, would ordinarily be subject to an 18 per cent rate on their income from savings. Added to this has been the increase over time in the domestic interest and dividend exemption threshold, which does not apply to savings held in retirement plans.

*In addition, closing of previous tax gaps affords Retirement Fund Tax reform*

Furthermore, Government no longer has the same level of anti-avoidance concerns as existed before. The Retirement Fund Tax was introduced at a time when exemptions for the retirement industry, in combination with other legislative shortcomings, led to a loss of revenue and unintended benefits to members and funds. These defects have to a considerable extent been remedied, and enforcement has been improved.

*Retirement Fund Tax rate reduced to 18 per cent*

Mindful of these considerations, and drawing on the preliminary findings of the responsible task team, it is proposed that the Retirement Fund Tax rate should be reduced from 25 per cent to 18 per cent from 1 March 2003.

The estimated cost of this proposal is R1,85 billion.

### *General business tax stimulus measures*

#### *Accelerated depreciation for urban development zones*

*State aid for rejuvenating decaying urban areas*

In line with many countries, South Africa has a number of urban areas that are impoverished and are suffering from extensive urban decay. In order to address these concerns and maintain the existing infrastructure that was developed at great cost, governments internationally have increasingly utilised tax measures to support efforts aimed at regenerating these urban areas. Such narrowly targeted capital allowances seek to attract private sector businesses to areas where interest would otherwise be lacking.

*5-year write off period for refurbishments, 17-year write-off for new commercial and residential buildings in designated urban areas*

It is proposed that taxpayers investing in underutilised designated urban areas receive special depreciation allowances for investment undertaken for construction or refurbishment of buildings. Taxpayers refurbishing a building within a zone will receive a 20 per cent straight-line depreciation allowance over a 5-year period. If taxpayers construct a new commercial or residential building within such a zone, they will receive a 17-year write-off period with a 20 per cent write-off in the first year and 5 per cent write-off thereafter. This benefit will be available to owners as users of the building or as lessors/financiers of these investments.

*Designated areas in metropolitan and certain other urban areas*

Several criteria, to be included in legislation, will be taken into account in designating qualifying zones within the selected metropolitan and urban areas. The incentive is intended to encourage investment in:

- Areas with high population carrying capacity
- Central business districts or inner city environments
- Areas with developed urban transport infrastructure for trains, buses or taxis.

All provinces will benefit from this tax expenditure. The designated urban areas eligible for proposed relief are located within the following areas:

- Ekurhuleni (East Rand) – Gauteng Province
- Johannesburg – Gauteng Province
- Tshwane – Gauteng Province
- eThekwini (Durban) – KwaZulu Natal Province
- Msunduzi (Pietermaritzburg) – KwaZulu Natal Province
- Nelson Mandela (Port Elizabeth) – Eastern Cape Province
- Buffalo City – Eastern Cape Province

- Cape Town – Western Cape Province
- Mangaung (Bloemfontein), Matjhabeng (Welkom) – Free State Province
- Emalahleni (Witbank), Mbombela (Nelspruit) – Mpumalanga Province
- Polokwane – Limpopo Province
- Sol Plaatjie (Kimberley) – Northern Cape Province
- Mafikeng – North West Province.

*Approximately R1,3 billion of tax expenditures over 4 years for urban renewal*

This programme will be allocated R1,3 billion of tax revenue foregone within four years, after which the programme will terminate. It is anticipated that approximately R60 million of tax revenue will be foregone in 2003/04, rising to R400 million a year subsequently. Measures will be provided to ensure sound governance of the programme as well as transparent reporting and annual accountability before Parliament (as is currently required by the Strategic Investment Programme). Details of demarcation criteria and procedures will be announced in legislation.

*Tax benefits for low income housing organisations*

A complementary proposal extends tax advantages to public benefit organisations that provide affordable housing to low income households in underdeveloped urban areas (see below).

### *Extension of accelerated depreciation window period for manufacturing*

*Accelerated depreciation for manufacturing will become a permanent feature*

Last year, the tax depreciation regime for manufacturing and similar processes was changed from a 20 per cent straight-line system (5-year period) to a shorter and more attractive regime that allows a 40, 20, 20, 20 per cent write-off rate over a 4-year period. The purpose of this change was to stimulate the manufacturing sector on an industry-wide basis. The 4-year regime was limited to investments occurring on or before 28 February 2005 due to cost considerations. It is proposed that the 28 February 2005 sunset limitation be removed.

### *Comprehensive business asset reinvestment relief*

*Stimulating the upgrade of business assets*

Unlike tax practice in many countries, the sale of income-producing business assets in South Africa is subject to tax even if sale proceeds are reinvested for further business use. This hinders businesses in their attempt to upgrade their facilities because the sales proceeds needed for reinvestment are reduced by the tax paid. Only partial relief exists, in the capital gains regime and in respect of involuntary disposals.

*Tax relief for reinvesting sale proceeds within 18 months*

With a view to stimulating business reinvestment, comprehensive tax relief will be provided for ordinary income and capital gain when the sale proceeds of movable depreciable business assets are reinvested in other movable assets within an 18-month period. This will, in effect, defer taxable income or gain from the asset sold over the life of the newly acquired asset. This spreading will nullify the tax on the sale because the deferred income or gain will be offset by depreciation taken with respect to the newly acquired asset. The current rollover rules for involuntary dispositions (such as gains from insurance proceeds) will also be incorporated into this regime for business reinvestment.

### Claiming losses on sale of depreciable business assets

*Simplifying the treatment of business assets sold at a loss*

Under current law, the sale of depreciable moveable and immovable business assets at a price below cost (after adjustment for depreciation) generally results in capital loss treatment. Taxpayers may claim losses from ordinary revenue only if a business asset is scrapped. The current tax treatment in respect of "scrapping" is somewhat uncertain but is generally intended to compensate taxpayers for business assets that are obsolete.

*Proposed ordinary losses on sale of devalued business assets with short useful lives*

Many countries allow taxpayers to claim ordinary losses on the sale of depreciable business assets with short write-off periods regardless of obsolescence. Full ordinary loss treatment prevents taxpayers from holding "less than optimal" business assets solely to claim ordinary losses through depreciation. It is proposed that the scrapping regime be eliminated, in line with international best practice, in favour of regime in which taxpayers can claim losses from ordinary revenue on the sale of devalued depreciable business assets with short useful lives.

### Research and development

*Modernising the tax regime for R & D*

Current law provides an antiquated set of rules for claiming deductions involving scientific expenditures in the field of natural or applied science. For instance, capital expenditures are deductible only at a 25 per cent rate over a 4-year period, after approval from the Council for Scientific and Industrial Research (CSIR).

*Accelerated 4-year write-off for capital expenditure relating to research and development*

It is proposed that the regime for scientific expenditures be modernised in favour of a more accommodating approach to research and development. Among other changes, a 40, 20, 20, 20 per cent four-year write-off period for capital expenditure is proposed, consistent with manufacturing sector provisions. In line with international practice, these benefits would not apply to research and development of dubious scientific or technological value, such as marketing research, thereby obviating the need for CSIR approval.

### Accelerated depreciation for biodiesel plant and machinery

*Maintaining the favourable 3-year 50, 30, 20 per cent write-off period for biodiesel plant and machinery located on farms*

Facilitating the production of biofuels is an effective strategy for generating renewable and environmentally friendly forms of energy. Production of these fuels has important backward linkages into agriculture and, hence, rural areas. Biofuels are best produced near the source where the oil seed crops are harvested, resulting in significant primary and secondary employment opportunities (harvesting and processing). The depreciation write-off for biofuels plant and machinery qualifies for the full 50, 30, 20 per cent write-off available for farming. The cost of this tax expenditure is negligible as this industry is presently in a start-up phase.

### Small business tax stimulus measures

#### Enhanced start-up expenses

*Unclear tax treatment of start-up expenses will be clarified*

Scope exists for clarifying the tax rules surrounding the deductibility of start-up expenses (except for pre-production interest). The deductibility of start-up expenses affects the liquidity of small businesses and, hence, these enterprises should not generate taxable income until after cost recovery. Other issues requiring clarification include the availability of VAT input credits during the start-up period.

*Double deduction for the first R20 000 of start-up expenses*

It is proposed that the tax law be amended with respect to the income tax deductibility of start-up expenses (including pre-production interest) in order to create a unified statutory regime. Start-up expenses would generally be allowed if undertaken for a set period before actual business operations begin. It is also proposed that all these start-up expenses generally be ring-fenced against future income from the same business in which they arise. Changes will also be made to the tax treatment of pre-incorporation expenses as VAT input credits during the start-up period. In order to stimulate small businesses, it is proposed that taxpayers receive a double deduction for expenses initially incurred with respect to a new business, capped at the first R20 000 of available deductions.

#### Enlargement of small business category

*Small businesses enjoy 15 per cent corporate tax rate on first R150 000 of taxable income*

Small business corporations are subject to a 15 per cent tax rate for the first R150 000 of taxable income are eligible for accelerated tax depreciation benefits. Small business corporations currently must generate no more than R3 million turnover to fully utilise this relief.

*Turnover limit increased to R5 million*

With a view to making the above-mentioned relief more effective, it is proposed that the small business corporation definition be enhanced to cover a larger set of businesses. Under the new definition, the turnover limit will be increased to R5 million. Also, companies will not be prevented from receiving small business tax relief merely because these companies have shareholders with *de minimis* levels of ownership in another company.

#### Anticipated revenue loss

The anticipated cost in 2003/04 of the increased small business turnover threshold is R10 million. The proposed general business tax stimulus measures will result in a revenue loss of about R80 million in 2003/04.

### Facilitating government grants to organs of state and public benefit organisations

#### Exempting government grants

*Government grants are currently subject to Income Tax and VAT*

Many government grants are currently subject to income tax and value-added tax (VAT). In these situations, one arm of Government is effectively taxing the other, thereby reducing Government's ability to deliver its expenditure programmes with cost efficiency. This most notably arises when Government provides grants for infrastructure and other capital investments.

In order to remove this inefficiency, Government grants to Public-Private-Partnerships will be thoroughly reviewed in cases where these grants are used for capital investments eventually returned to Government or for public infrastructure. The review is prompted by the need to avoid inefficient tax structuring. The VAT implications of such grants will also be reviewed to ensure maximum benefits are derived.

### *Clarifying differences between taxable and tax-exempt government and quasi-government bodies*

*Clarifying inconsistent tax treatment of Government functions*

Some government and quasi-government bodies (including companies owned by the State) are exempt from tax while others are subject to tax. This distinction between exemption and taxation is unclear, so much so that certain direct government functions may inadvertently be subject to tax. In order to remedy these concerns, the law in this area will be clarified, including collateral issues such as the treatment of foreign bodies.

### *Modernising tax treatment of provincial and local governments*

*Modernising tax exemptions for provincial and local governments*

Special exemptions from various taxes often apply to various organs of provincial and local government. However, the definitions relating to those exemptions (and other pre-1994 special authorities) are not aligned to the Constitution. These definitions will be modernised.

### *Extending list of public benefit organisations eligible for deductible donations*

*Government has encouraged public giving through tax incentives*

Since 2000, Government has liberalised the tax treatment of public benefit organisations in order to stimulate this very important sector. Government expanded the list of activities eligible for tax-exempt status during the past year and has begun to expand the list of activities eligible to receive tax-deductible donations.

*Expansion of PBOs qualifying for deductibility of donations*

It is now proposed that the list of public benefit activities eligible for tax-deductible donations be expanded further. This should serve to encourage individual and corporate donations. While concerns continue to exist that deductible donations could lead to tax avoidance, these largely revolve around the manner of donations rather than “to whom” such donations are made. Thus, the rules for the types of donations eligible for deduction will be modified to remedy these concerns, including obligations to prevent a donee organisation from acting as a facilitator.

*The list of PBOs will be expanded for organisations devoted to low-income housing*

As part of this package, the list of activities conducted by public benefit organisations will be expanded to exempt organisations devoted to low-income housing and that contribute toward the regeneration of urban areas. This complements Government’s investment in urban infrastructure and the proposed tax allowance for urban development. Clarification will also be provided around rules involving the meaning of exemption for ordinary revenue and capital gain purposes.

### Encouraging capital inflows while discouraging capital outflows

#### Removing tax on certain foreign dividend repatriations

*Part of the rationale for foreign dividend tax has become obsolete*

South African taxpayers became subject to tax when receiving foreign dividends from 23 February 2000, and became subject to tax on their worldwide income in January 2001. This tax on dividends eliminated the previous artificial incentive to invest in foreign shares over domestic investments. The tax on foreign dividends was also necessary to prevent the artificial erosion of the tax base through round-tripping schemes (tax deductible payments offshore followed by previously tax-free inflows of foreign dividends).

*Current foreign dividend tax system will be repealed in case of dividends from foreign subsidiaries*

The current system of taxing foreign dividends has the unintended effect of discouraging dividend inflows. This is most readily apparent in situations where taxpayers holding a material interest in a foreign subsidiary delay or avoid the repatriation of dividends to avoid the tax. In order to eliminate this disincentive, the tax on foreign dividends will be removed where a South African taxpayer has a meaningful interest in the foreign subsidiary paying the dividend.

*Removal of indirect foreign tax credits*

This removal necessitates a number of collateral changes, including the removal of indirect foreign tax credits for shareholdings falling below a meaningful threshold and the review of other anti-avoidance measures to eliminate any possible return of round-tripping transactions. These changes together with amendments ensuring consistency will simplify administration and compliance.

#### Removal of designated country exception

*Sub-optimal revenue collection in terms of the Designated Country Exception*

Despite the shift to worldwide taxation in 2001, certain foreign income remains outside the South African income tax net by virtue of the “designated country exception.” Under this provision, income from listed foreign countries is exempt if subject to a statutory rate of at least 27 per cent. The underlying rationale was to eliminate high-taxed foreign income, most of which would generate marginal additional revenue for the South African fiscus after offsetting foreign tax credits.

*Removal of foreign dividend tax obviates need for Designated Country Exception*

With the proposed removal of the tax on foreign dividends, the need for this provision largely falls away. Foreign dividends from controlled subsidiaries are the main source of high taxed foreign income and the main source of administrative concern. The current use of a “white list” of countries also creates anomalies in respect of foreign policy objectives relating to excluded countries. It is therefore proposed that the designated country exception be eliminated, from an effective date to be announced in legislation. This change will be accompanied by special rules limiting or eliminating remaining forms of excess foreign tax credits.

### *Increased exchange of information and reporting*

*Improving exchange of information between Reserve Bank and SARS*

Taxation of foreign income presents considerable enforcement difficulties. Besides issues relating to physical location, SARS officials often need to overcome information barriers posed by foreign law. Similar problems confront the South African Reserve Bank in enforcing exchange controls. In order to improve the domestic exchange of information, it is proposed that a more efficacious flow of information between the Revenue Service and the Reserve Bank should be sought through legislation and otherwise, with a view to mutually supportive law enforcement efforts. This will include improved reporting rules for Controlled Foreign Companies.

### *Departure charges for shifting residence offshore*

*Capital gains tax is currently triggered when shifting residence offshore*

Government has adopted several initiatives to tax individuals and companies who shift their tax residence offshore. This tax treatment follows international best practice, as the shifting of residence typically provides tax authorities with their last opportunity to tax unrealised profits. Currently, South African law imposes a capital gains tax as the only exit charge.

*Departure STC charges for shifting residence offshore*

This regime is incomplete. The tax rules need to be modified for companies that shift their tax residence by moving their effective management to a tax treaty country. First, these companies should be subject to Secondary Tax on Companies as if they distributed all of their available profits. Second, the income tax definition of resident needs to be aligned with ratified tax treaties. This change takes effect on 26 February 2003.

## ***Improving South Africa's international position as financial service centre***

### *Securities on-lending*

*Current tax dispensation for securities on-lending is antiquated*

In order to improve liquidity on the Johannesburg Securities Exchange (JSE) and enhance South Africa's position as an international financial market, Government proposes to reform the current tax dispensation for securities lending. In securities lending transactions, the holder of a securities portfolio sells securities to a borrower (including title) in exchange for the return of comparable securities, income of the securities, collateral, and a fee (interest). This form of securities "lending" is driven by market asymmetries such as divergent credit considerations, economies of scale, access to a wider range of borrowers, and a desire to simplify documentation. For some lenders, particularly smaller institutions, an intermediary (e.g., a lending agent or broker) may be indispensable.

*Securities on-lending will be exempt from UST and MST*

Although certain direct and financial transaction taxes currently allow securities lending to be exempt if comparable shares are returned within 12 months, the current exemptions are too narrow because they require the borrower to sell the shares. However, under current market conditions, the borrowing of shares is also performed for other purposes, such as on-lending. It is accordingly proposed that the exemptions be modified to allow for securities lending without regard to the borrower's purpose as long as the borrower returns full rights to comparable shares within 12 months, compensates the lender for dividends on all borrowed shares and forfeits all voting rights.

*Tax preferential treatment for securities on-lending limited to domestic shares on JSE*

The proposal will contain new limitations. First, the exemption for securities lending will be limited solely to domestic shares traded on the JSE. Second, borrowers of shares will no longer be eligible for STC offsets. This proposal is expected to raise additional Uncertified Securities Tax (UST) revenue because the increased use of securities lending transactions will generate more sales of securities by borrowers.

### *Removal of stamp duties on insurance and fixed deposits*

*Stamp duties on insurance policies and fixed deposits eliminated*

Government has gradually been eliminating Stamp Duties and similar charges in line with international best practice as these charges generate little revenue while imposing great administration and compliance cost. It is proposed that during the 2003/04 fiscal year Stamp Duty on insurance policies and fixed deposit receipts will be eliminated. The removal of the Stamp Duties on fixed deposit receipts should be viewed in line with the increase in the interest exemption as part of the package to promote savings for lower income households. This proposal will come into effect from 1 April 2003. The estimated cost of this proposal is R200 million.

### *Collective investment schemes*

*Tax rules must be aligned with the Collective Investment Schemes Act*

Government has recently passed legislation that repeals the Unit Trust Control Act and the Participation Bonds Act in favour of a unified system for Collective Investment Schemes (CIS). These changes will come into effect during the first quarter of 2003. While some amendments have been made to the tax acts in 2002 in order to accommodate the new CIS dispensation, these changes are far from complete. It is therefore proposed that the tax law for domestic CIS entities be revised, especially with regards to newly allowed company structures in terms of the CIS regime. Similarly, other adjustments to the tax acts will be made as an accommodation for the new Securities Services bill dealing with the JSE Securities Exchange.

## *Removal of outdated tax preferences*

### *Removal of tax exemption for gold share companies*

*Tax exemption for gold share company iniquitous*

Domestic holding companies of gold mining shares are currently exempt from certain taxes. This exemption was introduced in 1958 to induce foreign ownership of domestic mining investments, and it is now utilised by only one company.

*This exemption will be repealed from 1 January 2004*

It is proposed that this exemption be removed because no discernible policy rationale exists for its continuance. First, this tax expenditure undermines international tax norms, such as the SADC agreement on tax incentives. Second, all previously instituted South African tax preference dispensation had sunset provisions. Lastly, it is unfair to retain a special tax dispensation for a single taxpayer. This exemption will be repealed with effect from 1 January 2004 including transitional relief for the one company utilising this exemption.

### Removal of International Headquarter Company regime

*This regime exempted exclusively foreign owned entities from worldwide income and foreign dividend taxes*

A special exemption from worldwide taxation and the foreign dividend tax was introduced two years ago when the worldwide tax system came into effect. In order to qualify for this International Headquarter Company exemption, the entity had to be exclusively foreign owned, and it had to have more than 90 per cent of its value stem from equity or loan capital of more than 50 per cent owned foreign companies.

*International Headquarter Company regime removed as it is ineffective*

The need for this exemption falls away with the removal of the foreign dividend tax in situations where a shareholder has a meaningful say over its foreign subsidiary. This regime was rendered ineffective because the flow of funds into 90 per cent foreign subsidiaries was restricted by the SARB in terms of exchange control regulations.

## Targeted anti-avoidance measures

### Limiting losses from secondary trades

*Losses from secondary trades to be ring-fenced*

Many individuals engage in "secondary trades" that have the effect of generating losses that eliminate tax on salary or professional income. These secondary businesses come in many forms such as farming, letting of holiday accommodations, as well as from hobby-like activities such as yachting and car collecting. In order to counter the revenue loss associated with such practices, it is proposed that losses from secondary trades be ring-fenced.

### Easing of withholding rules for directors

*Liberalisation of withholding rules for directors*

Two years ago, Government imposed strict anti-avoidance withholding rules on director's salaries and fees to bring directors into the basic PAYE system. Concerns have been expressed that this has unintended consequences, especially where withholding is imposed on directors in receipt of monthly salaries. It is proposed that the withholding regime be amended to address these concerns without leaving directors in a better position than standard salaried employees.

### Transfer duty avoidance nominee transactions

*Elimination of nominee property purchases*

Certain property dealers are making increasing use of nominee purchases in order to avoid transfer duty or VAT upon resale. In these transactions, a dealer acquires fixed property on behalf of an "unnamed nominee." The dealer then adds the name when a suitable buyer is found on resale, thereby effectively hiding one taxable transaction. Artificial transactions of this kind will be disallowed.

### Extension of general anti-avoidance principles

*General anti-avoidance rules to apply to all tax acts*

The Income Tax and the VAT Acts contain general anti-avoidance rules while other tax acts do not. It is proposed that comparable general anti-avoidance rules be added to all the tax acts where these rules are currently lacking.

### Extension of anti-connected person loss rules

*Extending anti-connected person loss rules to other income tax provisions*

Measures exist in the capital gains tax and scrapping allowance rules, which seek to restrict connected persons from selling assets at a loss while keeping those loss assets within the same economic group. Losses between connected persons are ring-fenced against connected person gains.

*Extending anti-connected person loss rules to trading stock sales and other situations*

During the 2002 technical corrections process, it was determined that the anti-connected person loss rules remain incomplete. Most notably, anti-connected person loss rules are currently lacking for trading stock sales. The anti-connected person rules also fail when a single taxpayer is transacting a deemed sale and repurchase of its own assets, or fail to account for situations where the transaction occurs shortly before persons became connected. It is accordingly proposed that these and other related anomalies be corrected.

*Unilateral loss write-offs of financial instruments repealed*

Also, taxpayers can currently claim unilateral write-offs of losses on financial instruments held as trading stock (other than shares), even though taxpayers need only recognise profits when realised. This unilateral write-off lacks symmetry in terms of gains. It is accordingly proposed that this unilateral write-off be repealed.

### Effective dates of direct tax proposals

Unless otherwise noted, the direct tax proposals described above will generally be effective from the date promulgated into law.

## Foreign exchange amnesty and accompanying tax treatment

### Background and rationale

*Long history of illegally held offshore funds*

Despite the existence of exchange controls, many South African individuals have a long history of shifting funds offshore illegally, dating back well before the 1980s. These funds have been smuggled offshore in a variety of ingenious ways. In addition, South African earned foreign income (generated from legal as well as illegal funds) often goes unreported in terms of the Income Tax Act.

*Taxation of world-wide income introduced in 2001*

Government has rightly taken the position that infractions of exchange controls and the Income Tax Act should not be tolerated. However, in recent years, it has become apparent that many individuals and institutions wish to repatriate their assets voluntarily and regularise their affairs. Regulatory considerations play a part in this. First, the tax enforcement climate has changed materially. Government has enacted legislation to tax offshore earnings in order to ensure that taxpayers do not have an artificial incentive to invest offshore. The culmination of these changes occurred in 2001 when South Africans became subject to tax on their worldwide income. Second, in 2002, Government introduced a deemed income charge for failure to report foreign earnings. Third, the recent introduction of the Financial Intelligence Centre Act has increased further the risk of holding illegal offshore earnings.

*Increased surveillance and taxation on offshore funds*

Internationally, the legal and economic environment has also become less favourable for illegally held offshore funds. Since 1994, Government has greatly expanded its tax treaty network, thereby facilitating greater international information exchange. The world community is increasingly intolerant of tax haven countries and has reinforced measures to combat illegal money laundering as part of the international effort against terrorism. Finally, in world economic terms, the growth prospects of foreign earnings have considerably dimmed vis-à-vis the growth prospects of onshore investments.

*Time is right for foreign amnesty in respect of exchange control and income tax*

Mindful of the above, Government is of the view that a joint foreign amnesty, in relation to both exchange controls and the Income Tax Act should be offered. The purpose is not to raise revenue. It is instead to allow past transgressions of the law to be dealt with, while improving disclosure of foreign assets and income. It will permit the repatriation of capital by those persons who desire to bring back funds but fear the consequences of past illegal acts. The general principles of this amnesty are outlined below. Further details – including legislation – will follow in March and April 2003, and the Exchange Control Department of the South African Reserve Bank will in due course provide further information via authorised exchange dealers.

### *General principles of the joint amnesty*

*Eligible Parties*

Any individual can apply for relief unless that individual is aware of an enforcement investigation by the date of filing directed against their foreign activities in terms of Exchange Control or in terms of the Income Tax Act.

*Filing Requirements*

Individuals may file for exchange control and/or Income Tax amnesty relief and the following conditions will apply:

- All applications for relief must be filed from 1 May 2003 until 31 October 2003.
- Individuals applying for Exchange Control amnesty relief must do so with an authorised dealer, and individuals filing for Income Tax amnesty must do so with SARS.
- The filing for Income Tax amnesty relief must be attendant with an individual income tax return for the year of assessment ending on 28 February 2003 that fully discloses all foreign income.
- The filing for Exchange Control and/or Income Tax amnesty relief by an individual must contain proper disclosure (such as a complete statement of offshore assets and liabilities).

*Price of the Amnesty*

Individuals filing for Exchange Control amnesty relief are subject to:

- A 5 per cent Exchange Control one-time levy to the extent any foreign assets are repatriated back to South Africa; or
- A 10 per cent Exchange Control one-time levy to the extent any foreign assets remain offshore.
- In both cases a zero per cent levy will apply for all assets that can be held legally offshore under the normal Exchange Control limits.
- All Exchange Control levies are to be paid to the Corporation for Public Deposits for subsequent transfer to the National Revenue Fund and will be separately reported upon.
- Individuals filing for Income Tax amnesty relief must pay all taxes due on foreign income earned during the year of assessment ending on 28 February 2003. These amnesty proceeds will be separately reported upon and sterilised from the general tax revenue stream.

*Benefits of the amnesty*

Individuals filing for Exchange Control amnesty relief are released from all civil penalties and criminal liabilities stemming from the illegal shift of funds offshore in contravention of Exchange Controls on or before 28 February 2002. Individuals filing for Income Tax amnesty relief are released from all income taxes, interest, civil penalty, and criminal penalties stemming from the failure to disclose gross income or capital gain from foreign sources if that income or capital gain arose on or before 28 February 2002.

## Indirect tax proposals

*Indirect taxes comprise 40 per cent of main budget revenue*

Indirect taxes constitute approximately 40 per cent of main budget revenue. The main components of indirect tax revenue are VAT, the general fuel levy, excise and customs duties.

### *Excise duties on alcoholic beverages*

*Restructuring of specific excises on alcohol*

After extensive two-year long consultations with stakeholders, it was decided to structure the taxation of alcoholic beverages as follows:

- The total tax burden (excise duties and VAT), as a percentage of the weighted average retail selling price, for spirits, clear beer and wine will be set at 43, 33 and 23 per cent respectively.
- The excise duty on alcoholic fruit beverages and ciders will be set equal to that of clear beer on a per litre basis.
- The excise duty burden on spirit coolers will be based on the excise duty for spirits, as is currently the practice.
- The tax incidence for the first nine months of the current fiscal year will be used as reference point for the annual adjustments in excise duties for each category of alcoholic beverage. However, the actual adjustment in excise duties will be calculated based on tax burdens derived from projected prices for the next fiscal year of the expected consumer inflation rate, whichever is higher. This fallback position is necessary to ensure that the market is not

flooded with low-price alcoholic beverages in order to minimise the annual adjustment in excise duties.

*Increase in excise duties on alcohol will raise R460 million*

Excise tax increases on alcoholic beverages will raise approximately R460 million in additional revenue in 2003/04. The proposed increases in excise duties on alcoholic beverages for 2003/04 are summarised in table 4.8 below (more detail in Annexure C).

### *Review of definitions of 'clear', sorghum and alcoholic fruit beverages*

*Uncertainties in the definition of beer and alcoholic fruit beverages to be addressed*

Definitional weaknesses exist in the Customs and Excise Act of 1964 in respect of 'clear' beer, sorghum beer and so-called alcoholic fruit beverages, which attract different excise duties. This could potentially be exploited with a view to paying lower excise duties applicable to traditional sorghum beer in respect of clear lager beer that contains sorghum as cereal ingredient. The revised definitions for alcoholic fruit beverages will also clarify any existing uncertainty as to the correct duty applicable for new alcoholic mixtures released into the market. The proposed new definitions seek to protect the fiscus against potential erosion of its excise tax base.

## ***Excise duties on tobacco products***

*Increase in duties on tobacco will raise an additional R447 million*

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 approach, the following tax increases on tobacco products are proposed:

- Cigarettes - 10,8 per cent
- Cigarette tobacco - 20,9 per cent
- Cigars - 39,0 per cent
- Pipe tobacco - 10,9 per cent.

These adjustments are expected to raise R447 million in additional revenue in 2003/04. The proposed increases in excise duties on tobacco products for 2003/04 are summarised in table 4.8 below and set out in more detail in Annexure C.

**Table 4.8 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** | R25,63c/ litre of absolute alcohol | R28,19c/ litre of absolute alcohol | 299,5 | 10 | 2,3 |
| | (43,6c/ average 340ml can) | (47,9c/ average 340ml can) | | 10 | 2,3 |
| **Sorghum beer** | 7,8c/ litre | 7,8c/ litre | 0 | 0 | 0 |
| **Sorghum flour** | 34,7c/ kg | 34,7c/ kg | 0 | 0 | 0 |
| **Unfortified wine** | 80,7c/ litre | 89,6c/ litre | 28,1 | 11 | 3,3 |
| **Fortified wine** | 182,5c/ litre | 200,7c/ litre | 4,6 | 10 | 2,3 |
| **Sparkling wine** | 227,6c/ litre | 252,6c/ litre | 1,6 | 11 | 3,3 |
| **Ciders and alcoholic fruit beverages** | 130,5c/ litre | 143,6c/ litre | 80,1 | 10 | 2,3 |
| **Spirits** | R36,71c/ litre of absolute alcohol | R40,38c/ litre of absolute alcohol | 103,6 | 10 | 2,3 |
| | (R11,84/ average 750ml bottle) | (R13,02/ average 750ml bottle) | | 10 | 2,3 |
| **Cigarettes** | 350,8c/ 20 cigarettes | 388,5c/ 20 cigarettes | 409,3 | 11 | 3,3 |
| **Cigarette tobacco** | 514,8c/ 50g | 622,4c/ 50g | 0,5 | 21 | 13,3 |
| **Pipe tobacco** | 131,3c /25g | 145,6c /25g | 35,7 | 11 | 3,3 |
| **Cigars** | 1763,4c /23g | 2451,8c /23g | 37,1 | 39 | 31,3 |

### *Taxes on fuel*

*Components of fuel taxation*

Petrol and diesel attract five tax charges or levies:

- The general fuel levy, which finances general government expenditure and accrues to the National Revenue Fund
- The Road Accident Fund levy is dedicated to finance claims from road accident victims in terms of the Road Accident Fund's third party motor vehicle accident insurance scheme
- A customs and excise levy in terms of the SACU customs pool, financing regional development and stability
- An Equalisation Fund levy, the proceeds of which were used to mitigate domestic fuel price fluctuations
- A small levy on diesel which defrays the costs of the marking and dying of illuminating paraffin to combat the illegal blending of diesel with illuminating paraffin.

The components of the total fuel taxes are set out in table 4.9 below.

**Table 4.9 Total combined fuel levy on leaded petrol and diesel**

| | 2002/03 | | 2003/04 | |
|---|---|---|---|---|
| | **93 Octane petrol** | **Diesel** | **93 Octane petrol** | **Diesel** |
| General Fuel levy | 98,0 | 81,0 | 101,0 | 85,0 |
| Road Accident Fund levy | 18,5 | 18,5 | 21,5 | 21,5 |
| Customs and Excise levy | 4,0 | 4,0 | 4,0 | 4,0 |
| Equalization Fund levy | – | – | – | – |
| Illuminating Paraffin marker | – | 0,2 | – | 0,2 |
| **Total** | **120,5** | **103,7** | **126,5** | **110,7** |
| Pump price: Gauteng (as in February) | 372,0 | 345,8 | 392,0 | 355,1 |
| **Taxes as a % of pump price** | **32,4** | **30,0** | **32,3** | **31,2** |

*Promotion of cleaner fuels*

In terms of a Government decision, leaded petrol and diesel fuel with high sulphur content must be phased out by 1 January 2006. After consultation with the Department of Minerals and Energy and the local oil refining industry, the differential in the general fuel levy between leaded and unleaded petrol will temporarily be eliminated to allow the industry the scope to increase its clean fuels production capacity. Government is currently reviewing possible measures in support of increasing the refining industry's capacity in respect of clean fuel production.

*Adjustments in fuel taxes*

Mindful of the impact that increases in the dollar denominated international crude oil price have on domestic fuel prices, it is proposed that the fuel taxes be adjusted by less that inflation, as follows:

- The general fuel levy on all grades of petrol (both leaded and unleaded) will increase to 101 cents per litre. This constitutes an increase of 3 cents per litre on leaded petrol and between 6,2 and 9,2 cents per litre on unleaded petrol.
- The general fuel levy on diesel fuel will increase by 4 cents per litre to 85 cents per litre.
- The Road Accident Fund levy will increase by 3 cents per litre from 18,5 cents per litre to 21,5 cents per litre.

The adjustments in the general fuel levy on petrol and diesel are expected to raise approximately R642 million in additional revenue in 2003/04. The increase in the Road Accident Fund levy will raise an additional R474 million for the Road Accident Fund in 2003/04. This proposal will take effect from 2 April 2003.

## *Other excises and charges*

### *Reducing ad valorem excise duties on new motor vehicles*

*Inflation adjustment in duty formula for new vehicles*

After consultation with the motor vehicle manufacturing industry, it is proposed that the graduated formula to calculate the *ad valorem* excise duty on new motor vehicles be adjusted to address the inflationary element. This formula draws a distinction between vehicle types and the weight of vehicles, translating into a lower excise duty charge on lower priced cars. The inflation adjustment, with effect from 1 April 2003, will cost the fiscus approximately R243 million in tax revenue foregone in 2003/04.

### *Repealing ad valorem excise duties on computer equipment*

*Abolition of ad valorem duties on computers resulting in R572 million revenue loss*

The information technology industry is a highly competitive sector that has the potential to contribute greatly to future economic growth in South Africa. It is accordingly proposed that the *ad valorem* excise duty on computer equipment be abolished in order to enhance the competitiveness of South Africa's business enterprises. This concession will come into effect on 1 April 2003 and will cost the fiscus R572 million in 2003/04.

### *Fiscal measures in support of sustainable development*

*Environmental duty on plastic bags*

The Minister of Environmental Affairs and Tourism agreed, after consultation with industry and organised labour, to reverse the regulations banning the manufacture and use of certain types of plastic bags. Instead, a levy on plastic bags will be introduced and some of the revenues collected will be earmarked for the recycling of plastic bags.

*Internalising the "polluter pays" principle in possible future fiscal reforms in support of the environment*

The levy on plastic bags will take the form of a duty in terms of the Customs and Excise Act and SARS will be the collecting agent. This environmentally related fiscal instrument could serve as a case study for the introduction of other environmentally related fiscal instruments in support of the "polluter pays" principle. The Environmental Tax study commissioned by the National Treasury last year will be released for comments as a discussion document later this year. The outcome of this process should present options for environmentally related fiscal reforms in support of a sustainable development path. This proposal requires legislative changes to the Customs and Excise Act.

### *Air passenger departure tax*

*Inflation adjustment*

The air passenger departure tax has not been adjusted for inflation since its introduction in 2001. It is proposed that the air passenger departure tax be adjusted by 10 per cent, which means that the tax will increase by R5 to R55 per passenger departing to Botswana, Lesotho, Namibia and Swaziland and by R10 to R110 per passenger departing for all other international destinations. This increase will raise approximately R30 million in additional revenues in 2003/04. The proposal will take effect from 1 July 2003.

## *Value-added tax*

*VAT on transfer payments, subsidies and grants to public entities*

A number of problems and inconsistencies have arisen as a result of the current interpretation and application of the VAT Act with respect to transfer payments, subsidies and grants to public entities and other beneficiaries. A similar problem also exists in relation to the VAT treatment of local authorities. It is proposed that the VAT Act be amended to ensure that the VAT treatment of such appropriations are equitable and consistent. A task team consisting of the National

Treasury and SARS is investigating the policy and administrative implications of such an amendment.

### *Increased VAT threshold for commercial accommodation*

It is proposed to increase the monetary threshold for the total expected annual receipts with respect to letting in the definition of commercial accommodation from R48 000 to R60 000 per annum. This has become necessary to take account of inflation. This threshold ensures that private individuals who occasionally let out their private holiday homes do not misuse the VAT input system.

*Monetary threshold increased from R48 000 to R60 000*

## Measures to enhance tax administration

### ***Reforms to collection mechanisms***

After adjusting for disputed assessments, liquidations and write-offs, the outstanding tax debt at the end of 2002 was 11 per cent of estimated collections for that year. In addition to the introduction of an automated debt management system in the Western Cape on a pilot basis, it is proposed to reduce the tax debt by tightening up or reforming collection mechanisms as discussed below

*Outstanding tax debt at end of November 2002 11 per cent of collections*

### *Misuse of PAYE, VAT and UIF funds*

Employers and vendors are required to withhold and pay over PAYE, VAT, and UIF taxes. Unfortunately, many unscrupulous parties withhold these funds only to expend the funds for their own use, thereby misusing Government proceeds. It is accordingly proposed that disbursing agents and other responsible persons become directly liable if they have direct or indirect authority over withheld funds. International experience reveals that personal liability contributes to reducing misuse of tax and social security funds.

*Responsible persons directly liable for failure to pay over withholding taxes*

### *Debt outsourcing*

SARS intends to increase its collection capability by outsourcing undisputed tax debts to private collection agencies. It is accordingly proposed that the rules involving the secrecy waiver be clarified to cater for private collection agencies. This outsourcing strategy is limited solely to issues relating to collection of assessed tax liabilities (and not to issues giving rise to the tax liability).

*SARS to outsource collection of undisputed tax debts*

### *Extension of appointment for collections agent powers*

In terms of the Income Tax and the VAT Acts, SARS currently has the power to appoint private parties (e.g., banks) as withholding agents to pay unpaid tax debts. It is proposed that this effective tool be extended to tax acts, such as the Customs and Excise Act as well as the Transfer Duty Act.

*SARS to have power to appoint collection agents for all taxes*

### Liquidations and other transfers to avoid tax obligations

*Shareholders of liquidated companies will become personally liable for failed company's tax liabilities*

One of the most common means of tax avoidance for companies is to liquidate. Owners of these companies then resume their businesses anew in a different company form. Under current law, the only recourse for SARS is to pursue the initial company under the insolvency laws with a possible claim against the company's shareholders under common law "piercing the corporate veil" principles. In order to curtail these abuses, it is proposed that the shareholders of the liquidated company and other relevant parties become liable for the taxes of the failed company to the extent those parties receive liquidated assets during or shortly before liquidation. Other shifting of assets to avoid tax collections also be curtailed.

## Penalties, reporting, advance rulings and objections

### Penalties for failing to register and other transgressions

*New penalty for failure to register and for non-filers*

Taxpayers have a civil duty to register and file tax returns. No separate penalty currently exists for failure to register for certain taxes and the current penalty for failure to file is trivial. It is therefore proposed to increase the penalties for these transgressions.

*New penalties for PAYE and transfer duty transgressions*

The current penalties for violating PAYE are insufficient and the penalties for violating Transfer Duty are wholly lacking. In order to promote consistency with other regimes, it is proposed that penalties of up to 200 per cent be availabe in these circumstances.

### Disclosure of certain tax avoidance structures

*Taxpayers to provide details of transactions subject to confidentiality or contingencies based on tax*

As is the unfortunate practice internationally, taxpayers often enter into tax avoidance structures at the behest of advisers and consultants. Most of these structures operate without SARS scrutiny, thereby appearing to create a further "air of legitimacy" about the legality of their use. In order to prevent further proliferation of such aggressive avoidance schemes, it is proposed that advisors and taxpayers be required to provide details of certain structures on their returns, such as transactions subject to confidentiality in terms of tax consequences. In addition, reporting will be required for transactions that contain a contingency based on tax. Transactions involving such agreements typically have an element of tax avoidance.

### Record keeping and registration of tax practitioners

*Registration of tax practitioners*

As announced in 2002, parties rendering tax advice will have to be formally registered. These rules are currently subject to a consultative process designed to promote self-regulation and improve professional conduct in the tax field.

*Consistent reporting requirements for all tax acts*

A number of the tax acts require minimum standards of record keeping, which provides a vital audit trail. It is accordingly proposed that these minimum standards be extended to all the tax acts, including UST, MST, and Stamp Duties.

### Tax administration initiatives

**Recent collection enhancement initiatives**

SARS has sustained its revenue performance and at the same time created a foundation for more comprehensive changes to improve tax compliance. This approach is premised on three key strategies:

- Proactive engagement and service to taxpayers
- Creation of an efficient and high quality processing capability
- Increased sophistication and focus in respect of enforcement.

**Service**

SARS is committed to improved taxpayer service. The following initiatives are examples of this:

- The SARS Service Monitoring Office was opened on 3 October 2002. This initiative is further underpinned by the introduction of call centres in more provinces, which seek to facilitate the processing of taxpayer complaints.
- New rules for the tax courts and guidelines to facilitate the settlement of disputes will come into effect on 1 April 2003.
- The debate on the SARS Taxpayer Service Charter has been taken forward by releasing a discussion document.
- A newly created Tax Exemption Unit will process approvals for the exemption of public benefit organisations and other entities.

**Processing**

In order to expedite the timely filing of tax returns, SARS will be issuing simplified tax returns for individuals. It is vital that South Africans are responsive to the need to file as soon as possible after the receipt of their tax returns.

During the past year an improved turn around time in respect of tax returns was achieved. SARS has successfully eliminated all backlogs in the processing of submitted tax returns.

**Enforcement**

In order to further enhance SARS's enforcement capabilities, a number of new initiatives will be implemented in the coming year:

- Introduction of business intelligence systems, which will provide better linkage to third party information.
- Specific taxpayer information projects that seek to match SARS data in respect of high value vehicles, properties, and persons who are members of exclusive clubs.
- SARS will strengthen its criminal investigation capacity in cooperation with the Department of Justice, the National Prosecution Authority and the South African Police Service.

### *Advance rulings and time limits for objections*

*Possible introduction of advance rulings process*

SARS is actively reviewing the possibility of introducing a formal advance rulings process. Under this process, taxpayers could receive advance rulings with respect to the tax consequences of transactions before entering into these agreements. SARS plans to release a discussion document along with possible legislation in 2003.

*3-year limit for lodging objections*

Although an objection to an Income Tax assessment must normally be lodged within 30 days, the Commissioner may extend the period. In order to ensure finality, it is proposed that the Commissioner discretion in this regard be limited to three years from the date of assessment. This 3-year limit is consistent with other SARS and commercial practices.

### *Increased VAT invoice reporting requirement*

*Improvements to VAT audit trail by making provision of VAT registration numbers compulsory*

It is already compulsory for registered VAT vendors to provide their correct name and address for inclusion on the invoice when making a purchase above R1 000. It is proposed to also make it compulsory for registered VAT vendors to provide their VAT registration number for inclusion on the invoice when making a purchase above R1 000. This has become necessary to prevent the misuse of VAT tax invoices and to improve the VAT audit trail. A similar requirement was successfully introduced by Botswana.

## Regional tax cooperation

*New SACU Agreement signed*

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. Following eight years of negotiations, a new SACU Agreement was signed in October 2002. The new revenue sharing formula will take effect in the new financial year and will ensure long-term sustainability of these transfer payments. SACU revenue shares for 2003/04 will amount to R9,7 billion, with an anticipated rise to R11,6 billion and R12,4 billion in 2004/2005 and 2005/2006 financial years, respectively.

*SADC Memorandum of Understanding of tax cooperation*

The SADC Tax Subcommittee, which is chaired by South Africa, is to identify and develop areas for cooperation in tax policy and administration in support of stable and efficient tax systems that will facilitate trade and investment, whilst securing regional tax bases. A key milestone was reached on 8 August 2002 when SADC Ministers of Finance signed a Memorandum of Understanding (MOU) on Cooperation in Taxation. The MOU will be incorporated into the SADC Protocol on Trade and Investment that is due to be signed in 2004.

*Southern Africa Tax Institute established*

The Southern African Tax Institute was established at the University of Pretoria during 2002 as an independent institute devoted to training, research and technical assistance in the areas of tax policy and tax administration. SATI provides an accessible, affordable and high quality capacity building opportunity to the region's tax officials. Its winter programme during June 2002 was attended by 72 officials from the region.

*International conferences and assistance given by SARS*

The South African Revenue Service hosted the 23rd Technical Conference for the Commonwealth Association of Tax Administrators in 2002 in Cape Town. The conference, which served as a discussion forum for tax administrators, was attended by approximately 200 delegates from 35 countries, including non-Commonwealth countries. In January 2003 South Africa hosted the first All Africa Customs Conference where 26 countries (including all SADC countries) were represented. SARS also increasingly provides technical assistance to neighbouring countries on tax administration matters.