4

Revenue trends and tax proposals

The South African economy has benefited from a decade of base-broadening tax policy reforms and improvement in revenue collections, enabling Government to grant R72,8 billion in tax relief. Tax relief has contributed to rising household consumption expenditure, boosted economic development, targeted fixed investment growth and promoted small enterprise development.

Against a background of slower revenue growth, there is limited scope for tax relief this year. Nonetheless, several measures to moderate the tax burden and improve its fairness are proposed. The 2004 tax proposals provide for:

- *Personal income tax relief of R4 billion*
- *Encouraging broad-based empowerment through employee share incentive relief*
- *Reducing transaction costs in the housing market by eliminating stamp duties on mortgage loans and increasing the exemption threshold for transfer duty*
- *Eliminating the ad valorem excise duties on recorded music, magnetic tapes and stripes, certain cosmetic products, print film, clocks, printers and photo copying apparatus*
- *Adjusting alcohol and tobacco taxes in keeping with Government's social and health policy objectives*
- *Increasing liquid fuel taxes by 15 cents a litre.*

Overview

Total tax relief of R72,8 billion announced over the last decade has improved taxpayer morale

Major tax reforms over the last decade have improved efficiencies in the functioning of the tax system and yielded equity gains through broadening of the tax base. The benefits of these reforms have become tangible for taxpayers in the form of announced personal income tax relief of more than R62 billion since 1995. If reductions in rates of corporate income tax, the retirement fund tax and other domestic taxes on goods and services are taken into account, total tax relief amounts to almost R72,8 billion. Fundamental structural reforms and downward rate adjustments in the domestic tax system have contributed to improved fairness, certainty and efficiency, thereby impacting positively on taxpayer morale.

SA's tax structure recognised as administratively simple

Furthermore, South Africa's overall taxation strategy is internationally recognised as competitive and administratively simple. These major tax reforms have been coupled with the revitalisation of tax and customs administration in order to ensure that policy reforms are implemented with maximum effect.

Further improvements will yield more modest gains

As the tax system approaches an appropriate structure, reflecting enhanced efficiency and fairness, the net incremental benefits from further improvements become more modest. Nevertheless, and in spite of the challenging global environment, Government continues in 2004 with its stance of moderately easing the tax burden on income with a renewed emphasis on rewarding savings at the cost of consumption.

Main tax proposals

The 2004 Budget tax proposals include:

Tax relief

- Income tax on individuals is reduced by R4 billion
- Provision is made for broad-based tax-free share transfers to employees
- Tax relief is provided for infrastructure and related expenses incurred on government-owned projects
- Stamp duties on mortgage bonds and negotiable certificates of deposit are removed
- The interest exemption is raised to R11 000 for taxpayers under the age of 65 and to R16 000 for taxpayers age 65 and over
- The transfer duty threshold is increased to R150 000
- *Ad valorem* excise duties on printers, recorded music and some cosmetic products are abolished
- Diesel rebate for primary producers is increased by 15c/litre.

Tax increases

- The tax treatment of hybrid instruments is addressed
- Stamp duty on long-term leases is aligned with the transfer duty on property transfers
- Tobacco taxes are raised bringing the tax incidence level from 50 per cent to 52 per cent
- Taxes on alcoholic beverages are increased between 7 and 31 per cent
- The general fuel levy is increased by 10 cents a litre on petrol and diesel
- The Road Accident Fund levy is increased by 5 cents a litre.

Consolidated national revenue estimates

Consolidated revenue of R314,5 billion in 2003/04

Table 4.1 sets out consolidated national revenue for 2002/03 to 2006/07, consisting of main budget revenue, social security fund revenue, RDP fund receipts and technical co-operation grants. The consolidated national revenue estimate is estimated at R314,5 billion in 2003/04, which is nearly 1 per cent less than the 2003 Budget estimate. Between 2003/04 and 2006/07, consolidated national revenue is expected to increase at an annual average rate of 9,4 per cent.

Table 4.1 Consolidated national revenue, 2002/03 – 2006/07

	2002/03	2003/04		2004/05	2005/06	2006/07
	Outcome	Budget	Revised	Medium-term estimates		
R million		**estimate**	**estimate**			
Total tax revenue	282 210	310 025	303 318	333 694	364 449	398 608
Less: SACU payments	-8 259	-9 723	-9 723	-13 328	-11 206	-11 948
Non-tax revenue[1]	4 558	4 156	6 704	6 590	7 023	7 342
Main budget revenue	**278 508**	**304 459**	**300 300**	**326 956**	**360 266**	**394 002**
Percentage of GDP	*24,2%*	*24,9%*	*24,6%*	*24,6%*	*24,7%*	*24,7%*
Social security funds						
Tax revenue	9 657	10 514	11 773	12 891	14 040	15 273
Non-tax revenue[2]	931	1 206	826	1 025	1 286	1 483
Total social security revenue	**10 589**	**11 720**	**12 600**	**13 916**	**15 327**	**16 756**
RDP fund receipts and technical co-operation	1 743	1 500	1 584	1 500	1 500	1 500
Consolidated national revenue[3]	**290 504**	**317 414**	**314 468**	**342 356**	**377 076**	**412 240**

1. Includes departmental revenue, transactions in assets and liabilities, and foreign grants received.
2. Includes own revenue, sale of capital assets and grants received.
3. Transfers between funds have been netted out.

National budget revenue

Table 4.2 highlights budget estimates and revenue outcomes of the major tax instruments for 2002/03 and projected revenue outcomes for 2003/04. Tables 2 and 3 in Annexure B set out these trends in more detail.

Revenue outcome – 2002/03

Outcome for main budget revenue of R278,5 billion in 2002/03

Audited results show that actual receipts for 2002/03 were R278,5 billion, which is 5 per cent more than the original budget estimate of R265,2 billion. Significant deviations from the original estimates include:

- Personal income tax up by R4,4 billion
- Company tax up by R4,9 billion
- Value-added tax up by R4 billion
- Trade taxes down by R1 billion.

Revised estimates for 2003/04

Global trading conditions reduced corporate profits and customs value of imports

Based on revised macroeconomic projections set out in Chapter 2 and the in-year revenue trends, main budget revenue estimates for 2003/04 are revised downwards to R300,3 billion. In the 2003 Budget, main budget revenue was anticipated to be R304,5 billion after accounting for tax proposals. The main reasons for the reduced revenue estimates are reduced corporate profits and customs receipts, which were adversely affected by difficult global trading conditions.

Table 4.2 Main budget estimates and revenue outcome, 2002/03 and 2003/04

R million	2002/03 Budget estimate	2002/03 Outcome	2002/03 Deviation	2003/04 Budget estimate	2003/04 Revised estimate	2003/04 Deviation	2002/03–2003/04 % change
Taxes on income and profits	**155 740**	**164 566**	**8 826**	**177 864**	**171 990**	**-5 874**	**4,5%**
Personal income tax	89 982	94 337	4 355	96 714	98 200	1 486	4,1%
Company tax	50 858	55 745	4 887	65 820	60 650	-5 170	8,8%
Secondary tax on companies	6 500	6 326	-174	8 000	6 000	-2 000	-5,1%
Tax on retirement funds	6 900	6 990	90	5 950	5 600	-350	-19,9%
Other	1 500	1 169	-331	1 380	1 540	160	31,7%
Taxes on payroll and workforce	**2 950**	**3 352**	**402**	**3 600**	**4 000**	**400**	**19,3%**
Taxes on property	**4 585**	**5 085**	**500**	**5 890**	**6 520**	**630**	**28,2%**
Domestic taxes on goods and services	**92 848**	**97 582**	**4 734**	**109 614**	**110 558**	**944**	**13,3%**
Value-added tax	66 200	70 150	3 950	81 000	81 000	–	15,5%
Specific excise duties	10 192	10 423	231	11 364	11 665	301	11,9%
Levies on fuel	15 166	15 334	168	16 342	16 350	8	6,6%
Other	1 290	1 676	386	908	1 543	635	-7,9%
Taxes on international trade and transactions	**10 613**	**9 620**	**-994**	**11 307**	**8 800**	**-2 507**	**-8,5%**
Stamp duties and fees	**1 770**	**1 572**	**-198**	**1 750**	**1 450**	**-300**	**-7,8%**
State miscellaneous revenue[1]	**–**	**433**	**433**	**–**	**–**	**–**	**–**
Total tax revenue	**268 506**	**282 210**	**13 703**	**310 025**	**303 318**	**-6 707**	**7,5%**
Departmental revenue	3 910	4 074	164	4 031	6 068	2 036	48,9%
Transactions in assets and liabilities	930	366	-564	125	570	445	55,9%
Foreign grants (RDP Fund)	130	117	-13	–	67	67	-43,2%
Less: SACU payments	-8 259	-8 259	–	-9 723	-9 723	–	17,7%
Main budget revenue	**265 217**	**278 508**	**13 291**	**304 459**	**300 300**	**-4 159**	**7,8%**

1. Revenue received by SARS in respect of taxation which could not be allocated to a specific tax instrument.

Taxes on income and profits

Personal income tax R1,5 billion over budget

Taxes on income and profits are estimated to be 3,3 per cent less than the original budget estimate. Personal income tax is expected to reach R98,2 billion, which is R1,5 billion more than the original budget estimate. This increase is mainly due to higher wage settlements and an improved compliance culture.

Company taxes 8 per cent under budget

The revised estimate for corporate income tax is R60,7 billion, which is almost 8 per cent less than originally budgeted. The corporate income tax and the secondary tax on companies are expected to generate R5,2 billion and R2 billion less than budgeted. These declines can be ascribed to lower than expected profits in export industries.

Taxes on payroll

The skills development levy is expected to raise R4 billion, R400 million higher than the budget estimate. This increase is mainly due to higher than estimated wage settlements.

Skills development levy R400 million over budget

Domestic taxes on goods and services

Revenue from value-added tax is expected to raise R81 billion in line with the 2003 Budget estimate. The revised estimated revenue from specific excise duties of R11,7 billion is marginally higher than the budget estimate. Fuel levies are estimated to raise R16,4 billion, in line with budget expectations.

Strong consumer spending impacting positively on revenue

Taxes on international trade and transactions

Revenue from customs duties is largely driven by the composition of imports, import volumes and the exchange rate. Accordingly, customs duties are revised downwards by R2,5 billion.

Customs duties revised downwards by R2,5 billion

Main budget revenue estimates: 2000/01 – 2006/07

Table 4.3 sets out actual revenue collections for the period 2000/01 to 2002/03 and estimates for 2003/04 to 2006/07. More details are provided in tables 2 and 3 of annexure B.

Table 4.3 Main budget revenue, 2000/01 – 2006/07

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
	Actual collections			Revised	Medium-term estimates		
R million				estimate			
Taxes on income and profits	126 145	147 310	164 566	171 990	189 198	209 456	226 708
Taxes on payroll and workforce	1 257	2 717	3 352	4 000	4 300	4 500	4 700
Taxes on property	3 979	4 628	5 085	6 520	6 870	7 645	8 576
Domestic taxes on goods and services	79 093	86 888	97 582	110 558	121 549	130 142	145 184
Taxes on international trade and transactions	8 227	8 680	9 620	8 800	10 476	10 906	11 570
Stamp duties and fees	1 562	1 767	1 572	1 450	1 300	1 800	1 870
State miscellaneous revenue[1]	72	307	433	–	–	–	–
Total tax revenue	**220 334**	**252 298**	**282 210**	**303 318**	**333 694**	**364 449**	**398 608**
Departmental revenue	3 498	4 088	4 074	6 068	5 944	6 314	6 581
Transactions in assets and liabilities	156	81	366	570	646	709	761
Foreign grants (RDP Fund)	–	–	117	67	–	–	–
Less: SACU payments	-8 396	-8 205	-8 259	-9 723	-13 328	-11 206	-11 948
Main budget revenue	**215 592**	**248 262**	**278 508**	**300 300**	**326 956**	**360 266**	**394 002**
Percentage of GDP	*23,6%*	*24,6%*	*24,2%*	*24,6%*	*24,6%*	*24,7%*	*24,7%*
Gross domestic product	*914 634*	*1 010 921*	*1 149 890*	*1 223 198*	*1 331 796*	*1 455 626*	*1 592 571*

1. Revenue received by SARS in respect of taxation which could not be allocated to a specific tax instrument.

11,7 per cent growth in main budget revenue from 2000/01 - 2003/04

Between 2000/01 and 2003/04, main budget revenue grew at an annual average rate of 11,7 per cent. This strong growth is largely attributed to growth in the collection of taxes on goods and services that increased at an average annual rate of 11,8 per cent. In addition, taxes on income and profits increased at an average annual rate of 10,9 per cent.

Main budget revenue increases by 9,5 per cent a year over the medium term

Taking account of revenue trends, tax policy changes and macroeconomic projections, main budget revenue is anticipated to grow at an annual average rate of 9,5 per cent over the medium term.

Review of South African Customs Union (SACU) revenue-sharing dispensation

New SACU agreement enters into force in 2004

In 2004/05 SACU payments will increase by 37,1 per cent to R13,3 billion from R9,7 billion in 2003/04. A new SACU agreement signed in 2002 is expected to enter into force at the end of April 2004. The objectives of the agreement include a more sustainable revenue-sharing dispensation, facilitation of cross-border movement of goods between territories of SACU member states and accelerated economic development, diversification, industrialisation and competitiveness.

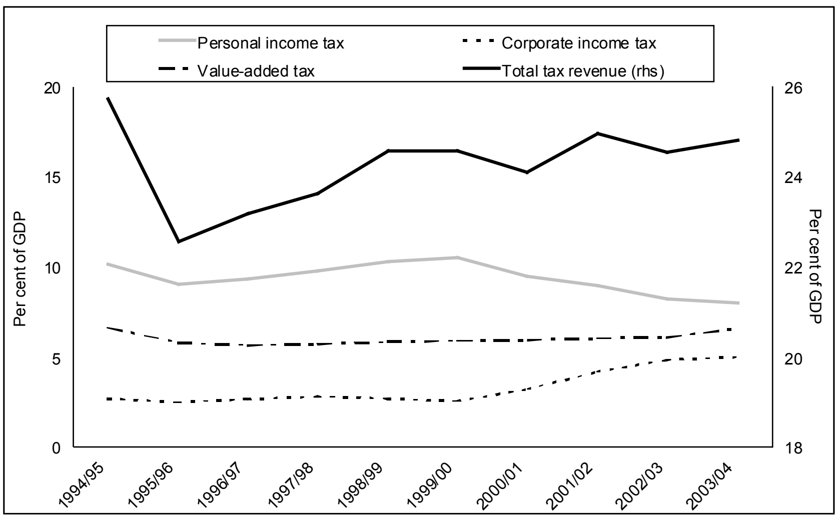
SACU Secretariat takes over administration of common revenue pool

The SACU Secretariat will take over the responsibility for the administration of the common revenue pool. South Africa has been responsible for this function under the old agreement and will continue to do so for a transitional period of two years from the date that the new agreement enters into force. In terms of the new agreement, the revenue share accruing to each member state will be informed by customs and excise data as well as a development factor.

Trends in main budget revenue: 1994/95 – 2003/04

Trends in the main national budget tax instruments are shown in Figure 4.1.

Figure 4.1 Tax revenue as a percentage of GDP



Tax to GDP ratio shows gradual increase since 1995/96

Total tax revenue as a percentage of GDP increased from 22,6 per cent in 1995/96 to 24,8 per cent in 2003/04 (right-hand scale). Corporate income tax as a percentage of GDP remained at less than 3 per cent for the period 1994/95 to 1999/00 before increasing to the current 5 per cent. The share of personal income tax as a percentage of GDP has declined from 10,2 per cent in 1994/95 to an estimated 8 per cent in 2003/04, reflecting the significant tax relief of R62 billion granted over this period. Value-added tax maintained a stable ratio of approximately 6 per cent of GDP.

Table 4.4 sets out the total tax relief announced since 1994/95.

Table 4.4 Summary of tax relief announced, 1994/95 – 2003/04

R million	
Income tax on persons and individuals	**-62 763**
Adjustments to personal income tax rate structure	-61 993
Adjustments to interest income exemptions	-770
Tax on corporate income	**-6 020**
Reduction in corporate income tax rates	-4 780
Introduction of deduction for learnerships	-600
Extension of deductible donations to PBOs	-160
Accelerated depreciation for assets and general business tax stimulus measures	-480
Taxes on property	**-1 176**
Reduction in donations and estate duties	-81
Reduction in marketable securities tax rate	-300
Adjustments to transfer duty rates and thresholds	-795
Domestic taxes on goods and services	**-2 821**
VAT- zero rating of illuminating paraffin	-400
Reduction of *ad valorem* excise duties	-1 175
Abolishment of excise duties on soft drinks	-318
Introduction of diesel fuel concession and rebates	-323
Abolishment of certain stamp duties	-605
Total	**-72 781**

2003 Budget tax proposals – implementation

Foreign exchange amnesty and accompanying tax treatment

More than 14 250 amnesty applications received by the end of January 2004

In 2003, an exchange control amnesty with accompanying tax measures was enacted to provide an opportunity for South Africans to regularise illegal offshore income and assets. Amnesty applicants can disclose or repatriate offshore amounts subject to prescribed levy payments of 0, 5 or 10 per cent, with an additional 2 per cent for accompanying domestic tax violations. The amnesty window period was initially 1 June 2003 to 30 November 2003, but was extended to 29 February 2004 in view of various changes to the regulations and the strong growth in applications received in October and November 2003. The total number of applications received exceeded 14 250 by the end of January 2004.

Expanding number of public benefit organisations (PBOs) eligible for tax deductible donations

Extended list of PBOs eligible for tax deductible donations

In the 2003 Budget, the scope of tax preferences for PBOs was further expanded. Most notably, the list of public benefit activities eligible for tax-deductible donations was extended to include almost all PBOs involved in the areas of welfare and humanitarian aid, health care, land and housing, education and development.

Expanded list of tax exempt activities

In addition, the list of activities eligible for tax-exempt status was expanded to promote media access, low-income housing and bids for hosting international events. Tax rules were also changed so that local PBOs can utilise foreign donations anywhere in the region without losing their exempt status.

Stimulating development for urban development zones

Preferential tax depreciation allowances for urban renewal

In last year's Budget Speech the Minister of Finance announced a tax incentive in order to address the problem of inner city decay. This incentive allows taxpayers to receive accelerated depreciation allowances for investment in under-utilised urban development zones. Taxpayers refurbishing existing buildings within a demarcated zone will now receive a 20 per cent straight-line depreciation allowance over a 5-year period. The construction of new buildings within such a zone will benefit from a 17-year write-off period (20 per cent in the first year and 5 per cent in subsequent years).

Emfuleni was added to list of eligible municipalities

The 2003 Budget Review identified 15 municipalities and the final legislation also provides for the Emfuleni municipality to benefit from the tax preference. The legislation requires municipalities to demarcate one or possibly two urban areas based on qualifying criteria, including population size and other special circumstances. Each tax preferential area is restricted to an overall hectare size limitation.

Pension fund reform

Further review of tax options for retirement funds with other regulatory framework requirements

The National Treasury has been reviewing the taxation of retirement funds since 2002. Last year the retirement fund tax rate was reduced from 25 to 18 per cent. It is an important objective of public policy that individuals should face a compelling inducement to provide for their retirement. The task is how to find the optimal mix between policy instruments (such as taxes) and institutional provisions (such as compulsory contributions to pension funds). Also, tax policy interventions need to ensure some degree of neutrality between discretionary and contractual savings, which requires complex comparative analyses.

Holistic review of tax policy options underway

With a view to exploring options for reform, taking into account realistic household budget constraints and preferences, a holistic review is being conducted. National Treasury intends, together with all stakeholders involved in South Africa's saving industry, to develop policy proposals on savings and pension fund tax reform in 2004.

Mineral Royalty Bill and mining tax review

Delayed introduction of gross sales royalty to expedite mineral rights conversion

After extensive consultation with all stakeholders, the Minister announced several refinements to the Mineral and Petroleum Royalty Bill. These include a delay in the introduction of the royalty to five years after introduction of the Mineral and Petroleum Resources Development Act as well as the removal of the fiscal stabilisation clause. The Minister also reconfirmed Government's preference for a revenue-based royalty.

Further consultation with mining industry on technical aspects of Mineral Royalty Bill

Government is mindful of potential adverse impacts on investment, employment and output from a royalty. The Treasury's assessment suggests that economic costs can be minimised if the royalty regime takes adequate cognisance of the sector's diverse production dynamics. Due to different market structures, the impact of the royalty will vary across the mining sectors, requiring a differentiated royalty rate. This rate differentiation will be refined to account for these diverse economic impacts. Other issues that still need review include the handling of marginal mines, the elimination of potential double royalties, continuation of current royalties during the transition period and possible adjustments to other revenue charges in respect of the issuance of new order mineral rights.

Consequential reassessment of gold mining tax formula and current income tax treatment for mining sector

The new regulatory system for mining rights and accompanying royalty dispensation for the mining and petroleum industry has made it imperative to holistically reassess the current fiscal regime, including tax depreciation, rate differentiation for mining sectors, allowable deductions and STC exemptions in terms of the income tax regime.

Also due for review is the gold mining tax formula, which provides income tax exemption and STC relief for certain gold mines despite the existence of profit. While a special dispensation is arguably required for marginal mines, any tax preference in this regard is more appropriate for a royalty regime than the corporate profit tax, which by its very nature automatically adjusts for profit levels. Other issues of concern include the special 40 per cent surcharge for companies engaged in natural oil extraction, as South Africa is keen to attract more investment into its fledgling natural oil and gas industry.

Estimates of revenue before tax proposals – 2004/05

Table 4.5 sets out the estimates of revenue before tax proposals for 2004/05, taking account of the macroeconomic assumptions set out in Chapter 2 and the existing tax structure. These estimates are detailed in the *Estimate of National Revenue*.

Main budget revenue is estimated at R329,3 billion before any proposed tax changes

Main budget revenue is estimated to be R329,3 billion before any tax changes are proposed. Personal income tax is estimated to increase by 12 per cent to R110 billion after accounting for projected wage and inflation increases. Corporate income tax and value-added tax are projected to raise R68,8 billion and R89,5 billion respectively.

Table 4.5 Estimates of revenue before tax proposals, 2004/05

R million	2003/04 Revised estimate	2004/05 Before tax proposals	% change
Taxes on income and profits	**171 990**	**193 260**	**12,4%**
Personal income tax	98 200	110 000	12,0%
Company tax	60 650	68 800	13,4%
Secondary tax on companies	6 000	6 760	12,7%
Tax on retirement funds	5 600	6 000	7,1%
Other	1 540	1 700	10,4%
Taxes on payroll and workforce	**4 000**	**4 300**	**7,5%**
Taxes on property	**6 520**	**6 970**	**6,9%**
Domestic taxes on goods and services	**110 558**	**119 417**	**8,0%**
Value-added tax	81 000	89 500	10,5%
Excise duties	12 715	12 799	0,7%
Levies on fuel	16 350	16 500	0,9%
Other	493	619	25,5%
Taxes on international trade and transactions	**8 800**	**10 476**	**19,0%**
Stamp duties and fees	**1 450**	**1 570**	**8,3%**
Total tax revenue	**303 318**	**335 994**	**10,8%**
Departmental revenue	6 068	5 944	-2,0%
Transactions in assets and liabilities	570	646	13,4%
Foreign grants (RDP Fund)	67	–	0,0%
Less: SACU payments	-9 723	-13 328	37,1%
Main budget revenue	**300 300**	**329 256**	**9,6%**

2004 tax proposals – overview

Due to lower rand prices for domestically produced exports, an uncertain global environment and a slowdown in economic growth in 2003, the buoyant revenue performance of the past two years will not be repeated in 2003/04, and projections for subsequent years have accordingly been revised down by comparison with the 2003 Budget forward estimates. This limits the scope for tax relief.

Table 4.6 provides the anticipated revenue effects of the tax proposals set out in this Budget. These proposals reduce total tax revenue by R2,3 billion.

Direct tax proposals – 2004/05

Personal income tax – rate and threshold adjustments

Personal income tax relief since 1996 primarily reduced tax burden of low-income earners

South Africans have benefited from significant personal income tax relief since 1996. This relief has not only countered inflation-related fiscal drag but also provided a real reduction in the tax burden, particularly on low-income earners. These measures increased real disposable income for consumption and saving.

Personal income tax relief of R4 billion

In 2004/05, personal income tax relief of R4 billion is proposed. The proposed rate schedule is set out in table 4.7.

Table 4.6 Summary effects of tax proposals, 2004/05

R million	Effect of tax proposals	
Tax revenue		335 994
Non-tax revenue		6 590
Less: SACU payments		-13 328
Main budget revenue, before tax proposals		**329 256**
Budget 2004/05 proposals:		
Direct tax proposals	**-4 432**	
Personal income tax:	**-4 062**	
Adjust personal income tax rate structure	-4 000	
Increase in interest and dividend exemption under 65 years	-50	
Increase in interest and dividend exemption age 65 years and over	-12	
Financial transaction taxes:	**-370**	
Adjust table for transfer duties	-100	
Remove stamp duty on mortgage loans	-250	
Remove stamp duty on NCDs	-20	
Indirect tax proposals	**2 132**	
Specific excise taxes: Net Impact	1 453	
- Increase in duties on beer	303	
- Increase in duties on fortified wine	11	
- Increase in duties on sparkling wine	6	
- Increase in duties on unfortified wine	98	
- Increase in duties on cider	21	
- Increase in duties on spirits	220	
- Increase in duties on tobacco products (52% incidence)	794	
Increase in fuel levy	909	
Remove *ad valorem* duties on certain products	-230	
Tax proposals – net effect		**-2 300**
Main budget revenue, after tax proposals		**326 956**

The main adjustments are:

- The primary rebate is raised to R5 800, increasing the income tax threshold by 7,4 per cent to R32 222.
- The tax threshold for taxpayers age 65 and over is raised to R50 000, or 6 per cent more than the current level.
- Brackets are adjusted to provide relief across the entire income spectrum.

60 per cent of tax relief concentrated in lower- and middle-income range

The distribution of the tax relief is as follows:

Threshold to R60 000	11%
R60 000 to R150 000	49%
R150 000 to R250 000	30%
R250 000 and above	10%

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

Table 4.7 Personal income tax rate and bracket adjustments, 2003/04 and 2004/05

2003/04		2004/05	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
0 – 70 000	18% of each R1	0 – 74 000	18% of each R1
70 001 – 110 000	R12 600 + 25% of the amount above R70 000	74 001 – 115 000	R13 320 + 25% of the amount above R74 000
110 001 – 140 000	R22 600 + 30% of the amount above R110 000	115 001 – 155 000	R23 570 + 30% of the amount above R115 000
140 001 – 180 000	R31 600 + 35% of the amount above R140 000	155 001 – 195 000	R35 570 + 35% of the amount above R155 000
180 001 – 255 000	R45 600 + 38% of the amount above R180 000	195 001 – 270 000	R49 570 + 38% of the amount above R195 000
255 001 and above	R74 100 + 40% of the amount above R255 000	270 001 and above	R78 070 + 40% of the amount above R270 000
Rebates		**Rebates**	
Primary	R5 400	Primary	R5 800
Secondary	R3 100	Secondary	R3 200
Tax threshold		**Tax threshold**	
Below age 65	R30 000	Below age 65	R32 222
Age 65 and over	R47 222	Age 65 and over	R50 000

Interest and dividend income exemption

Exemptions increased to R11 000 and R16 000

The domestic interest and dividend exemption is currently R10 000 for taxpayers under age 65 and R15 000 for taxpayers age 65 and over. This exemption is an important benefit for those who rely on savings for their main source of income. In view of the significant reductions in interest rates, an increase is proposed. As from 1 March 2004, the interest exemption levels will be increased to R11 000 for taxpayers under 65 and to R16 000 for taxpayers age 65 and over. This change will result in an estimated revenue loss of R62 million.

Transfer duty

No transfer duty payable on property with a value of less than R150 000

The South African housing market has seen a notable recovery since 2000. This period coincided with significant personal income tax relief for low- and middle-income earners as well as transfer duty relief for the lower end of the property market. In this Budget, Government continues to grant effective tax relief for low-income earners by not only reducing the personal income tax relief around low- and middle-income groups, but also by adjusting the transfer duty brackets. The exempt threshold for the transfer duty will therefore be increased from the current R140 000 to R150 000 as from 1 March 2004, so that most houses affordable by low-income earners now fall under the tax threshold. The proposed new transfer duty threshold will reduce the tax burden on all property transactions by R500 (see table 4.9).

It is estimated that this proposal will result in a revenue loss of R100 million.

Table 4.8 Proposed rates of transfer duty, 2004/05

Property value	Rates of tax
R0 – R150 000	0%
R150 001 – R320 000	5% on the value above R150 000
R320 001 and above	R8 500 plus 8% on the value above R320 000

Table 4.9 Current and proposed transfer duty

Property value	Current duty	% of value	Proposed duty	% of value
R150 000	R500	0,3%	–	0,0%
R200 000	R3 000	1,5%	R2 500	1,3%
R250 000	R5 500	2,2%	R5 000	2,0%
R300 000	R8 000	2,7%	R7 500	2,5%
R500 000	R23 400	4,7%	R22 900	4,6%
R750 000	R43 400	5,8%	R42 900	5,7%
R1 000 000	R63 400	6,3%	R62 900	6,3%

Motor vehicle allowance

Deemed motor vehicle expenses overestimate actual cost

The number of taxpayers using the deemed expense schedule for the motor vehicle allowance increased significantly over the past few years, resulting in significant revenue losses to the fiscus. A large number of taxpayers rely on the deemed expense schedule primarily as a result of the schedule's inherent overestimation of actual business cost. This overestimation in effect means that many taxpayers are able to deduct amounts that are effectively private expenses.

Review of expenses aimed at reducing the gap between deemed and actual expenses

While recognizing that there are unavoidable compromises in these arrangements, it seems clear that the present provisions are unfair and unduly distort household choices. The deemed expense schedule will accordingly be reviewed, to explore the appropriateness of the deemed private and business kilometres travelled, the assumption that motor vehicles have a zero residual value after five years, the unintended encouragement of investment in higher valued vehicles and the 50 per cent PAYE withholding regime. The *ad valorem* duty structure on motor vehicles will also be reassessed, taking into account the findings of economic and distributional impact studies.

Corporate finance initiatives

Broad-based employee equity participation

Share schemes to promote broad-based empowerment

Many countries have special tax incentives that promote broad-based employee equity participation. These schemes enhance productivity by providing employees with an economic stake in the company. In the South African context, the existence of these schemes could also serve as a useful means of promoting broad-based empowerment objectives.

Current schemes favour executives

Unfortunately, very few low-income employees hold shares in the company for which they work. One barrier to this form of ownership is the income tax. Any issue of shares to an employee at reduced or no cost triggers fringe benefit tax for the employee, which many people simply cannot afford. While tax strategies exist for reducing the tax costs through option, share and other equity-based schemes, these tax planning opportunities are typically available only for employees and directors earning higher incomes.

Tax-free granting of shares to benefit grassroots employees

It is accordingly proposed that legislation be introduced to allow for the tax-free transfer of shares to employees (capped at a certain amount) in order to encourage broad-based employee participation in companies. These rules will facilitate long-term ownership rather than short-term profit taking by taxing any gains realised within a specified period as ordinary income and by allowing employers to provide certain restrictions to prevent short-term sales of shares by employees. Rules may also have to be explored as to the scheme's consequences for the employer company.

Adjustment of equity-based incentives for highly paid employees

Revising tax treatment of share options

Over the years, a number of equity-based incentives have been developed for top management that provide various forms of tax benefits. One example is share option schemes used to defer taxes or to convert ordinary salary income into capital gains. Some aspects of these incentives for top management conflict with the tax principle of vertical equity and create problems in respect of corporate governance. It is proposed that legislation be introduced to address equity-based incentives of this nature. Rules may also have to be explored as to the company consequences of equity-based issues in exchange for salary and other concerns.

Addressing the tax treatment of hybrid financial instruments

Addressing tax avoidance by clarifying the tax treatment in respect of debt and equity

The current tax differential between debt and equity leads to different cash flow results for taxpayers. For instance, debt provides interest deductions for issuers, but triggers a tax liability on interest earnings. On the other hand, dividend payments create secondary tax on companies for the distributing company, and the benefit of exemption for shareholders. Hybrid financial instruments combine both debt and equity characteristics. Such hybrid instruments may include convertible loans, perpetual debt, redeemable preference shares, and interest-yielding preference shares.

Current tax treatment of hybrids improperly focuses on legal form rather than economic substance

An urgent need exists to improve current anti-avoidance legislation relating to hybrid instruments. It is proposed that legislation be introduced that characterises hybrid instruments according to their underlying economic substance, along with other collateral anti-avoidance legislation. The main focus of proposed anti-avoidance legislation will be on:

- Convertible instruments
- Debt with principal that is effectively never repayable
- Shares with required repayment of capital
- Special rules addressing concerns surrounding domestic versus foreign hybrids.

Assisting deferred payment schemes

Allowing tax to be deferred when sale proceeds are deferred

The purchase of property can be financed through various methods. In most cases, sellers demand their sale proceeds upfront with purchasers obtaining financing from other sources. In other cases, sellers can effectively finance purchases by allowing for deferred payment over several years. In the South African context, deferred payment schemes can also be used to shift ownership as part of the economic empowerment effort. However, current tax legislation arguably creates a barrier for this form of financing by triggering an immediate tax event, even though sale proceeds may be deferred over many years. Special additional problems exist when the deferred payments are based on contingencies (such as payments based on future profit streams) and when calculating gains on the sale of certain pre-1 October 2001 assets. Rules will accordingly be considered to accommodate some or all of the above concerns.

Investments into South Africa from countries within the Common Monetary Area (CMA)

Exempting South African sourced interest for CMA residents

Foreign residents are generally not subject to tax on interest received from South African sources. However, this exemption does not apply to residents from countries within the CMA (i.e., Namibia, Lesotho, and Swaziland). This limitation for CMA residents was introduced in 1993 along with the exemption in order to protect the tax base before the 2001 introduction of the worldwide tax system.

Possible improved exchange of information requirements for CMA countries

It is proposed that the limitation applying to residents within the CMA be eliminated as obsolete (possibly subject to conditions). This proposal will also entail the technical realigning of the foreign interest exemption provisions and possibly certain situations in which CMA investment funds are subsequently repatriated to their respective home countries. Other collateral issues to be considered include an anti-avoidance rule that prevents the exemption from applying in the case of debts originating between domestic parties.

Government grants and exempt entities

Government grants

Extending preferential tax treatment to entities developing infrastructure on Government property

In 2003, government grants to Public Private Partnerships (PPP) for infrastructure development became eligible for income tax relief. These tax preferential grants to PPPs were justified only in cases where the physical infrastructure reverts to Government ownership by close of the concession period. It is proposed that tax relief be extended to other entities receiving grants of this nature. It has also come to Government's attention that the 2003 tax proposals require further refinement, including provision for capital expenditure items associated with physical infrastructure.

Extending tax preferences to private stakeholders

In addition, private stakeholders may expend their own funds to construct or improve infrastructure on Government's behalf. However, these stakeholders cannot claim tax depreciation on related expenditure for this form of capital expenditure because, among other reasons, the infrastructure is not technically "owned" by them (i.e., the infrastructure affixes to land that belongs to Government). It is proposed that this form of capital expenditure and related expenses become tax deductible, subject to anti-avoidance concerns.

Financial exchanges and other specialised exempt entities

Revising tax-exempt status of specialised entities

The Income Tax Act currently contains exemptions for specialised entities (such as the JSE Securities Exchange, Chambers of Commerce and social clubs) if approved by the Commissioner subject to regulatory conditions imposed by the Minister. Many of these exemptions currently need review in light of recent legislative changes and past practice. Of special note is the JSE Securities Exchange, which may be subject to overall regulatory change in terms of the impending Securities Services legislation. It is accordingly proposed that the exempt status of these entities be reviewed in law and/or regulation. These changes may provide the Minister with authority to provide for partial exemptions if circumstances so warrant and for rules addressing changes from tax-exempt to taxable status.

Stamp duties

Removal of stamp duties on mortgage bonds

Relief for first-time home owners by removing burdensome financial transaction taxes

Under current law, taxpayers acquiring real property are subject to stamp duty if they incur a mortgage to finance the property acquisition. Hence, the stamp duty creates a second duty on top of the transfer duty for an actual property transfer. The stamp duty is especially inequitable when one considers the fact that most persons of limited means (and first-time home buyers) more heavily rely on mortgage debt to acquire their homes. It is accordingly proposed that the stamp duty on mortgages be repealed from 1 March 2004. The estimated cost of this proposal is R250 million.

Removal of stamp duty on negotiable certificates of deposit (NCDs)

Further reduction of financial transaction taxes

Government continued its gradual elimination of stamp duties on debts in 2003 with the removal of stamp duties on fixed deposits and non-convertible debentures. With the proposed removal of the stamp duty on mortgage debts as outlined above, the only stamp duty on debt remaining is on NCDs. Continued stamp duty solely on this form of debt creates unwarranted economic distortions with the duty being avoided through various forms of arbitrage. It is accordingly proposed that the stamp duty on NCDs be repealed from 1 April 2004, at an estimated cost of R20 million.

Stamp duty on leases

Increasing duties on long-term leases

Transfer duty generally applies when real property rights are transferred, and stamp duty generally applies when real property rights are leased. However, the long-term lease of real property is taxed at vastly lower amounts than the transfer of real property. No economic justification exists for this discrepancy. The stamp and the transfer duties will accordingly be reviewed in order to close this arbitrage opportunity in respect of long-term leases.

Increasing penalties and enforcement of stamp duties on agreements

Stamp duties also raise enforcement concerns. Parties to an agreement, especially a lease, often fail to stamp their documents or only stamp their documents when an aggrieved party wishes to initiate litigation. The current penalty for this form of late stamping fails to act as a deterrent because the maximum penalty is often insufficient in relation to the total stamp duty owed. Late stamping allows an agreement to become enforceable with retrospective effect. Measures will accordingly be introduced to prevent these abuses and to align the penalty structure with other Acts.

Indirect tax proposals

Excise duties on tobacco products

Total tax burden on tobacco products increases from 50 per cent to 52 per cent of retail selling price

For the past seven years, the excise duties on tobacco products were aimed at effecting a total indirect tax incidence of 50 per cent of the retail selling price of the most popular brands. Evidence clearly suggests that this tax incidence has contributed towards Government's policy of discouraging the consumption of tobacco products. However, the policy of raising retail prices of tobacco products through an excise tax intervention must be balanced against the risk of smuggling and production of counterfeit cigarettes.

The new 52 per cent incidence will remain for three years

In an attempt to reinforce the efforts of the Department of Health, it is proposed to increase the total indirect tax incidence (i.e excise duties and VAT) on tobacco products to 52 per cent with immediate effect. In order to provide certainty to the industry, Government proposes to maintain the 52 per cent tax incidence target for three fiscal years.

Increase in excise duties on tobacco products will raise an additional R794 million

The proposed increases in excise duties on tobacco products are expected to raise about R794 million in additional revenue in 2004/05. Based on the current retail selling prices of the most popular brands of tobacco products, the 52 per cent total tax incidence target translates into the following proposed excise duty increases:

- Cigarettes 16,55 per cent to R4,53 per 20 cigarettes
- Cigarette tobacco 11,70 per cent to R139,04 per kg
- Cigars 15,67 per cent to R1 233,04 per kg
- Pipe tobacco 17,30 per cent to R68,32 per kg.

Excise duties on alcoholic beverages

Real increase in excise duties on alcoholic beverages

Adjustments in the excise duties of alcoholic beverages are based on a targeted total tax burden (excise duties and VAT), expressed as a percentage of the weighted average retail selling prices of spirits, clear beer and wine respectively. Currently, the tax burden on spirits, clear beer and wine is approximately 38, 32 and 18-19 per cent, respectively. Government in consultation with stakeholders has agreed to target a total tax burden as a percentage of the weighted average retail selling price for spirits, clear beer and wine of 43, 33 and 23 per cent. This will be phased in over three years.

Table 4.10 Changes in specific excise duties, 2004/05

Product	Current excise duty rate	Proposed excise duty rate	Estimated additional revenue R million	Change in excise duty Nominal	Real
Malt beer	R28,19c / litre of absolute alcohol (47,9c / average 340ml can)	R30,73c / litre of absolute alcohol (52,24c / average 340ml can)	303,2	9,0%	3,8%
Traditional African beer	7,82c / litre	7,82c / litre	–	0,0%	-5,2%
Traditional African beer powder	34,7c / kg	34,7c / kg	–	0,0%	-5,2%
Unfortified wine	89,6c / litre	117,1c / litre	98,2	30,7%	25,5%
Fortified wine	200,7c / litre	232,87c/ litre	10,6	16,0%	10,8%
Sparkling wine	252,6c / litre	323,32c / litre	6,0	28,0%	22,8%
Ciders and alcoholic fruit beverages	143,6c / litre	153,74c / litre (52,27c / average 340 ml can)	21,0	7,1%	1,9%
Spirits	R40,38c / litre of absolute alcohol (R13,02c / average 750ml bottle)	R45,84c / litre of absolute alcohol (R14,78 / average 750ml bottle)	220,3	13,5%	8,3%
Cigarettes	388,5c / 20 cigarettes	452,8c / 20 cigarettes	730,7	16,6%	11,4%
Cigarette tobacco	622,4c / 50g	695,17c / 50g	0,4	11,7%	6,5%
Pipe tobacco	145,6c / 25g	170,79c / 25g	61,7	17,3%	12,1%
Cigars	2452c / 23g	2836c / 23g	0,7	15,7%	10,5%

Three year phase-in of benchmark tax burden

The proposed increases in the excise duties for the different types of alcoholic beverages, with immediate effect, are as follows:

- Natural unfortified wine 30,7 per cent
- Sparkling wine 28,0 per cent
- Fortified wine 16,0 per cent
- Spirits 13,5 per cent
- Clear/malt beer 9,0 per cent
- Alcoholic fruit beverages 7,1 per cent

Excise duties on Traditional African Beer and beer powder will remain unchanged. Alcohol excises will raise approximately R660 million in additional revenue in 2004/05.

General fuel levy

Real increases in fuel levies although total tax burden remains below 40 per cent

It is proposed that the general fuel levy on petrol and diesel be increased by 10 cents per litre to R1,11 and R0,95 per litre respectively with effect from 7 April 2004. This increase will be a first step towards narrowing the fuel tax differential between petrol and diesel.

Diesel rebate for primary producers increased by 10c/litre

To minimise the impact on primary producers of the proposed increases, the diesel fuel concession to such producers (agriculture, forestry and mining) will be increased from 31,6 per cent (26,86 cents per litre) to 38,8 per cent (36,86 cents per litre) of the general fuel levy on diesel. This concession will take effect from 7 April 2004.

The proposed increase in the fuel levy will raise approximately R900 million in additional revenue for 2004/05.

Investigate possible transport fuel levies on LPG for 2005/2006

Liquid petroleum gas (LPG) is being used in South Africa for transport purposes as a substitute for either petrol or diesel. Although the environmental advantage of LPG is given as a reason for its use, the main reason appears to be the lower price of LPG stemming from the absence of a fuel levy. However, recent studies suggest that LPG has no real environmental benefits over alternative clean fossil fuels, such as unleaded petrol or low-sulphur diesel used in vehicles with catalytic converters. The significant fuel tax differentiation in favour of LPG therefore cannot be justified. Accordingly, it is appropriate to subject LPG used for transport purposes to all the transport fuel related levies. The administrative feasibility of this will be investigated during the next few months.

Road Accident Fund levy

Increase Road Accident Fund levy by 5 cents a litre

In order to adjust for the impact of inflation and to assist the Road Accident Fund to implement a restructuring programme and begin to reduce its accrued deficit, the Road Accident Fund levy on petrol and diesel will be increased by 5 cents per litre with effect from 7 April 2004. Further increases of 5 cents per litre in April 2005 and April 2006 are proposed, subject to the Board of the Fund taking decisive action to put it on a sustainable financial footing, taking into account recommendations of the Satchwell Commission.

Table 4.11 Total combined fuel levy on leaded petrol and diesel, 2002/03 – 2004/05

	2002/03		2003/04		2004/05	
	93 Octane petrol	Diesel	93 Octane petrol	Diesel	93 Octane petrol	Diesel
General fuel levy	98,0	81,0	101,0	85,0	111,0	95,0
Road Accident Fund levy	18,5	18,5	21,5	21,5	26,5	26,5
Customs and Excise levy	4,0	4,0	4,0	4,0	4,0	4,0
Equalization Fund levy	–	–	–	–	–	–
Illuminating Paraffin marker	–	0,2	–	0,2	–	0,2
Total	**120,5**	**103,7**	**126,5**	**110,7**	**141,5**	**125,7**
Pump price: Gauteng (as in June)[1]	419,0	383,2	361,0	315,9	378,0	345,0
Taxes as % of pump price	**28,8%**	**27,0%**	**35,0%**	**35,0%**	**37,4%**	**36,4%**

1. For 2004/05, the pump price is listed as of January 2004.

Ad valorem *customs and excise duties*

Ad valorem duty exemption applies only to vehicles seating 15 or more persons

An *ad valorem* duty exemption currently applies to vehicles with a carrying capacity of at least ten persons. Although this exclusion was intended to benefit only minibus taxis, the exemption unintentionally applies to other vehicles. It is accordingly proposed that the minimum carrying capacity be increased to at least fifteen persons with effect from 1 April 2004. Once the taxi re-capitalisation programme is implemented, an increase in the carrying capacity exemption to a minimum of eighteen persons will be considered.

Abolish ad valorem duties on recorded music, magnetic stripes and printers

In the 2003 Budget, *ad valorem* customs and excise duties on computers and some printers were removed. It is now proposed to remove duties on all computer printers, recorded and prepared unrecorded media (including magnetic tapes and stripes), certain cosmetic products, print film, photo copying apparatus and watches and clocks (see annexure C) with effect from 1 April 2004.

Value-added tax amendments

VAT and transfer duty

The VAT and transfer duty have been linked to minimise and/or prevent the likelihood of double taxation. The current provisions that link the VAT to the transfer duty result in certain inequities and will therefore be reviewed.

Measures to enhance tax administration

Enhanced tax administration is achieved through a balanced approach of improving enforcement and easing compliance. The following proposals are designed to promote both of these goals.

Improving compliance

Improving information quality

Cross-referencing information collected from third parties

SARS will develop, test and implement procedures to improve the reliability of information from third parties. The aim is to utilise existing data warehousing and data mining systems to cross reference information collected from third parties and to reduce information requested from individual taxpayers. Consideration will also be given to extending tax reporting requirements to other third parties. This latter initiative may require minor legislative amendments.

General administration

Required reporting of changes in mailing address

Taxpayers are not required to inform SARS of changes in personal details, especially changes in mailing addresses. This failure creates an administrative burden for SARS, and it is proposed that taxpayers be required to inform SARS of any changes in this regard.

New filing season campaign and extension policy

SARS will build on its successful 2003 filing season by launching an intensive taxpayer education campaign in 2004. These measures will be balanced with initiatives to simplify tax returns and a more stringent extension policy aimed at curtailing unreasonable delays in submitting returns.

Regulation of tax practitioners

In late 2002, SARS issued a discussion paper regarding the proposed registration of tax practitioners. Numerous comments were received from the legal and accounting professions. The most appropriate mechanism of regulation is being considered along with possible incorporation into legislation.

Corporate compliance

The low effective tax rates in specific sectors of the economy have continued to act as a catalyst for discussions between SARS and these sectors to understand the causes of the low rates and to collaborate in addressing them. As an example, the banking sector has agreed to look into its effective tax rate following discussions with SARS. Discussions with this and other sectors have yielded fruitful results but much remains to be done.

The low effective tax rates in certain sectors essentially transfer the costs of infrastructure and government services that the sectors depend on to others. This approach to doing business is unsustainable. It should become the active concern of CEOs, chairpersons and members of company boards who must increasingly make tax compliance and the effective tax rates paid by their companies a central issue in corporate governance.

Real property transactions involving residential property holding entities and foreigners

Special reporting requirements for selling domestic residential property holding entities

Two years ago, measures were introduced to prevent the use of residential property holding entities as instruments to avoid transfer duty. Under these measures, the change of ownership in a residential property holding entity became subject to transfer duty as if the ownership transfer directly involved residential property. It appears that these enforcement measures are still insufficient (especially when ownership changes hands between foreign parties) because the usual reporting mechanism for transfer duty does not apply. In order to protect the transfer duty base further, it is proposed that special reporting requirements be added for third parties involved in these transactions.

Withholding requirement with respect to real estate transactions involving foreigners

Enforcement problems also exist in terms of capital gains tax in respect of disposals by foreign parties. Foreign parties disposing of domestic real estate are subject to tax on capital gains, including sales of companies mainly holding domestic real estate. However, no effective enforcement mechanism exists to collect this tax. It is proposed that a capital gains withholding requirement be imposed to ensure proper collection from foreign persons.

Easing compliance

Simplification of forms and procedures

New simplified returns for employees

SARS is committed to improving service delivery for tax return filers and will introduce two new individual income tax returns in 2004 – a simplified return for basic salary earners and a second return for salaried individuals with various forms of passive income.

One-stop service centre for corporate clients

The project to transform the existing Corporate Tax Centre into the SARS Corporates' Office (SCO) was launched in 2002. The SCO will provide comprehensive coverage (pre-filing, filing, risk assessment, compliance inspections and examinations) for all taxes imposed on companies. The SCO will be established through a phased approach in 2004/05. These services will ensure compliance and reduce the corporate tax gap.

Single business registration number

SARS will continue to explore with other Government departments, the necessity of a single business number (SBN) that will provide a single point of access for information on business across all Government departments. Security of information will be increased and record keeping will be more efficient. For SARS, this new number would mean broadening the tax base in order more easily to register businesses for related taxes, including VAT, PAYE, Skills Development Levy and Unemployment Insurance Fund contributions.

Advance rulings possible underpinned by legislation

As stated in the 2003 Budget, SARS has been actively reviewing the possibility of introducing formal advance rulings, including the release of a comprehensive discussion document for public comment by 27 February 2004. The proposed advance ruling system is aimed at providing taxpayers with certainty as to the tax consequences of certain complex transactions. To the extent required, legislation will be developed during 2004.

Introducing e-stamping system

The current system of purchasing adhesive stamps as proof of purchase for enforcement of the stamp duty is anachronistic. It is accordingly proposed that an e-stamping system be introduced.

Fiscal and administrative measures in support of small business (SMMEs)

As illustrated in the accompanying textbox, Government has evidenced a long-standing commitment to dealing with small business concerns. Renewed focus this year is on improved administration.

VAT retail system scheduled for introduction in 2004

First, the VAT retail scheme is scheduled for introduction in 2004. This scheme will provide a practical alternative for calculating the VAT liability if the vendor does not have a cash register that can distinguish between zero and standard rated sales. The VAT retail scheme will simplify compliance and administration for many retail small businesses that sell both standard and zero-rated goods.

Task team to review small business tax concerns

Second, small businesses continue to have general administrative concerns, such as understanding SARS' requirements, submitting returns and time spent dealing with SARS. In recognition of these concerns, a task team of academics, representatives from various government departments and the private sector (including small businesses) will be established to review administrative aspects of small business interactions with SARS.

Measures in support of SMMEs

Tax policy changes

- *Incentives for small business companies*: Small companies with a turnover of less than R5 million qualify for a 15 per cent income tax rate on the first R150 000 of taxable income as well as immediate expensing for plant and machinery.
- *CGT incentives for the disposal of small business assets*: Taxpayers receive a one-time exclusion for the first R500 000 of capital gains for the disposal of small business assets within a two-year period.
- *Start-up expenses*: Costs incurred before commencement of trade are now deductible from the first year that trading commences. In addition, provision is made for a double deduction of start-up costs up to R20 000.
- *Deferral for business reinvestment*: Taxpayers can now defer gains/ income on the sale of business assets if they fully reinvest the sale proceeds in other business assets.
- *Increased mandatory VAT threshold:* The mandatory VAT registration threshold increased from R150 000 to R300 000 in 1999 to ease the compliance burden of small businesses.
- *Cash basis (for VAT purposes) for individual investors*: Small businesses registered as individuals can choose to register on the payment basis if sales are less than R2,5 million per annum.

Administration

- *Easing of the compliance burden*: SARS has reviewed the application of the penalty provisions, introduced colour-coded tax forms and reduced the number of returns that must be filed with respect to different tax instruments.
- *Service Monitoring Office (SMO):* Aggrieved taxpayers can now seek assistance from the SMO if they are not satisfied with the service provided to them at SARS branch offices. This office is especially useful for small businesses.
- *Dispute resolution processes*: Provision has been made for formal and informal dispute resolution. The dispute resolution process will provide for time periods for both SARS and tax-payers within which each step of the process must be completed. Informal dispute resolution is a form of dispute resolution other than court litigation, which is less formal and adversarial as well as more cost effective in resolving a dispute with SARS.
- *Tax guidance:* A tax guide for small businesses has been published by SARS

Trade facilitation – VAT deferment

VAT deferment for duty-free goods intended for re-export

The deferment of VAT payable on imports intended for re-export applies only to goods stored inside bonded warehouses. Hence, as protective customs duties are phased out, fewer goods are kept in bonded warehouses, thereby eliminating VAT deferment opportunities. Such VAT payments result in cash-flow problems for businesses. Consideration is being given to remedy the cash-flow impact of VAT payments on duty-free goods intended for re-export. The removal of tax barriers in this area is important in order to facilitate South Africa's growth as a distributional hub to the rest of Africa.

Customs transformation

The Customs transformation project aims to optimise revenue collection, facilitate South African trade as well as provide accurate and timely trade statistics. The transformation process involves the following:

- Enhanced recruiting to address critical staffing requirements
- Improved technology integration between the Customs and Revenue offices
- Improved facilitation of intergovernmental information transfers
- The creation of effective transactional interfaces with commercial traders
- The provision of an in-depth policy document for a revised customs act
- Improved customs accreditation, including the effective management of accredited clients, tracking and managing client compliance records, accrediting compliant importers and exporters as well as improving training and stakeholder education.