BUDGET 2005

2005/6
Budget Tax Proposals

Another helpful guide brought to you by the
South African Revenue Service

SARS
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The 2005 tax proposals are designed to support sustained investment and economic growth, contribute to social equity and promote job creation in the small business sector.

TAXES ON INCOME AND PROFITS

Personal income tax – rate and threshold adjustments

Since 1996 South Africans have benefited from more than R66 billion in personal income tax relief, primarily alleviating the tax burden on low-income earners. In 2005/06, further personal income tax relief of R6,8 billion is proposed. The adjustments benefit all taxpayers, and take into account that the proposed revision to the tax treatment of vehicle travel allowances will increase the tax payable by predominantly higher income earners. Reduced tax on employment income will favour economic growth and job creation while assisting in containing cost and price trends across the economy.

The tax burden reduction in respect of employment income will not only benefit wage earners but also individual entrepreneurs, who constitute a sizeable proportion of all personal income taxpayers. The increased tax-exempt threshold proposed (see below) will also benefit small businesses. The proposed tax schedule eliminates the effects of inflation on income tax liabilities and results in a reduced tax liability for taxpayers at all income levels.

Personal income tax rate and bracket adjustments:

2004/05		2005/06	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
0 – 74 000	18% of each R1	0 – 80 000	18% of each R1
74 001 – 115 000	R13 320 + 25% of the amount above R74 000	80 001 – 130 000	R14 400 + 25% of the amount above R80 000
115 001 – 155 000	R23 570 + 30% of the amount above R115 000	130 001 – 180 000	R26 900 + 30% of the amount above R130 000
155 001 – 195 000	R35 570 + 35% of the amount above R155 000	180 001 – 230 000	R41 900 + 35% of the amount above R180 000
195 001 – 270 000	R49 570 + 38% of the amount above R195 000	230 001 – 300 000	R59 400 + 38% of the amount above R230 000
270 001 and above	R78 070 + 40% of the amount above R270 000	300 001 and above	R86 000 + 40% of the amount above R300 000
Rebates		**Rebates**	
Primary	R5 800	Primary	R6 300
Secondary	R3 200	Secondary	R4 500
Tax threshold		**Tax threshold**	
Below age 65	R32 222	Below age 65	R35 000
Age 65 and over	R50 000	Age 65 and over	R60 000

The main adjustments are:

- The primary rebate is raised to R6 300, increasing the income tax threshold by 8,6 per cent to R35 000. This grants significant real tax relief to low-income earners.
- The tax threshold for taxpayers age 65 and over is raised from R50 000 to R60 000.
- Income brackets are broadened, extending relief through the income distribution and offsetting the effect of inflation on the real tax burden.

The resulting distribution of the tax relief is as follows:	
Threshold to R60 000	12,0%
R60 000 to R150 000	32,3%
R150 000 to R250 000	22,4%
R250 000 and above	33,4%.

The proposed relief for taxpayers over 65, together with a further increase in the interest exemption thresholds, represent a significant alleviation of the tax burden on retired persons. This, in turn, enhances the return on savings for retirement and is a further fiscal encouragement to save.

- For a retired couple with income only from interest-bearing deposits, approximately R2 million can be invested tax-free in 2005/06.
- The maximum tax-free income of a couple who take full advantage of the interest exemptions rises from R132 000 to R164 000.

The revised personal income tax schedules are set out in more detail below.

Income tax payable by individuals younger than 65

Taxable income (R)	2004 rates (R)	Proposed rates (R)	Tax reduction (R)	% change
35,000	500	-	500	100.0
40,000	1,400	900	500	35.7
45,000	2,300	1,800	500	21.7
50,000	3,200	2,700	500	15.6
55,000	4.100	3,600	500	12.2
60,000	5,000	4,500	500	10.0
65,000	5,900	5,400	500	8.5
70,000	6,800	6,300	500	7.4
75,000	7,770	7,200	570	7.3
80,000	9,020	8,100	920	10.2
85,000	10,270	9.350	920	9.0
90,000	11,520	10,600	920	8.0
100,000	14,020	13,100	920	6.6
120,000	19,270	18,100	1,170	6.1
150,000	28.270	26,600	1,670	5.9
200,000	45,670	42.600	3,070	6.7
250,000	64,670	60,700	3,970	6.1
300,000	84,270	79,700	4,570	5.4
400,000	124,270	119,700	4,570	3.7
500,000	164,270	159,700	4,570	2.8
1,000,000	364,270	359,700	4,570	1.3

Income tax payable by individuals 65 years of age and older

Taxable income (R)	2004 rates (R)	Proposed rates (R)	Tax reduction (R)	% change
55,000	900	–	900	100.0
60,000	1,800	–	1,800	100.0
65,000	2,700	900	1,800	66.7
70,000	3,600	1,800	1,800	50.0
75,000	4,570	2,700	1,870	40.9
80,000	5,820	3,600	2,220	38.1
85,000	7,070	4,850	2,220	31.4
90,000	8,320	6,100	2,220	26.7
95,000	9,570	7,350	2,220	23.2
100,000	10,820	8,600	2,220	20.5
120,000	16,070	13,600	2,470	15.4
150,000	25,070	22,100	2,970	11.8
200,000	42,470	38,100	4,370	10.3
250,000	61,470	56,200	5,270	8.6
300,000	81,070	75,200	5,870	7.2
500,000	161,070	155,200	5,870	3.6
1,000,000	361,070	355,200	5,870	1.6

Interest and dividend income exemption

The domestic interest and dividend exemption is currently R11 000 for taxpayers under age 65 and R16 000 for taxpayers age 65 and over. This exemption is an important benefit for those who rely on interest as their main source of income. As from 1 March 2005, the interest exemption threshold is increased to R15 000 – 36,4 per cent higher – for taxpayers under 65, and to R22 000 – 37,5 per cent up – for taxpayers aged 65 and over. It is also proposed to increase the proportion of the exemption applicable to foreign interest income and dividends from R1 000 to R2 000 per annum. These changes will result in a revenue loss of R310 million.

Encouragement of medical scheme membership

The current tax treatment of medical scheme arrangements allows an employer to pay two-thirds of the member's contribution as a tax-free fringe benefit. This has the effect that the fiscal benefit, expressed as the tax-induced reduction in the price of medical scheme membership, rises from nil for individuals below the tax threshold to 26,7 per cent for those taxed at the maximum marginal rate of 40 per cent.

With a view to encouraging broader medical scheme coverage, extending the tax benefit to self-employed individuals and achieving a more equitable tax treatment, it is proposed that the two-thirds tax-free provision should be replaced by a monthly monetary cap that takes into account the number of beneficiaries covered by medical scheme membership. This in effect provides complete tax relief for more affordable medical aid packages for low and middle-income families, while restricting benefits for more expensive packages.

The capping of medical aid contributions will have the further advantage of removing the tax-induced reduction in the marginal price of more expensive medical scheme options, which interferes with market discipline on medical scheme prices and costs. A discussion document will be released this year on the proposed reform. For administrative reasons, it will take effect on 1 March 2006.

Motor vehicle allowance

The deduction of deemed business expenses against a motor allowance has increased substantially over the years and has become a commonly used means of reducing tax liability, irrespective of actual business travel cost. The current formula creates a bias in the structuring of salary packages, particularly for higher income earners, encourages the purchase of higher value vehicles and unfairly influences household travel choices.

As from 1 March 2005, the deemed method for calculating fixed business travel cost will be adjusted by introducing a residual value element and by capping the car value at R360 000. The revision of the tables will recognise that five-year old vehicles commonly have a 30 per cent residual value. The deemed private kilometres will be increased from 14 000 to 16 000, and to 18 000 in 2006. Simultaneously, the deemed maintenance and fuel costs are to be adjusted to reflect the latest applicable average running cost rates for motor vehicles, and will be annually reviewed in future. In line with these adjustments, the monthly taxable value of a company car is to be increased from the current 1,8 per cent to 2,5 per cent effective from 1 March 2006.

These structural changes will translate into additional revenue of approximately R1,7 billion, but it is recognised that this will accrue to Government only when 2006 tax assessments are finalized in 2006/07. Taxpayers would therefore be well-advised to exercise caution in their cash-flow management during 2005/06 and to anticipate higher top-up tax payments during the latter half of 2006.

For VAT purposes, the value for the deemed supply of the right of use of a motor vehicle is determined by applying a percentage to the determined value of the vehicle. In light of the proposed changes to the motor use fringe benefit system, the percentages and amounts prescribed by the Minister for VAT purposes will also be adjusted, and will be published in the Government *Gazette.*

Curtailing subsistence allowances as a salary structuring

Many employers compensate their employees for work-related travel, including advances to cover travel subsistence. Currently, an exclusion from taxable income is available on a per diem basis, which obviates the need to maintain receipts for travel expenses incurred. Unfortunately, some employees and employers are relying on this mechanism in order to artificially reduce and postpone employees' tax obligations. Government will accordingly seek to eliminate this form of salary structuring by requiring a more direct and immediate link between a tax-free subsistence advance and anticipated travel. Tax-free advances for travel without fixed dates or for travel long after the advance is paid will no longer be condoned. The foreign travel per diem limits will also be revisited in order to align these more closely with prevailing foreign country costs.

Withholding tax on visiting entertainers and sportspeople

Like all visiting foreign workers, visiting entertainers and sportspeople are responsible for paying South African tax on their South African source income. However, tax compliance is poor. Problems in enforcement mainly stem from the short-term nature of the local events and the substantial quantum of the tax liability. It is therefore proposed, in line with international practice, to introduce a final withholding tax regime on the gross payments to visiting entertainers and sportspeople. These will be set at 5 per cent for visiting residents of African countries and 15 per cent for residents of other countries. The lower rate for African residents recognises the special nature of South Africa's relationship with other African countries.

Promoting visiting skilled expatriates

Government recognises the need to encourage visiting expatriates with scarce skills. Taking into account industry submissions in this regard, the introduction of the residence basis of taxation was therefore accompanied by a window period of three years for expatriates to reside in South Africa without being regarded as tax residents.

It has now become apparent that recent changes to the tax resident definition are imposing an undue burden on skilled expatriates, especially when considered in combination with the new capital gains tax. Subsequent experience and international benchmarking have indicated that this concession should be revisited. Consideration is therefore being given to possible changes to the tax resident definition to allow for extended South African visitation. As an alternative, tax amendments could seek to alleviate the capital gains tax burden on foreign assets acquired before entry into South Africa (as well as certain subsequently acquired foreign assets). These envisaged tax changes will be informed by international competitiveness concerns and the need for administrative simplicity.

Transfer duty

The purchase of fixed property is subject to transfer duty on a sliding scale when bought by natural persons and at a fixed rate of 10 per cent for properties acquired by juristic entities. In the case of fixed property bought by natural persons, the first R150 000 is not subject to transfer duty. Given the steep increases in property prices during the last few years, it is proposed to increase the exempt threshold from R150 000 to R190 000 and the second threshold from R320 000 to R330 000 with effect from 1 March 2005.

Proposed rates of transfer duty, 2005/06

Property value	Rates of tax
R0 – R190 000	0%
R190 001 – R330 000	5% on the value above R190 000
R330 001 and above	R7 000 plus 8% on the value above R330 000

The proposed new duty rate structure will reduce the tax burden on a property transaction of R320 000 by R2 000. This proposal will result in a revenue loss of R450 million.

Current and proposed transfer duty

Property value	Current duty	% of value	Proposed duty	% of value
R180,000	R1,500	0.8%	R0	–
R250,000	R5,000	2.0%	R3,000	1.2%
R320,000	R8,500	2.7%	R6,500	2.0%
R350,000	R10,900	3.1%	R8,600	2.5%
R500,000	R22,900	4.6%	R20,600	4.1%
R750,000	R42,900	5.7%	R40,600	5.4%
R1,000,000	R62,900	6.3%	R60,600	6.1%

TAX RELIEF ON BUSINESS INCOME

Reduction in corporate tax rate

Internationally, a clear trend is emerging towards reduced taxation, or increased tax exemption levels, for business income. Corporate tax rate reductions have been implemented in many countries, motivated by the imperative of competing for scarce foreign direct investment, minimising incentives for tax avoidance and reducing distortions due to the imposition of high taxes. International practice is also informed by increasing evidence that a lower corporate rate together with a robust tax structure is fiscally more sustainable than the erosion of effective rates through a proliferation of special tax allowances.

Globally, a general disillusionment in respect of tax incentives has set in, as governments seldom have a clear quantitative and qualitative understanding of their effectiveness or revenue impact. A moderate statutory rate structure, with a graduated lower rate regime for incorporated small businesses, from the perspectives of transparency, administrative simplicity and economic efficiency, is the preferred policy route. It is accordingly proposed that with effect from 1 April 2005, the South African corporate income tax rate will be reduced from 30 per cent to 29 per cent. This proposal is estimated to reduce total tax revenue by R2 billion.

The reduction in the general corporate tax rate necessitates corresponding changes to other rates linked to that rate:

- The tax rate for South African branches or agencies of a foreign company will be reduced from 35 per cent to 34 per cent.
- The rates for company policyholder funds and corporate funds of long-term insurers will be reduced from 30 to 29 per cent.
- In the case of gold mining companies not exempt from the STC, the new formula for gold mining income will be Y = 35-175/x (formerly, Y = 37-185/x); and in the case of gold mining companies opting to be exempt from the STC, the new formula will be Y = 45-225/x (formerly, Y = 46-230/x), with the rate for non-mining income reduced from 38 per cent to 37 per cent.
- The tax rate for an employment company will be reduced from 35 per cent to 34 per cent.

Lapsing of Strategic Industrial Projects Programme

South Africa has over the recent past implemented a strategic industrial investment incentive scheme, which provided R10 billion in special tax allowances for qualifying investments, subject to their implementation within a period of four years. The programme will lapse at the end of July 2005. It has served its purpose, and an interdepartmental task team will now review the lessons from this programme. This year's business income tax proposals, together with the already enacted 40:20:20:20 tax depreciation regime for manufacturing assets, will provide significant impetus for fixed capital formation without the uncertainty of an adjudication process.

Introduction of tonnage tax regime to stimulate the South African shipping industry

South Africa primarily depends on maritime trade, with over 90 per cent of exports and imports conducted via international shipping routes. Unfortunately, foreign-registered vessels almost solely provide this service, as only one vessel remains on the South African Ships Register (down from 50 vessels in the 1970s). One of the reasons for the decline has been the rapidly changing international tax environment, which has rendered the South African system very unfavourable for ship owners.

The introduction of a tonnage tax regime, which taxes shipping companies at fixed rates according to the size of their ships, and not according to the company's business income results, will lower the effective tax rate paid by such companies, making the South African tax environment for shipping more competitive. Tonnage tax regimes have been successfully implemented in other countries such as Belgium, India, Ireland, the UK and the Netherlands with almost immediate positive outcomes in terms of related business activities.

This proposal is part of a coordinated transport strategy led by the Department of Transport, which aims to revive the flagging maritime industry. South Africa hopes to signal to the rest of the world its seriousness in growing the South African ships register. It is proposed to draft legislation in 2005 with a view to introducing the regime in the following fiscal year. This should give ship owners enough time to adjust their view of the South African business environment before the new regime is actually implemented.

Facilitating company restructurings

A few years ago, Government revised the tax treatment of company restructurings in support of more efficiently realigned business structures. However, the regime is proving to be overly restrictive in practice. Of special concern are the various percentage requirements, such as 'the 75 per cent' shareholder threshold for intra-group tax-free transfers. It is proposed to reduce this threshold to 70 per cent as it accommodates other government regulations and guidelines. In addition, the 75 per cent look-through test for determining passive financial instrument company status may be too high in the case of domestic and foreign restructurings involving multi-tier company structures. The 'more than 25 per cent threshold' for tax-free formations is also unduly hindering company formations when multiple parties seek to form a company. Both thresholds will accordingly be reduced. Other lesser anomalies hindering restructurings and avoidance loopholes will be addressed as time permits.

Refining film incentives

Growing interest in the South African film industry is a welcome development. However, some film schemes involve complex and disguised 'sale/leaseback' or 'lease in/lease-out' arrangements that involve little or no commercial risk and may even carry no connection to the South African film industry. As a result, the tax incentives for films must be refined to achieve their intended goal. Alternative forms of targeted tax relief will be considered, such as exempting government film grants, to encourage this promising industry.

Government grants

Government has introduced a uniform system of dealing with the value-added tax in the context of government grants to public entities as well as in the context of government grants to private parties. It is appropriate to take a first step in this direction in terms of the Income Tax Act. The current system of exempting certain grants from income tax will be replaced with a more comprehensive system for exempting Government's cash grants.

Financial transaction tax relief for the new issue of company shares

Government has steadily removed transaction taxes on financial instruments. However, equity shares still remain fully within the tax net. While these tax charges per transaction are generally light, they can be substantial when a company issues new shares upon formation or upon raising capital via equity financing. The resulting tax non-neutrality between debt and equity capital makes little economic sense because equity financing offers companies better flexibility in terms of payments over the long-term than debt financing. In order to address these concerns, all financial transaction taxes will be eliminated on the issue of shares (while providing appropriate safeguards to ensure that this exemption is not used as a tool to eliminate financial transaction taxes imposed on sales between shareholders). This proposal will take effect from 1 January 2006.

Removal of financial transaction taxes on debit entries

Government and the public alike have become increasingly concerned about the high cost of banking charges in South Africa, often with a disproportionate impact on low-income individuals and small businesses. The introduction by the banking sector of low-cost Mzansi accounts, in keeping with Financial Sector Charter commitments, is a welcome step forward. Government is mindful of the fact that financial transaction taxes on debit entries add further costs on top of private banking charges. It has accordingly been decided that stamp duties on all debit entries should be eliminated with effect from 1 March 2005, at a cost of R350 million.

Business activities of public benefit organisations

The income tax system provides exemption for public benefit organisations (PBOs) engaged in various forms of non-profit activities. As part of these overall requirements for exemption, any business undertakings in excess of certain limits results in termination of PBO tax exempt status. Subsequent experience in this area reveals that this 'all-or-nothing' approach is impractical because PBOs must be self-sustaining in order to survive. Government has accordingly decided to allow for a system of partial taxation. Under this approach, business activities of a PBO in excess of the prescribed limits will become fully taxable without undermining the exemption for the underlying public benefit activities. Consideration will be given to reviewing the business limits as well as the application of this partial tax system to other exempt organisations, such as sport clubs, as well as the interaction of all these entities with trusts.

TAX STIMULUS IN SUPPORT OF SMALL BUSINESSES

Graduated tax rate structure and accelerated depreciation

As part of a broader initiative to encourage and support small business development, further income tax relief for this sector is proposed in the 2005 Budget. The proposed measures should significantly increase cash flow for small businesses, contributing to the surplus available for reinvestment, thereby supporting business growth and employment. The tax reform measures are designed to be accompanied by minimal administrative and compliance costs.

Firstly, the category of small business companies eligible for relief will be expanded to cover personal services, in recognition of their prominence as an engine of growth within the wider small business sector. Small businesses primarily engaged in the provision of personal services will now be fully eligible for relief as long as these businesses maintain at least four full-time employees for core operations. This employee requirement ensures that the new incentive will be directed toward businesses that are capable of enhancing employment.

Secondly, the turnover limit for eligible companies will be increased from R5 million to R6 million.

Thirdly, under the new regime, qualifying small businesses will be subject to the following rate structure:

R0 – R35 000 of taxable income	0%
R35 001 to R250 000 of taxable income	10%
R250 001+ of taxable income	29%

Finally, small businesses will also benefit from a simplified and enhanced depreciation regime to encourage fixed capital formation. These companies will now be eligible for a depreciation write-off at a 50:30:20 per cent rate over a three-year period for all depreciable assets, while manufacturing assets will retain their immediate 100 per cent write-off. The current R20 000 double deduction for start-ups will be removed, in view of the new improved tax rate structure. These rate adjustments, and the inclusion of personal services, will take effect from 1 April 2005 at a cost of R1,4 billion.

Administrative measures in support of small businesses

In 2004, the SARS undertook to review the administrative and tax compliance concerns of small, medium and micro-sized enterprises. Stemming from this initiative, SARS held extensive workshops and consulted widely with various stakeholders, from Government and industry. Valuable inputs were received from all these stakeholders and SARS compiled a list of issues that ranged from those that related directly to tax administration and policy, to issues arising from other government departments' regulatory practices.

In line with successful economies' practices, Government believes that vibrant entrepreneurship constitutes a key ingredient for higher economic growth and wealth creation. A thriving and dynamic small business sector must be nurtured as it increases competition and challenges established businesses to provide goods and services at lower cost, and indirectly supporting consumers' rights.

Establishing and growing a small business brings with it many responsibilities for the entrepreneur, of which tax compliance is one. But small businesses should not be obliged to spend an inordinate amount of time and energy in understanding and complying with the tax rules. Government therefore seeks to introduce for small businesses a simple, modern and fair tax system which is also adaptable to changes in the business environment and enables the revenue authorities to collect taxes that are due efficiently. A wide-ranging programme of administrative measures to support small businesses will be implemented over the next three years.

Enabling small business

SARS has begun the process of segmenting the small business sector into micro, very small, small, and medium sized categories. In addition, firms are categorized into informal and formal businesses.The 2005 Budget heralds the beginning of a process of structural change that is intended to reduce compliance costs and provide a more enabling environment for small business.

Differentiated responses are proposed for eachaccording to business size, which will permit a smooth transition between the different firm sizes and their commensurate increase in compliance obligations. A set of responses is also proposed to encourage informal businesses to migrate to the formal sector. These proposals will be made available for general public comment.

The proposals below arerepresent a subset of the interventions that are proposed or are compatible intermediate steps. They demonstrate Government's commitment to assisting small business while permitting space for the finala broader package of interventions to be fully understood, agreed, and prepared for implementation.

Community tax helpers

SARS will be deploying staff freed by its restructuring and greater efficiency to visit small businesses to help them with and educate them about registration, return completion, and businesses' tax obligations.

Small businesses help desks

SARS will make dedicated facilities available for small business in its call centre and offices. This will be coupled with extended hours for the call centre and selected offices.

Accounting and payroll packages for small businesses

SARS will make accounting and payroll packages available to small businesses both in the form of software that can be installed on the small businesses' existing computer equipment and web based systems running on SARS web servers that will be accessible over the internet or kiosks that SARS will set up.

Small retailers VAT package (VAT retail scheme)

The small retailers VAT package, which was announced as the VAT retail scheme in the 2004 Budget Review, will be ready for implementation on 1 April 2005. This package provides for a simplified method of accounting for VAT for businesses with a turnover of less than R1 million - mainly in the retail sector - that do not have access to cash registers that can distinguish between zero rated and standard rated sales.

Focus on VAT education

In order to assist small businesses that have difficulty in understanding the VAT process and rules, a specific initiative on VAT education will be undertaken.

VAT return filing every four months

Small businesses regard the filing of VAT returns as a substantial part of their compliance costs. This is partially due to the requirement to file itself and partially due to the need to maintain accurate and up-to-date accounting records in order to complete the return.

As a further measure to keep the VAT compliance costs of small businesses to a minimum while providing a more gradual entry into the VAT system and to assist with the cash flow, a VAT return every four months is proposed, instead of the current two-monthly filing, for small businesses with an annual turnover of less than R1 million. Registered VAT vendors may elect to remain on the two-monthly return cycle if so desired. This cash flow relief comes into effect from 1 August 2005 at an estimated cost of R275 million.

Skills development levy

The skills development levy was introduced in 2001 to provide funding for the training and upgrading of skills levels of the workforce. Currently, businesses with a payroll of more than R250 000 per annum or with at least one employee registered for PAYE are required to account for the skills development levy. As part of the initiative to provide relief for small businesses and to reduce the compliance costs of small businesses it is proposed to increase this threshold to R500 000 and to drop the requirement that businesses must account for the skills development levy if at least one of their employees are registered for PAYE. This additional tax relief measure comes into effect from 1 August 2005 at an estimated cost of R92 million.

Small public benefit organisations

Public benefit organisations must complete a comprehensive application form, provide extensive supporting documentation, and submit detailed annual returns for their tax-exempt status. These standards operate as an important safeguard for the tax system but can be overly burdensome for small organisations. Government will introduce a simplified registration process and annual tax return procedure for small public benefits organisations in order to reduce their initial and ongoing compliance burden.

TAX MEASURES TO FACILITATE ENVIRONMENTAL SUSTAINABILITY

In line with the policy objectives underlying the Millennium Development Goals, South Africa seeks to integrate the principles of sustainable development into government policies and programmes, including responsible stewardship of environmental resources. Government is keen to make a serious beginning during 2005 by engaging with a wide spectrum of stakeholders on drafting legislation for the imposition of environmental charges. These structural changes could firstly make resources available for the introduction of clean technologies in support of the environment, as required by our Constitution, and secondly, alleviate fiscal pressures on employment income.

Encouraging investments in renewable energy

In 2004, Government provided accelerated depreciation for investments in bio-diesel and bio-fuels. Building on this initiative, it is now proposed to extend accelerated depreciation to other forms of environmentally friendly energy sources. Renewable energy investments, such as solar energy and windmill technology, will benefit from a tax-depreciation write-off of 50:30:20 per cent over three years.

Rehabilitation reserve funds

Government has long recognised the need for providing tax relief in the case of mining rehabilitation funds required by the Department of Minerals and Energy. Other sectors, such as the chemical and electricity generation industries, are subject to similar reserve requirements in terms of regulatory policies of the Department of Environmental Affairs and Tourism. Government is therefore planning to extend comparable tax relief for these forms of contingency reserves in 2005 or 2006 (depending on the outcome of consultations with the Department of Environmental Affairs and Tourism). Simultaneously, the tax treatment of mining rehabilitation funds will be re-examined in order to address certain anomalies as well as to consider extending relief for other forms of mining rehabilitation fund set-asides.

ANTI-AVOIDANCE MEASURES

Overhaul of the general anti-avoidance rule (“GAAR”)

A review of schemes giving rise to many of the tax amendments of recent years indicates the myriad of ways in which taxpayers seek to undermine tax principles. Many of these contrivances demonstrate disparities between legal form and economic substance. Some of these contrivances (such as hybrid instruments) illustrate how taxpayers attempt to distort the law by calling an instrument one thing for legal and tax purposes while that same instrument provides economic features yielding the opposite effect. Other contrivances involve circular cash flows, multiple and temporary structures as well as extraneous steps added to an otherwise valid transaction.

Many countries have general anti-avoidance rules (GAARs). These provisions seek to overturn tax-motivated transactions violating economic substance despite the legal form. Section 103 of the Income Tax Act, the South African GAAR is based on antiquated notions of legal form and intent. The problem is exacerbated by formalistic judicial interpretations that undermine the legislation's ultimate goal of curtailing tax avoidance schemes that undermine the Income Tax Act's underlying policy, which is to tax in full the enhancement of net economic wealth. A discussion paper regarding the proposed new format of section 103 is to be circulated for comment this year.

Offshore banking centres

When South Africa shifted to a worldwide tax system, one key concern involved the treatment of South African controlled foreign subsidiaries. The overall treatment of these subsidiaries represents a difficult balance between preventing artificial outflows (requiring immediate taxation), and maintaining international competitiveness (requiring exemption). Offshore banking and other forms of financing only serve to highlight this dilemma. In order to achieve this balance, the tax system contains requirements specifically tailored for South African controlled foreign banks. For instance, tax-free treatment applies only to banks, insurers, dealers or brokers having a license or registration that allows for foreign subsidiary operations to be conducted with local country clients to the same extent as locally controlled operations. The purpose of these rules is to ensure that the above operations are stand-alone active businesses (as opposed to company treasury activities) and to ensure that these operations are located outside countries that utilise harmful tax practices in an attempt to poach South African tax base. Recent experience with the South African controlled foreign company rules requires that the residence-based income tax system be improved.

New offshore legislation of certain tax havens reveals that certain tests (i.e., the banking license/registration rule for finance operations) are no longer effective to prevent the impact of harmful tax practices by tax havens. It has also been discovered that current tax legislation may inadvertently inhibit legitimate offshore financing operations by South African banks (such as vehicle financing). In view of these circumstances, Government will reconsider the rules in this area.

Bribes, penalties and other illegal activities

South African tax law does not specifically address bribes, penalties and other forms of illegal activity. This leaves open the possibility that a business might seek to deduct a bribe purportedly incurred in the production of income. Deductions of penalties and fines might be subject to similar reasoning. Arguments have also been advanced to the effect that amounts generated from criminal activity do not qualify as taxable income. These matters need to be addressed both as a matter of good governance and to clarify the tax law. The proposed changes will reinforce South Africa's anti-corruption drive.

TAXES ON GOODS AND SERVICES AND INTERNATIONAL TRADE

Value-added tax place of supply rules

VAT place of supply rules will be clarified this year to provide certainty with regard to the responsibility and accountability for VAT in the case of certain international transactions, including service related transactions and purchases via the internet (e-commerce).

Excise duties on alcoholic beverages

This is the second year of the phasing-in of agreed tax burdens (excise duties plus VAT) on alcoholic beverages, set at 23 per cent on natural wine, 33 per cent on clear beer and 43 per cent on spirits.

The proposed increases in the respective excise duties range from 9,4 per cent to 20 per cent and come into effect on 23 February. These adjustments are expected to raise about R690 million in additional revenue. In addition, the SARS has issued a revised structure of rebates for excise duties. This step will simplify the administration of such rebates and will ensure that such rebates are fairly made available within a clear policy framework.

Excise duties on tobacco products

The 52 per cent total tax burden (excise duties plus VAT) is to be maintained. Excise duties on tobacco products will increase between 7,5 per cent and 14,9 per cent with effect from 23 February and are expected to raise about R620 million in additional revenue.

Specific excise duties

It is proposed that the customs and excise duties in Section A of Part 2 of Schedule No.1 of the Customs and Excise Act, No. 91 of 1964, be amended with effect from 23 February 2005 to the extent shown below:

Tariff item	Tariff heading	Description	Present rate of duty 2004/05		Proposed rate of duty 2005/06	
			Excise	Customs	Excise	Customs
104.00		Prepared foodstuffs; beverages, spirits and vinegar; tobacco				
104.01	19.01	Malt extract; food preparations of flour, groats, meal starch or malt extract, not containing cocoa or containing less than 40 per cent by mass of cocoa calculated on a totally defatted basis, not elsewhere specified or included; food preparations of goods of headings 04.01 to 04.04, not containing cocoa or containing less than 5 per cent by mass of cocoa calculated on a totally defatted basis not elsewhere specified or included not elsewhere specified or included:				
.10		Traditional African beer powder as defined in Additional Note 1 to Chapter 19	34.7 c/kg	34.7 c/kg	34.7 c/kg	34.7 c/kg
104.10	22.03	Beer made from malt				
.10		Traditional African beer as defined in Additional Note 1 to Chapter 22	7.82 c/l	7.82 c/l	7.82 c/l	7.82 c/l
.20		Other	3 073.04 c/l of absolute alcohol	3 073.04 c/l of absolute alcohol	3 364.98 c/l of absolute alcohol	3 364.98 c/l of absolute alcohol
104.15	22.04	Wine of fresh grapes, including fortified wines; grape must, other than that of heading no. 20.09				
	22.05	Vermouths and other wine of fresh grapes flavoured with plants or aromatic substances				
.02		Sparkling wine	323.32 c/l	323.32 c/l	387.99 c/l	387.99 c/l
.04		Unfortified wine	117.10 c/l	117.10 c/l	140.52 c/l	140.52 c/l
.06		Fortified wine	232.87 c/l	232.87 c/l	263.14 c/l	263.14 c/l

Tariff item	Tariff heading	Description	Present rate of duty 2004/05		Proposed rate of duty 2005/06	
			Excise	Customs	Excise	Customs
104.17	22.06	Other fermented beverages, (for example, cider, perry and mead); mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages, not elsewhere specified or included:				
.05		Traditional African beer as defined in Additional Note 1 to Chapter 22	7.82 c/l	7.82 c/l	7.82 c/l	7.82 c/l
.15		Other fermented beverages, unfortified	153.74 c/l	153.74 c/l	168.24 c/l	168.24 c/l
.17		Other fermented beverages, fortified	295.27 c/l	295.27 c/l	333.65 c/l	333.65 c/l
.22		Mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages	153.74 c/l	153.74 c/l	168.24 c/l	168.24 c/l
.90		Other	295.27 c/l	295.27 c/l	333.65 c/l	333.65 c/l
104.20	22.07	Undenatured ethyl alcohol of an alcoholic strength by volume of 80 per cent volume or higher; ethyl alcohol and other spirits, denatured, of any strength				
	22.08	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80 per cent volume; spirits, liqueurs and other spirituous beverages:				
.10		Wine spirits, manufactured by the distillation of wine	4 583.65 c/l of absolute alcohol	4 487.65 c/l of absolute alcohol	5 042.01 c/l of absolute alcohol	4 945.88 c/l of absolute alcohol
.15		Spirits, manufactured by the distillation of any sugar cane product	4 583.65 c/l of absolute alcohol	4 569.65 c/l of absolute alcohol	5 042.01 c/l of absolute alcohol	5 028.11 c/l of absolute alcohol
.25		Spirits, manufactured by the distillation of any grain product	4 583.65 c/l of absolute alcohol	4 537.65 c/l of absolute alcohol	5 042.01 c/l of absolute alcohol	4 996.01 c/l of absolute alcohol
.29		Other spirits	4 583.65 c/l of absolute alcohol	4 583.65 c/l of absolute alcohol	5 042.01 c/l of absolute alcohol	5 042.01 c/l of absolute alcohol
.40		Liqueurs and other spirituous beverages	4 583.65 c/l of absolute alcohol	4 583.65 c/l of absolute alcohol	5 042.01 c/l of absolute alcohol	5 042.01 c/l of absolute alcohol
104.30	24.02	Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes				
.10		Cigars, cheroots, and cigarillos, of tobacco or of tobacco substitutes	123 304 c/kg net	23 304 c/kg net	141 676.55 c/kg net	141 676.55 c/kg net
.20		Cigarettes, of tobacco or of tobacco substitutes	226.40 c/10 cigarettes	226.40 c/10 cigarettes	252.43 c/10 cigarettes	252.43 c/10 cigarettes
104.35	24.03	Other manufactured tobacco and manufactured tobacco substitutes; “homogenised” or “reconstituted” tobacco; tobacco extracts and essences:				
.10		Cigarette tobacco and substitutes thereof	13 903 c/kg	13 903 c/kg	14 946.05 c/kg	14 946.05 c/kg
.20		Pipe tobacco and substitutes thereof	6 832 c/kg net	6 832 c/kg net	7 624.01 c/kg net	7 624.01 c/kg net

Changes in specific excise duties - 2005/06

Product	Current excise duty rate	Proposed excise duty rate	Estimated additional revenue R million	Change in excise duty Nominal	Real
Malt beer	R30,73 / litre of absolute alcohol (52,24c / average 340ml can)	R33,65 / litre of absolute alcohol (57,20c / average 340ml can)	390.0	9.5%	5.3%
Traditional African beer	7,82c / litre	7,82c / litre	–	0.0%	-4.2%
Traditional African beer powder	34,7c / kg	34,7c / kg	–	0.0%	-4.2%
Unfortified wine	117,1c / litre	140,52c / litre	65.5	20.0%	15.8%
Fortified wine	232,87c / litre	263,14c/ litre	10.4	13.0%	8.8%
Sparkling wine	323,32c / litre	387,99c / litre	5.1	20.0%	15.8%
Ciders and alcoholic fruit beverages	153,74c / litre (52,27c / average 340 ml can)	168,24c / litre (57,20c / average 340 ml can)	29.0	9.4%	5.2%
Spirits	R45,84 / litre of absolute alcohol (R14.78c / average 750ml bottle)	R50,42 / litre of absolute alcohol (R16.26 / average 750ml bottle)	190.3	10.0%	5.8%
Cigarettes	452,8c / 20 cigarettes	504,87c / 20 cigarettes	577.6	11.5%	7.3%
Cigarette tobacco	695,17c / 50g	747,30c / 50g	0.2	7.5%	3.3%
Pipe tobacco	170,79c / 25g	190,60c / 25g	41.3	11.6%	7.4%
Cigars	R28,36 / 23g	R32,59 / 23g	0.9	14.9%	10.7%

General fuel levy

It is proposed that the general fuel levy on petrol and diesel be increased by 5 cents per litre to 116 cents and 100 cents per litre respectively with effect from 6 April 2005. For petrol this constitutes an increase of 4,5 per cent and for diesel a 5,3 per cent increase. These adjustments are broadly in line with inflation and will result in a marginal reduction in the fuel tax differential between petrol and diesel. The proposed increase in the fuel levy will raise approximately R950 million in additional revenue for 2005/06.

At the same time, it is proposed to increase the diesel fuel concession refund percentage to producers in agriculture, mining and forestry from the current 38,8 per cent of the general fuel levy to 40 per cent. The actual concession will increase from 36,86 to 40 cents per litre. This adjustment comes into effect on 6 April 2005.

The SARS and the National Treasury will during the course of 2005 undertake a review of the diesel refund system with the aim of identifying and eliminating potential abuse. Problems relating to sub-contractors that may not claim the diesel fuel refund and wet versus dry contracts will also be addressed.

After further consultation with stakeholders during 2004, liquid petroleum gas used for road transport purposes (Autogas) will not attract the general fuel levy due to administrative considerations. Given that individuals injured in motor vehicle accidents, where one or more such vehicles were powered by Autogas, may claim from the Road Accident Fund it is suggested that the LPG Association and the Road Accident Fund come to an understanding in respect of a fair contribution towards the Road Accident Fund.

Total combined fuel levy on leaded petrol and diesel

	2003/04 93 Octane		2004/05 93 Octane		2005/06 93 Octane	
	Petrol	**Diesel**	**Petrol**	**Diesel**	**Petrol**	**Diesel**
General fuel levy	101.0	85.0	111.0	95.0	116.0	100.0
Road Accident Fund levy	21.5	21.5	26.5	26.5	31.5	31.5
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	**126.5**	**110.7**	**141.5**	**125.7**	**151.5**	**135.7**
Pump price: Gauteng (as in June)[1]	392	355.1	408.0	347.5	420.0	384.5
Taxes as % of pump price	**32.3%**	**31.2%**	**34.7%**	**36.2%**	**36.1%**	**35.3%**

Octane differential

Following discussions between the Department of Minerals and Energy, the petroleum industry, motor vehicle manufacturers and other stakeholders, it was decided that the domestic octane structure of petrol will be changed as of January 2006 when 91, 93 and 95 octane will be made available inland as opposed to 93 and 95 octane at the coast. For purposes of fuel efficiency, only some of the newer vehicles require 95 octane petrol in the inland. Therefore, given limited fuel refining capacity as well as the need to limit octane wastage in inland areas, it will be necessary to manage the inland uptake of 95 octane petrol. It is therefore proposed to introduce a demand management levy on 95 octane petrol from 1 January 2006 for inland areas only.

Road Accident Fund levy

It is proposed to increase the Road Accident Fund levy on petrol and diesel by 5 cents per litre, from 26,5 to 31,5 cents per litre. This higher than inflation adjustment of 18,9 per cent will seek to stabilise the financial position of the Road Accident Fund. The increase comes into effect on 6 April 2005.

Base oils for lubricating

After consultation with all the relevant stakeholders, it was decided to abolish the excise duty on base oils for lubrication with effect from 1 April 2005. The duty of 20 cents per 100 litres has been at this level for many years. The revenue potential of this duty is very limited (R700 000 per annum) and industry has put in place adequate financial measures to address the environmental consequences of disposing of such oils.

Air departure tax

The air passenger departure tax will be increased to take account of inflation. The tax on international departing passengers within the SACU region will be increased from R55 to R60. For international departing passengers travelling to destinations outside the SACU region the tax will be increased from R110 to R120. These increases come into effect 1 August 2005 and will raise approximately R32 million in additional revenue.

Regional Service Council (RSC) levies and Joint Services Board levies

It is proposed to abolish the RSC levies on 30 June 2006, to be replaced with alternative tax instruments or funding arrangements to ensure the continued independence and financial viability of municipalities. The alternative tax instruments and or funding arrangements will be finalised in consultation with all stakeholders by the end of September 2005 in order to enable draft legislation to be tabled before the end of 2005.

A recent Supreme Court of Appeal decision has ruled that dividends paid to certain holding companies are subject to RSC levies. In order to create certainty and to limit the impact of this ruling on businesses, the RSC Act will be amended with a view to limiting the retrospective collection of RSC levies in these instances. A prescription period will be included in the RSC Act.

Taxes on international trade and transactions

It is proposed to eliminate the ad valorem excise duties on cosmetic sun protection products with a sun protection factor of 15 and more. This is to ensure that preventative products that could help to limit the incidence of skin cancer are available at reasonable prices. In addition, digital video cameras with a value in excess of R15 000 will not be subject to the ad valorem excise duty as such cameras are used almost exclusively for commercial purposes to produce films and TV programmes. These proposals take effect from 1 April 2005 at a cost of R10 million.

MEASURES TO ENHANCE TAX AND CUSTOMS ADMINISTRATION

It is well established internationally that tax and administrative policy must operate in an interactive way to achieve government's fiscal policy goals. Tax administration has underpinned tax policy in an environment characterised by substantial tax and trade policy changes over the past five years, matched by fundamental tax administration reforms. As an example, while the residence basis of taxation, the EU trade agreement, and other tax and trade policy changes were introduced, the SARS fundamentally reorganised its operations along process lines, with greater emphasis on risk assessment, enforcement for non-compliant taxpayers and enhanced service for compliant taxpayers.

Reducing compliance costs and enhancing service

A number of key service initiatives by SARS will be introduced in 2005/06, benefiting the broad taxpaying community and tax practitioners.

Single registration for all tax products per taxpayer

Taxpayers registering for the first time will be able to register for all taxes SARS administers using a single form and process.

eFiling to be extended to a number of new tax instruments

In order to streamline return processing, payments and refunds, compulsory e-filing for PAYE and VAT returns for large taxpayers with a turnover in excess of R30 million per annum will be introduced. Other e-filing initiatives include:

- The e-stamp initiative with effect from 1 April 2005
- Individual returns in respect of taxpayers only earning a salary and investment income below the exempt thresholds
- Transfer duty
- Tax on retirement funds
- Secondary tax on companies
- Air passenger tax
- Applications for tax clearance certificates for tenders.

In order to expedite the awarding of tenders and reduce the incidence of fraudulent certificates, the tax clearance system will allow government procurement officers access to the tax status of applicants that have given consent to such access.

Full view of account for taxpayers and tax practitioners

Taxpayers will be able to view their account information and balances in respect of their core taxes through the e-filing system. This facility will also be extended to tax practitioners representing taxpayers.

Single national call centre access number for tax and customs

At present different call centre numbers are used depending on the region in which a taxpayer is based. There is also no Customs call centre to handle traders' calls. A single national call centre access number will be created that will enable a single point of entry for both tax and customs enquiries.

Taxpayer relationship managers at the Large Business Centre

From the second half of this year, dedicated taxpayer relationship managers will be in place per sector at the Large Business Centre, allowing taxpayers a single point of entry to the centre.

Trade facilitation and economic security

Implementation of trans-national electronic corridors on NEPAD priority corridors

The Trans-Kalahari Corridor pilot project was initiated as a tri-lateral initiative between the governments of Namibia, Botswana and South Africa. It has resulted in the successful implementation of inter alia a single administrative document as well as the introduction of simplified customs transit procedures and increased cooperation between the customs administrations of the three countries. The success of this seamless processing initiative will now be extended to the Maputo Development Corridor.

Single administrative document for all customs declarations

In order to significantly reduce red tape, minimise processing times and delays at borders for traders and transporters, a single multi-purpose customs declaration for the importation, exportation and transit movement of goods across borders will be introduced.

One stop border posts at selected border posts

At the core of the one-stop concept is the ability of border authorities to perform joint controls. Joint controls secure improved enforcement efficiencies in several ways and reduce long delays in processing commercial vehicles at border posts. It is envisaged that joint customs controls will be put in place at South Africa's major commercial ports of entry.

Implementation of a single window linking SA government departments and foreign customs administrations

Traders currently have to interact with a number of government authorities when importing and exporting goods and, as a result, have to complete various documents. A single window linking government departments and foreign customs administrations will enable exporters to provide information on import and export transactions to one government authority that then shares the information with the other interested parties, hence reducing costs and saving time. SARS has already started to interact with some other government authorities, and it is expected that this initiative will further streamline import and export control processes and contribute to trade promotion.

Broadening the tax base and reducing non-compliance

Increasing the number of people in the tax system

Legislation has been passed making it compulsory to register for income tax when liable. SARS intends to ensure that the legislation is applied by the cross-referencing of data and accessing of third party information.

Mobile X-ray scanners and high visibility roving anti-smuggling teams

Ten state-of-the-art mobile X-ray scanners will be acquired and will serve to inspect both imports and exports at selected ports of entry. Furthermore, high-visibility roving anti-smuggling teams, backed up by canine units, will also be introduced.

Identifying undisclosed income

Two key risk areas have been identified for special focus in the coming year. Firstly, with the substantial increase in the value of property transactions in recent years, it has come to SARS' attention that there is an increase in under-declaration of income in respect of property transactions. Secondly, attention will be given to income diversion and aggressive tax planning by individuals with substantial wealth. A high net worth individuals sector will be established at the Large Business Centre during this year.

Voluntary disclosure dispensation

One of the barriers to taxpayers coming forward voluntarily to correct their failures to meet their tax obligations is the fear of SARS and the tax burden that they will be assuming. In order to lower this barrier, it is proposed that a voluntary disclosure dispensation be made available to taxpayers who have failed to meet any of their tax obligations, for example, through non-registration, non-disclosure of income or deductions of fictitious expenditure. This dispensation will allow for the waiving of penalties or additional tax provided that the taxpayer wishing to participate in the dispensation approaches SARS voluntarily before an investigation of his or her affairs has commenced.

Aggressive tax avoidance

The issue of aggressive tax avoidance remains a concern. Although good progress has been made in the financial services sector, a number of large schemes in this sector and others remain points of contention, which will receive attention during the coming year. In order to reduce uncertainty, limit legal costs, and expedite the resolution of the outstanding cases, SARS would welcome voluntary approaches by participants in such schemes to reach settlements on a mutually acceptable basis.

Countering abuse of incentive schemes

There are indications that some of the incentive schemes offered by Government are abused. Two specific focus areas have been identified for further action in the coming year. In respect of the Motor Industry Development Programme, fifty companies have been earmarked for audit during this fiscal year. Abuse in the area of Duty Credit Certificates has also been identified. Certificates are being falsified and traded in. To combat such practices, a register of all participants in these schemes will be consolidated.

ADMINISTRATIVE ISSUES REQUIRING SEPARATE BILLS

Tax Practitioner Bill

The regulation of tax practitioners has been sub-divided into two phases. The first phase introduced in the Revenue Laws Amendment Act of October 2004 is an interim step in order to obtain sufficient data to assist in clearly establishing final registration requirements. The second phase will involve the establishment of an independent Tax Practitioners' Board, which will regulate tax practitioners.

Tax Administration Bill

SARS is in the process of drafting a Tax Administration Bill, which will be published later this year for comment. The purpose of this Bill is to incorporate into one piece of legislation certain generic administrative provisions, which are currently duplicated in the different tax Acts. These provisions include, for example, the objection and appeal procedures, search and seizure provisions, provisions relating to secrecy and collection processes. It may become necessary, prior to the introduction of the Administration Bill, to refine or adjust pressing administrative issues by legislative amendment during the current legislative cycle.

MISCELLANEOUS AMENDMENTS

In addition to the Budget Proposals described in Chapter 4 of this Budget Review, the 2005 legislation will contain a number of miscellaneous amendments to the various tax acts. These amendments stem from various problem areas identified in the current legislation as detected over the course of the year through internal review and public comment. Some of these amendments eliminate perceived loopholes while others ensure that tax legislation does not inadvertently hinder legitimate non-tax motivated transactions. These amendments are expected to have only a small revenue impact for the fiscus and are accordingly not listed in Chapter 4. This full listing of lesser amendments provides taxpayers with additional certainty in terms of expected legislative changes for the upcoming year.

Income Tax Act

- *Discretionary trust interests:* Current law is unclear as to when the holder of a discretionary interest in a trust qualifies as a trust beneficiary. The Income Tax Act will accordingly be clarified in this regard with a definition that possibly varies depending on the context.
- *Individual home office expenses:* The tax system has a long history of allowing individuals to deduct certain portions of their home as a business expense under certain limited circumstances. In 2003 however, Government limited the types of miscellaneous deductible business expenses that salaried employees may claim. This limitation now has the unintended impact of denying certain legitimate home office expenses if employees are forced by their employers to bear the cost of maintaining a home office as their central business location (versus operating at a site provided by the employer). The rules will be changed to allow employees to fully deduct these legitimate expenses.
- *Providing certainty for deductible donations:* Under current law, a donor may lose the benefit of a deduction for a donation if the donee organisation fails to satisfy its objects, even though this failure falls outside the donor's control. This result is unfair for the donor so it is proposed that the violating organisation incur an additional tax charge rather than the donor.
- *Disability pensions:* Certain individuals receiving a disability pension as a result of a pre-1 March 1994 injury do not qualify for tax exemption; whereas, these same disability pensions would be exempt if the injury occurred at a later date. It is proposed that the exemption apply to all these disability pensions regardless of the date.
- *Shifting government pension arrangements:* Certain categories of Government employees may be eligible to shift from one pension arrangement to another upon their election. These shifts raise certain collateral tax consequences that may have to be considered or alternatively necessitate a direct allocation.
- *Whole year learnership allowances for part-year learnerships:* Anomalies have arisen with respect to the learnership allowance. In particular, certain employers are artificially attempting to obtain a full-year allowance for part-year learnerships. This tax avoidance strategy could possibly create overall tax reductions that far exceed any benefits offered by the program. This strategy will be terminated by ensuring that part-year programmes receive only part-year tax benefits.
- *Connected persons in relation to companies:* The anti-avoidance rules for "connected persons" may be inadvertently interfering with company reorganisations, especially with

respect to the definition as it relates to persons connected to a company. This aspect of the definition includes two sets of persons having a 20 per cent interest (i.e., company shareholders and non-company shareholders), both of which differ from one another and may simply have too low a threshold. It is proposed that these definitions should be revised. Consideration will also be given to treating all persons not acting at arm's length as "connected persons" regardless of their formal relationship.

- *Conversion of local non-proprietary exchanges and other tax-exempt entities:* In 2004, Government announced its intent to withdraw the tax exemption for non-proprietary exchanges. Legislation will be required to address the tax consequences of their conversion to proprietary status. This legislative initiative may also cover comparable issues involving the conversion of other tax-exempt entities to taxable status.
- *Doubtful debts:* Taxpayers may only claim bad debts as a deduction if the underlying claim relating to that debt initially gave rise to income. However, this requirement appears to be missing from the doubtful debt provisions, thereby triggering the need for legislative change.
- *Leasehold improvements:* Leasehold improvements continue to generate uncertainty in terms of the capital gains tax due because these improvements automatically affix to the underlying land of the landlord. Further clarification of these tax consequences will accordingly be considered.
- *Ownership requirement for accelerated depreciation:* It has come to Government's attention that certain taxpayers are attempting to rely on a hyper-technical argument to claim accelerated depreciation on certain assets, even though the taxpayer is not the owner. This argument is inconsistent with generally accepted and longstanding interpretation. An amendment will be proposed to place beyond doubt that taxpayers claiming this accelerated depreciation must be the owner.
- *Capital gains and debt cancellation, reduction or repayment:* Debt cancellations, reductions and repayments of principal give rise to unintended anomalies in terms of calculating capital gains and losses. For instance, the cancellation or reduction of debt generates capital gain, thereby preventing the liquidation of certain shell companies. While this matter has been addressed in the context of liquidating shell companies within a group, this matter remains unresolved outside the group context. Also of concern is the mere repayment of principal on debt, which may inadvertently give rise to capital gain or loss if the market value of the debt changes over time. These issues will be addressed to the extent time permits.
- *Capital loss transfers between insurance four-funds:* The transfer of assets between the four funds of an insurance company generates certain unintended results in terms of the capital gains tax. Of special concern is the rollover of built-in loss assets (i.e., assets with a base cost in excess of value) in contrast with the rules for clogging losses of the transferor fund in the case of transactions between connected persons.
- *Capital gains tax and the 1 October 2001 implementation date:* Problems continue to arise around the 1 October implementation date for calculating capital gains or losses. Of special concern are the calculations involving the time-apportionment base cost. These problems will continue to be addressed as they arise.
- *Foreign ownership of South African immovable property companies:* Foreigners are subject to South African tax on the disposal of certain South African companies containing

significant holdings of South African real estate. This tax, however, becomes problematic when it applies to the disposal of certain foreign companies indirectly owning these South African real estate interests, especially when the South African real estate is a relatively small part of the overall structure. Consideration will be given to removing these anomalies and adjusting the tax so that its operation is more akin to similar transactions involving the Transfer Duty.

- *Foreign tax credits and provisional tax payments:* Although taxpayers can generally claim foreign tax credits for foreign taxes paid against their final domestic income tax calculations, the provisional tax payment system fails to account for these credits in the case of companies. This failure to allow for provisional credits in the case of companies makes little sense, especially because individuals can claim these credits on their provisional tax payments. It is accordingly proposed that the provisional tax system for companies be properly aligned to allow for provisional tax credits.
- *Foreign tax credits and the sale of foreign shares:* The South African sale of foreign shares is generally deemed to have a South African source because few countries impose tax on this form of capital gain generated by outsiders (especially after tax treaties are taken into account). However, this deemed South African source treatment is problematic if the foreign country does, in fact, tax this form of sale. This latter form of sale will therefore be treated as foreign source income, thereby providing South Africans with appropriate foreign tax credits for foreign taxes proved to be payable.
- *Participation rights in controlled foreign companies:* Taxation of controlled foreign company income depends on ownership of participation rights (e.g., shares) in that company. These tests are currently measured solely in terms of value. Consideration is being given towards additionally measuring these rights in terms of voting power so that the regime more closely resembles the permissible range of foreign investments allowed in terms of the Exchange Control dispensation. The impact of participation rights may also be clarified in situations involving preferred shares and certain hybrid instruments.
- *Namibian insurance policy claims:* South African controlled foreign companies cover certain Namibian insurance policy holders. However, it has come to Government's attention that profits may be subject to tax in the South African company's hands even though all these profits will eventually be paid to Namibian policy holders wholly outside the South African tax net. This tax on profits attributable to foreign policy holders will be eliminated.
- *Integration of controlled foreign company income and deemed imputation:* Tainted (e.g., passive) controlled foreign company income is first calculated according to South African principles and then imputed to South African shareholders. However, the exclusion of certain forms of controlled foreign company activities (attributable to a business establishment) does not properly integrate with the overall regime, thereby possibly giving rise to overall losses without matching income. This failure of integration will be remedied.
- *Intragroup controlled foreign company loans:* Controlled foreign companies within a single group held by South African shareholders often make loans to each other (or with the South African shareholders). The tax system generally ignores both payments and receipts in terms of these loans. However, situations arise that trigger a mismatch (with one leg falling within the tax system and the other leg falling outside). Intragroup loans may also give rise to other possible anomalies, such as the denial of tax credits, capitals gain on cancellation, and

miscalculations of the foreign passive investment company threshold. These issues will be addressed as time permits.

- *The participation exemption for foreign share gains and dividends:* The participation exemption for foreign share gains and dividends needs to be re-examined. How this exemption works in combination with the overall capital gains tax and the controlled foreign company regimes needs further consideration. Special concerns exist that these rules can be used to shift funds offshore free of tax. It is accordingly proposed that the participation exemption be modified to account for these concerns.
- *Foreign currency translations:* Rapid collateral changes were made to the rules involving the translation of foreign currency when Government adopted a worldwide tax system and the taxation of capital gains. These structural changes require certain ongoing technical clarifications. One important change is to again allow for the full use of the spot rate. Under the new rules, foreign trading stock and non-financial assets will be translated at spot in all cases. Financial assets (such as portfolio bonds) can fall under either the spot or average exchange rate system with appropriate anti-avoidance rules to prevent artificial switching. Other foreign currency anomalies will be addressed to the extent time permits.

Donations Tax and Estate Duty

- *Shifting the Donations Tax to a worldwide basis:* In 2001, Government shifted from a sourced-based system of taxation to a worldwide system. However, this shift was not fully reflected in the Donations Tax. As a result, certain foreign located assets inadvertently remain outside the Donations Tax net. It is accordingly proposed that the Donations Tax be amended to include these assets.
- *Obsolescence of Land Bank values:* Both the Donations Tax and the Estate Duty (as well as the capital gains tax) currently rely on Land Bank valuators as one method of real estate valuation. However, the underlying law underpinning the Land Bank valuating system has since been repealed and little property valuation capacity remains. It is accordingly proposed that the tax system for land valuations be adjusted to account for these developments.
- *Closing Donations Tax/Estate Duty Loophole:* Certain schemes have emerged that arguably allow taxpayers to transfer property without triggering either the Donations Tax or the Estate Duty. These schemes appear to involve the transfer of property that benefits the donee only upon the donor’s death, seemingly avoiding the Donations Tax while acting as a deduction against the donor’s estate on death for purposes of the Estate Duty. It is accordingly proposed that the use of these schemes be closed.
- *Nominated beneficiaries and the Estate Duty:* The Estate Duty does not clearly address how assets assigned to a nominated beneficiary will be treated (e.g., as property or deemed property). It is proposed that the Estate Duty be clarified in this respect.

Value-Added Tax (VAT) Act

- *Application of the Customs and Excise Tax Act:* The rules for importing goods make reference to the Customs and Excise Act. This reference appears to be overly broad because it enacts the entire Customs and Excise Act into the VAT Act, thereby necessitating a review for potential limits to the reference’s overall scope.

- *Booking of local tours by foreign agents:* Consumption of South African holiday packages (e.g., meals and hotel accommodation) are fully subject to VAT at the standard rate. However, when local tour operators offer these holiday packages through foreign tour operators, these packages often become zero rated even though the benefits fully remain within South Africa. These issues will be addressed to ensure that all these South African holiday packages are properly subject to VAT at the standard rate, even if offered by foreign tour operators.
- *Schemes to obtain input credits for ultimately exempt supplies:* No input tax credit is allowed for purchases if ultimately acquired for an exempt supply (e.g., education). Some developers have devised schemes to retain these inputs even though the buildings are ultimately constructed for a provider of exempt supplies. Typically, input credits are claimed in the construction phase and output VAT is only recovered over time or when the property is directly or indirectly transferred to the exempt supplier. This practice will be curtailed.
- *Reversal of input credits on purchased goods that are ultimately never paid:* Purchasers must recoup any input VAT previously claimed if an invoice remains unpaid for 12 months. This 12-month prescription limit can be problematic in terms of enforcement if a vendor liquidates or if parties enter into schemes of arrangement to avoid the 12-month period. These failures to recoup will be remedied.
- *Reconsideration of the de minimis rule for pro rata allocations of input taxes:* A vendor making both taxable and exempt supplies must generally claim proportional input credits subject to a 5 per cent de minimis rule. Intrinsically, the percentage rule has no monetary limit, thereby resulting in substantial mismatches. This mismatch will be reviewed as well as the integration between the definition of "input tax" and the system of VAT adjustments.
- *Removing mismatches of inputs and outputs caused by business restructurings:* When selling a VAT registered business, a standard or zero rate of VAT applies to the entire consideration, even if the business makes both taxable and exempt supplies. Different rules for the seller and buyer exist to account for the exempt supply portion of the business. Unfortunately, these rules are not fully integrated resulting in inconsistency between buyer and seller. This inconsistency leads to potential underpayments and overpayments, which will therefore be reviewed.
- *Zero rating of foreign donor funds offered with the assistance of the South African government as a party:* Supplies by a vendor to a third party can be zero rated if consideration for that supply is from foreign donor funds made under the umbrella of an international agreement, when the South African Government is a party to the transaction. The main difficulty relates to the tracing procedures for documents to substantiate the zero rating, resulting in administrative difficulties for vendors. Consideration will be given to remedy this situation.
- *Motorcars and entertainment offered as prizes:* Input credits are generally disallowed for motorcars and entertainment even if used in the course of business (in order to prevent disguised private use). However, concerns about private use of motorcars and entertainment for business-related prizes simply do not exist. The VAT Act will accordingly account for these special circumstances.
- *Criminal treatment for non-vendors charging VAT:* Non-vendors illegally charging VAT must pay over any VAT charged pursuant to an assessment issued by SARS. However, this provision carries no criminal sanction. The proposal is to add criminal sanctions for this serious violation.

- *Loop supplies into South Africa through a foreign intermediary utilising South African supplies:* Generally, transactions directly between a South African purchaser and South African supplier involving South African supplies results in matching inputs and outputs. However, when a foreign intermediary is interposed between the South African parties (e.g., where a foreign intermediary agrees to supply goods or services to a South African purchaser by making use of a South African supplier) the benefit of the input tax credit may be lost to the South African purchaser. This lost credit becomes a cost to the foreign intermediary who will pass the cost along to the South African purchaser. Consideration will be given to providing relief in these circumstances.
- *Industrial Development Zones:* Government introduced a revised set of enabling legislation for Industrial Development Zones in 2003. Because of its gradual implementation, certain amendments were made in 2004 with the expectation that further legislative changes would follow.
- *Limitation periods for refunds:* Input tax credits can only be claimed if a vendor is in possession of a tax invoice. If possession of a tax invoice is delayed, a 5-year limit exists to cater for the late receipt of the tax invoice. However, a loophole exists that effectively breaches the 5-year limitation that can lead to abusive practices. It is proposed to limit the input tax claim to the 5-year limitation period as originally intended.
- *Public authorities/entities:* SARS raised assessments against many public authorities and entities due to ongoing confusion about the VAT implications of transfer payments. In 2003 and 2004, Government introduced a whole new set of VAT legislation to eliminate this confusion. In order to bring full finality to this matter, Government will write off outstanding assessments raised against public authorities and entities to the extent these assessments stem from this longstanding confusion.
- *Additional assessments:* Government is gradually attempting to unify all the administrative provisions of the various tax acts as practicalities will allow. The proposal is to align the VAT Act with the Income Tax Act in terms of raising additional assessments.

Customs and Excise Act

- *State warehouse rent:* An amendment is proposed that would authorise the Commissioner to provide by rule the date on which any amendment of State warehouse rental rates will have effect.
- *Removal of goods in bond:* If goods are removed in bond for export, it has become necessary to clarify the time when these goods must be exported and to determine when they will be regarded as having been diverted for purposes of applying any penalty provisions of the Customs and Excise Act.
- *Registration of producers:* For the purpose of preferential trade agreements such as the SADC and EU Free Trade Agreements and in order to effectively enforce the rules of origin contained in these agreements, it is proposed to extend registration to the chain of producers and/or manufacturers of goods that qualify for this preferential treatment.
- *Delivery of notices:* In the event of any intended legal action against the Commissioner, it is proposed to refine the administrative procedures regarding the delivery of notices to the office of the Commissioner.

- *Counterfeit goods:* SARS and the DTI are exploring improved procedures to effectively enforce provisions of the Counterfeit Goods Act, 1997. SARS is also considering adopting the World Customs Organization's model legislation on counterfeit goods.
- *Order of discharge of money collected:* The order of discharging of money collected against a debt consisting of penalties, interest and duties or taxes under different provisions of the Customs and Excise Act needs to be aligned.
- *Removal of goods that were attached:* The removal of goods attached in terms of the Customs and Excise Act for security and goods attached under a warrant of execution will be changed to one premise for safekeeping.
- *Goods subject to a lien:* Changes will be made so that the onus falls on the debtor to prove that goods do not belong to him / her when these goods are subject to a lien. This onus will fully account for any constitutional limits.
- *Rebates of excise duties:* SARS and the National Treasury have undertaken a review of the rebate provision as contained in the Customs and Excise Act, including Schedule 6. A revised draft Schedule 6 was published for comment in late 2004, and the revisions of the rebates would require legislative amendments regarding the losses allowed for bulk spirits.
- *To amend the definition of 'circumvention':* Currently the definition of circumvention applicable to the non-reciprocal preferential tariff treatment of goods exported from the Republic refers to the WTO Agreement of Textiles and Clothing. The said WTO agreement was terminated and as a result consequential amendments are required to the definition.

Unemployment Insurance Contributions Act

- *Clarifying the interaction between the Unemployment Insurance Contributions Act and the Unemployment Insurance Act:* In 2004, Government recognised that certain anomalies existed between the contributions charge and the main act. These anomalies unfortunately could not be resolved. It is proposed that further efforts be made to properly align the Unemployment Insurance Contributions Act with the Unemployment Insurance Act in order to ensure that all parties paying into the system will receive full benefits.

Transfer Duty Act

- *Property splits:* Certain taxpayers are entering into sophisticated transactions to transfer artificially divided property, thereby undervaluing the whole property transferred and multiplying the various rate thresholds. It is proposed to terminate any potential benefits created by these schemes.
- *Refunds:* In prior years, Government has aligned the administrative provisions of the Transfer Duty and other financial transaction taxes to more closely align with the Value-added Tax. The Transfer Duty refund provisions inadvertently fell outside this alignment and will be appropriately modified.

Diesel fuel tax refund system

- *Diesel fuel tax:* The diesel fuel tax refund system was introduced to provide partial relief from fuel taxes to certain primary produces, especially agriculture, mining, fishing and forestry. The rules regarding the diesel refund system will be reviewed to eliminate potential abuses that have been identified and to ensure that the system supports intended beneficiaries.

TECHNICAL CORRECTIONS

In addition to the miscellaneous amendments above, the 2005 legislation will contain ongoing technical corrections. These technical corrections will address typing and grammatical issues, incorrect or misleading headings, misplaced cross-references, differences between the English and Afrikaans text, obsolete provisions (e.g., updating tax acts in light of other non-tax legislative changes), cross references incorporating regulations into law and problems relating to effective dates. These technical corrections may also occasionally include legislation clearly at odds with legislative intent as well as obvious ambiguities and omissions, especially in terms of legislation promulgated since 2004 (e.g., broad-based employee shares, executive equity schemes and public-private partnerships and transfer payments by Government). These changes are not intended to have any meaningful policy or revenue impact. Technical corrections will be made during the upcoming year only as time permits.

SARS COLLECTIONS

- *Collection of current State mineral royalties:* Government has a significant number of longstanding mineral rights that generate annual lease and/or royalty payments. These payments have historically been audited and collected as national revenue by the Department of Minerals and Energy. Consideration is now being given to shifting some or all of these functions to SARS as a matter of overall efficiency. This changeover may begin as early as 1 April 2005.
- *Collection of the Road Accident Fund Levy:* SARS will collect the Road Accident Fund Levy as a matter of overall efficiency. It is envisaged that this levy will apply on a duty at source basis.

PROGRESS ON IMPLEMENTATION OF TAX REFORM INITIATIVES

Foreign exchange amnesty and adjudication process

In the 2003 Budget speech, the Minister of Finance announced an exchange control amnesty with accompanying tax measures to provide South African residents with an opportunity to regularise illegally held foreign assets and income. More than 42 000 amnesty applications were received by 29 February 2004, the deadline for the submission of amnesty applications, and over 43 000 applications have been submitted in total. Of these, more than 26 000 had been adjudicated by the end of January 2005. The total assets disclosed in amnesty applications are currently estimated at R65 billion, based on exchange rates prevailing on 28 February 2003.

The Amnesty Unit expects to collect some R2,4 billion in amnesty levies, which will be allocated on budget for social and residential infrastructure. This comprises R250 million revenue collected from the 2 per cent tax levy for associated domestic tax law violations, R250 million raised by the 5 per cent levy in respect of foreign capital to be repatriated to South Africa, and R1,9 billion from the 10 per cent levy in respect of foreign-retained assets.

Progress with retirement fund reform

During 2004 the National Treasury and the Financial Services Board (FSB) embarked upon a thorough regulatory and policy review of the South African retirement industry. This investigation, drawing in part on several earlier inquiries, takes as point of departure the need to ensure protection of the interests of members of retirement funds and increase the proportion of people who are able to make adequate provision for retirement income through their working lives.

As part of this process, the National Treasury published a Retirement Fund Reform Discussion Paper outlining regulatory policy objectives and reform proposals in order to address the current institutional weaknesses of the industry, excessive fee and cost structures and accompanying investment risk exposure of members. Work on the tax aspects of the pension fund industry is ongoing, and a discussion paper on these issues will be released in due course. This approach is adopted to ensure that the regulatory and prudential investment framework provides a workable foundation for future tax reforms.

Retirement fund tax reform seeks to enhance and facilitate adequate retirement savings. In order to take account of the outcome of consultations on wider retirement reform issues, no changes to the tax treatment of retirement savings are proposed at this stage. However, a material adjustment to the tax-exempt threshold for persons age 65 and over is announced this year.

Mineral taxation

The redrafting of the Mineral and Petroleum Royalty Bill is in progress. While Government remains committed to an ad valorem royalty on gross sales, the Bill is undergoing substantial refinements in view of the comments received, industry financial data analysis and new cross-country royalty comparisons. Simultaneously, the redrafting process seeks to accommodate key concerns relating to mineral beneficiation and small-scale mining. It is anticipated that the second draft of the Bill should be available for public comment during the first half of 2005 with submission to Parliament before the close of the year.

Government's holistic review of the mining income tax dispensation as announced in the 2004 Budget Review is ongoing. Among the options under consideration is the appropriateness of the current tax allowance schemes, and the resultant tax deferral benefit enjoyed by mining companies. Government is mindful of both the high capital requirements and the risks attaching to mining investment, and accordingly recognises the need for careful consideration of possible tax changes.

Accelerated tax depreciation for urban development zones

In the 2003 Budget, the Minister of Finance announced a tax incentive in support of inner city development projects. This incentive allows taxpayers to receive accelerated depreciation allowances for investment in under-utilised urban development zones. Demarcations of qualifying inner city areas have since been approved and gazetted for nine municipalities (Johannesburg, Cape Town, Tshwane, eThekwini, Emfuleni, Buffalo City, Mangaung, Mbombela and Sol Plaatje). The demarcations for a further seven municipalities are under review and should be concluded during 2005. Early indications are that the tax incentive will assist significantly in boosting development of the country's inner cities.

FIFA World Cup 2010

As stated in the 2004 Medium Term Budget Policy Statement, South Africa's hosting of the Soccer World Cup in 2010 will require a number of tax exemptions for the international football association's operations and activities. These refinements stem from Government's obligation to satisfy the guarantees required by FIFA to host the event. Discussion of this topic has been ongoing for the past several months in anticipation of possible legislative tax amendments during the latter half of 2005.

INTERNATIONAL TAX AGREEMENTS

International tax agreements are important for encouraging investment and trade flows between countries.

In the 2004/05 fiscal year, considerable progress was once again made in reaching agreements with other countries for the avoidance of double taxation and prevention of fiscal evasion. The present position is as follows:

- Comprehensive agreements (56) are in force with Algeria, Australia, Austria, Bulgaria, Belarus, Belgium, Botswana, Canada, Croatia, Cyprus, the Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hungary, India, Indonesia, Iran, Ireland, Israel, Italy, Japan, Korea, Lesotho, Luxembourg, Malawi, Malta, Mauritius, Namibia, New, Zealand, the Netherlands, Norway, Oman, Pakistan, the People's Republic of China, Poland, Romania, the Russian Federation, the Seychelles, Singapore, the Slovak Republic, Swaziland, Sweden, Switzerland, Taiwan, Thailand, Tunisia, Uganda, Ukraine, the United Kingdom, the United States of America, Zambia and Zimbabwe. An older agreement with the United Kingdom (1946) applies also to Grenada and Sierra Leone.
- New comprehensive agreements (26) are in the process of negotiation or being finalised withComprehensive agreements have been signed but not ratified withBelarus Bangladesh, Brazil (ratified by South Africa), Chile, Cuba, Democratic Republic of Congo, Estonia, Ethiopia (ratified by South Africa), Gabon, Ghana, Kuwait (ratified by South Africa), Latvia, Lithuania, Malaysia, Morocco, Mozambique, the NetherlandsNigeria (ratified by South Africa), Portugal, Qatar, Rwanda (ratified by South Africa), Saudi Arabia, Serbia and Montenegro, Spain, Sri LankaSwaziland, Tanzania, Turkey,Ukraine and the United Arab Emirates.
- Old comprehensive agreements (7) are in the process of renegotiation or being finalised with Germany, Malawi, Namibia, the Netherlands, Swaziland (ratified by South Africa), Zambia and Zimbabwe. Where agreements are being renegotiated, the existing agreements remain effective until new agreements are entered into force.
- Limited sea and air transport agreements (3) are in force with Brazil, Portugal and Spain.

Note: Further information on the current status of the agreements is available on the SARS website under Income Tax / International Treaties.

AGREEMENTS FOR MUTUAL ADMINISTRATIVE ASSISTANCE BETWEEN CUSTOMS ADMINISTRATIONS

Agreements covering all aspects of assistance, including exchange of information, technical assistance, surveillance, investigations and visits by officials are as follows:

- Agreements (4) are in force with France, the Netherlands, the United Kingdom and the United States of America.
- New agreements (15) are in the process of negotiation or being finalised with Algeria (ratified by South Africa), Angola, Brazil, Israel, Iran, Malawi, Mozambique (ratified by South Africa), Nigeria, Norway, the Democratic Republic of Congo, the Czech Republic (ratified by South Africa) Tanzania, Turkey,Netherlands Zambia (ratified by South Africa) and Zimbabwe.

AGREEMENTS FOR MUTUAL AND TECHNICAL ASSISTANCE IN RESPECT OF VAT

- New agreements (5) with Botswana, Lesotho, Namibia, Swaziland and Zimbabwe are in the process of negotiation or being finalised.

SUMMARY OF THE EFFECTS OF THE TAX PROPOSALS

	Effect of tax proposals
Taxes on individuals and companies	**(10,862)**
Personal income tax	**(7,110)**
Adjust personal income tax rate structure	(6,800)
Increase in interest and dividend exemption under 65 years	(170)
Increase in interest and dividend exemption 65 years and over	(140)
Corporate income tax	**(2,000)**
Reduction in corporate tax rate	(2,000)
Small business incentives	**(1,752)**
Introduce VAT payments from every 2 months to every 4 months	(275)
Exemption from Skills Development Levy	(92)
Graduated rate structure	(900)
Accelerated depreciation for all assets	(485)
Financial transaction taxes	**(800)**
Adjust table for transfer duties	(450)
Elimination of stamp duties on debit entries	(350)
Taxes on goods and services	**2,281**
Increase in duties on alcohol	690
Increase in duties on tobacco products (52% incidence)	620
Abolish ad valorem excise duties on sun protection products	(10)
Abolish duty on base oils for lubricating	(1)
Increase in Air Passenger Departure Tax	32
Increase in fuel levy	950
Budget 2005 tax proposals	**(9,381)**

Notes:

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