



2006/7

Budget Tax Guide

A synopsis of the most important tax, duty and levy related information for the 2006/7 tax year

Budget highlights

- ✓ R19,1 billion total tax relief
- ✓ R13,5 billion individual income tax rate relief
- ✓ Tax amnesty for small business
- ✓ Retirement fund tax halved
- ✓ Regional Service Council levies abolished
- ✓ Transfer duty significantly reduced

INCOME TAX: INDIVIDUALS AND TRUSTS

Tax rates (year of assessment ending 28 February 2007)

Individuals and special trusts

Taxable Income (R)		Rates of Tax (R)	
0 - 100 000		18% of each R1	
100 001 - 160 000	18 000 + 25%	of the amount above	100 000
160 001 - 220 000	33 000 + 30%	of the amount above	160 000
220 001 - 300 000	51 000 + 35%	of the amount above	220 000
300 001 - 400 000	79 000 + 38%	of the amount above	300 000
400 001 and above	117 000 + 40%	of the amount above	400 000

Trusts other than special trusts

Rate of Tax	40%
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Tax Rebates

Rebates	R
Primary	7 200
Additional (Persons 65 and older)	4 500

Tax Thresholds

Age	Tax Threshold (R)
Below age 65	40 000
Age 65 and over	65 000

Provisional Tax

A provisional taxpayer is any person who earns income other than remuneration or an allowance or advance payable by the person's principal. The following individuals are exempt from the payment of provisional tax –

- Individuals below the age of 65 who do not carry on a business and whose taxable income –
 - will not exceed the tax threshold for the tax year; or
 - from interest, dividends and rental will be R10 000 or less for the tax year.
- Individuals age 65 and older if their annual taxable income –
 - consists exclusively of remuneration, interest, dividends or rent from the lease of fixed property; and
 - is R80 000 or less for the tax year.

Foreign Dividends

Most dividends received by individuals from foreign entities are taxable.

Exemptions**Interest and dividends**

- Interest and dividends earned by any natural person under 65 years of age, up to R16 500 per annum, and persons 65 and older, up to R24 500 per annum, are exempt from taxation. Foreign interest and foreign dividends are only exempt up to R2 500 out of the total exemption.
- Interest is exempt where earned by non-residents who are absent from South Africa for 183 days or more per annum and who are not carrying on business in South Africa.

Deductions**Current pension fund contributions**

The greater of –

- 7.5% of remuneration from retirement funding employment, or
- R1 750.

Any excess may not be carried forward to the following year of assessment.

Arrear pensions fund contributions

Maximum of R1 800 per annum. Any excess over R1 800 may be carried forward to the following year of assessment.

Current retirement annuity fund contributions

The greater of –

- 15% of taxable income other than from retirement funding employment, or
- R3 500 less current deductions to a pension fund, or
- R1 750.

Any excess may be carried forward to the following year of assessment.

Arrear retirement annuity fund contributions

Maximum of R1 800 per annum. Any excess over R1 800 may be carried forward to the following year of assessment.

Medical and physical disability expenses

- Taxpayers 65 and older may claim all qualifying expenditure
- Taxpayers under 65 are not taxed on, or may deduct, contributions to medical schemes up to R500 for each of the first two persons covered under a medical scheme (taxpayer and one dependant) and R300 for each additional dependant. In addition they can claim a deduction for medical scheme contributions above the caps and any other medical expenses to the extent the total exceeds 7,5% of taxable income.
- Taxpayers under 65 may claim all qualifying medical expenses, where the taxpayer or the taxpayer's spouse or child is a handicapped person.

Donations

Deductions in respect of donations to certain public benefit organisations are limited to 5% of taxable income before deducting medical expenses.

Allowances**Subsistence allowances and advances**

Where the recipient is obliged to spend at least one night away from his/her usual place of residence on business and the accommodation to which that allowance or advance relates is in the Republic and the allowance or advance is paid or granted to pay for –

- meals and incidental costs, an amount of R196 per day is deemed to have been expended;
- incidental costs only, an amount of R60 for each day is deemed to have been expended

Where the accommodation to which that allowance or advance relates is outside the Republic, an amount equal to US\$190 per day is deemed to have been expended. (These daily rates were fixed for the 2005/6 tax year and are subject to change)

Travelling allowance

Rates per kilometre which may be used in determining the allowable deduction for business-travel, where no records of actual costs are kept.

Value of the vehicle (including VAT)(R)	Fixed cost (R p.a.)	Fuel cost (c/km)	Maintenance cost (c/km)
0 - 40 000	15 364	47.3	22.5
40 001 - 60 000	20 910	49.4	26.2
60 001 - 80 000	25 979	49.4	26.2
80 001 - 100 000	31 513	54.8	30.5
100 001 - 120 000	36 978	54.8	30.5
120 001 - 140 000	41 771	54.8	30.5
140 001 - 160 000	47 512	57.2	39.8
160 001 - 180 000	52 629	57.2	39.8
180 001 - 200 000	58 334	65.9	43.8
200 001 - 220 000	64 591	65.9	43.8
220 001 - 240 000	69 072	65.9	43.8
240 001 - 260 000	74 777	65.9	43.8
260 001 - 280 000	79 918	69.3	52.5
280 001 - 300 000	85 440	69.3	52.5
300 001 - 320 000	88 793	69.3	52.5
320 001 - 340 000	95 218	69.3	52.5
340 001 - 360 000	100 011	77.1	68.0
exceeding 360 000	100 011	77.1	68.0

Note: The fixed cost must be reduced on a pro-rata basis if the vehicle is used for business purposes for less than a full year.

Of the actual distance travelled during a tax year, in the absence of a log book, it is deemed that the first 18 000 kilometres are travelled for private purposes and the balance, but not exceeding 14 000 kilometres, are travelled for business purposes.

60% of the travelling allowance must be included in the employee's remuneration for the purposes of calculating PAYE.

Alternatively:

- Where the distance travelled for business purposes does not exceed 8 000 kilometres per annum, no tax is payable on an allowance paid by an employer to an employee, up to the rate of 246 cents per kilometre regardless of the value of the vehicle.
- This alternative is not available if other compensation in the form of an allowance or reimbursement is received from the employer in respect of the vehicle.

Other deductions

Other than the deductions set out above an individual may only claim deductions against employment income or allowances in limited specified situations, e.g. bad debt in respect of salary and premiums on certain income protection policies.

Fringe Benefits

Employer-owned vehicles

- The taxable value is 2,5% of the determined value (usually the cash cost excluding VAT) per month. Where a second (and further) vehicle is made available to an employee or his family, and the vehicle is not used primarily for business purposes, the benefit is 2,5% per month on the vehicle with the highest value and 4% per month on the other vehicle(s).
- Where the employee bears the cost of all fuel used for the purposes of the private use of the vehicle (including travelling between the employee's place of residence and his/her place of employment) the monthly percentage to be applied is reduced by 0,22 percentage points.
- If the employee bears the full cost of maintaining the vehicle (including the cost of repairs, servicing, lubrication and tyres) the monthly percentage to be applied is reduced by 0,18 percentage points.

Interest-free or low-interest loans

The difference between interest charged at the official rate (8% from 1 September 2005) and the actual amount of interest charged, is to be included in gross income.

Residential accommodation

The fringe benefit to be included in gross income is the greater of the benefit calculated by applying a prescribed formula or the cost to the employer

The formula will apply if the accommodation is owned by the employer, or an associated institution in relation to the employer, or under certain limited circumstances where it is not owned by the employer.

INCOME TAX: COMPANIES

Financial years ending on any date between 1 April 2006 and 31 March 2007

Type	Rate of Tax
Companies	29%
Small business corporations	
R0 – R40 000	0%
R40 001 – R300 000	10%
R300 001 and above	29%
Employment companies	34%
Foreign resident companies which trade in South Africa through a branch or agency	34%
Secondary tax on companies (STC) on dividends declared after being reduced by dividends receivable during a dividend cycle (South African branches of foreign resident companies are exempt from STC)	12,5%
Tax on retirement funds	
Gross interest, net rental and foreign dividend income of retirement funds (pension, provident, retirement annuity funds and untaxed policy holder funds of long-term assurance companies)	9%

RESIDENCE BASIS OF TAXATION

Residents are taxed on their worldwide income, subject to certain exclusions. Foreign taxes on that income are allowed as a credit against South African tax payable. This is applicable to individuals, companies, close corporations and trusts.

TAXATION OF CAPITAL GAINS

Capital gains on the disposal of assets are included in taxable income.

Maximum effective rate of tax:

Individuals	10%
Companies	14,5%
Trusts	20%

Events that trigger a disposal include a sale, donation, exchange, loss, death and emigration.

The following are some of the specific exclusions:

- R1,5 million gain/loss on the disposal of a primary residence
- most personal use assets
- retirement benefits
- payments in respect of original long-term insurance policies
- annual exclusion of R12 500 capital gain or capital loss is granted to

individuals and special trusts

- instead of the annual exclusion, the exclusion granted to individuals is R60 000 during the year of death.

OTHER TAXES DUTIES AND LEVIES

Transfer Duty

Transfer duty is payable at the following rate on transactions which are not subject to VAT –

- Acquisition of property by natural persons:

Value of property (R)	Rate
0 – 500 000	0%
500 001 – 1 000 000	5% of the value above R500 000
1 000 001 and above	R25 000 + 8% of the value exceeding R1 000 000

- Acquisition of property by persons other than natural persons:
– 8% of the value

Estate Duty

Estate duty is levied at a flat rate of 20% on all property of residents and South African property of non-residents. A basic deduction of R2.5 million is allowed in the determination of an estate's liability for estate duty as well as deductions for liabilities, bequests to public benefit organisations and property accruing to surviving spouses.

Donations Tax

Donations tax is levied at a flat rate of 20% on the value of property donated.

- The first R50 000 of property donated in each year by a natural person is exempt from donations tax.
- In the case of a taxpayer who is not a natural person, the exempt donations are limited to casual gifts not exceeding R10 000 per annum in total.
- Dispositions between spouses, and donations to certain public benefit organisations are exempt from donations tax.

Stamp Duty

Stamp duty is imposed on –

- Lease agreements of fixed property (exemption for agreements where the duty is less than R500)
- Registration of transfer and cancellation of unlisted marketable securities (exemption for interest-bearing securities)

Uncertificated Securities Tax

The tax is imposed at a rate of a $\frac{1}{4}$ of a per cent on a change in beneficial ownership (including cancellation) of listed securities which are not interest-bearing.

Tax on International Air Travel

R120 per passenger departing on international flights excluding flights to SACU countries, in which case the tax is R60.

Skills Development Levy

A skills development levy is payable by employers at a rate of 1% of the total remuneration paid to employees. Employers paying annual remuneration of less than R500 000 are exempt from the payment of Skills Development Levies.

Unemployment Insurance Contributions

Unemployment Insurance Fund contributions are payable monthly by employers on the basis of a contribution of 1 per cent by employers and 1 per cent by employees, based on employees' remuneration below a certain amount. Employers not registered for PAYE or SDL purposes must pay the contributions to the Unemployment Insurance Commissioner.

SARS INTEREST RATES

Rates of interest	Rate
Effective from 1 September 2005	
Fringe benefits - interest-free or low-interest loan	8% p.a.
Effective from 1 November 2004	
Late or underpayments of tax	10,5% p.a.
Refund of overpayments of provisional tax	6,5% p.a.
Refund of tax on successful appeal or where the appeal was conceded by SARS	10,5% p.a.
Refund of VAT after prescribed period	10,5% p.a.
Late payments of VAT	10,5% p.a.
Customs and Excise	10,5% p.a.

What is in the Budget for individuals?

Income tax relief for everyone!



R13,5 billion individual income tax rate relief

This means that an individual younger than 65 years of age earning –

- R40 000 or less pays no income tax
- R60 000 pays tax equal to an average rate of 6 per cent of the earnings and saves R900 tax a year
- R120 000 pays tax equal to an average rate of 13 per cent of the earnings and saves R2 300 tax a year
- R400 000 pays tax equal to an average rate of 27 per cent of the earnings and saves R9 900 tax a year



Increased exemption for interest income and distributions from unit trusts

The annual exemption for individuals younger than 65 years of age is raised from R15 000 to R16 500. The exemption for individuals 65 years of age and older is raised from R22 000 to R24 500.

This means that –

- A 40 year old individual investing R250 000 in a savings account at 6,5 per cent interest per annum is not taxed on the interest income of R16 250.
- A pensioner and the pensioner's spouse (both older than 65) each invests R350 000 (in total R700 000) and earn interest of 7 per cent per annum. They will not pay tax on the combined interest income of R49 000 earned during the tax year.



Increased exclusion for capital gains

- The annual exclusion for individuals is raised from R10 000 to R12 500
- The primary residence exclusion is raised from R1 000 000 to R1 500 000



Claims against motor vehicle allowance for business travel

Updated cost tables will apply from 1 March 2006 which reflect current fixed, fuel and maintenance cost.



Transfer duty payable on the purchase of property is reduced significantly

This means that the purchaser of a property costing –

- R500 000, pays no transfer duty
- R1 000 000, pays transfer duty of R25 000



Cut in retirement fund tax from 18% to 9% to assist individuals to accumulate savings for retirement



Electronic filing of tax returns

To help some individuals who earn only a basic salary or wage to file their tax returns electronically, eFiling will be introduced by June 2006. SARS will select employers who provide employees' tax information electronically and will make eFiling available to qualifying employees of those employers.



Pay-as-you-earn (PAYE) on motor vehicle allowance increased

The portion of a motor vehicle allowance subject to PAYE is increased from 50% to 60%.



Excise tax is increased as follows:

- Malt beer – 5c per 340ml can
- Wine – 13c per 750 ml bottle
- Spirits – R1,54 per 750ml bottle
- Cigarettes – 52c per packet of 20



Road Accident Fund levy increased by 5 cents a litre

What is in the Budget for businesses?

Tax amnesty for small business

Taxes, interest and penalties on previously undisclosed amounts for tax years before 2005 are waived. The amnesty applies to small businesses with an annual turnover of less than R5 million for the 2005 tax year. These businesses will be expected to pay a 10% non-disclosure penalty plus tax due for the 2005 tax year. The first phase of the amnesty runs from 1 August 2006 until 31 May 2007 and applies to the taxi industry. The effective date of the second phase will be announced later this year.

Small business corporations turnover limit increased from R6 million to R14 million, taxable income up to R40 000 exempt and up to R300 000 subject to a reduced 10% rate

Abolish Regional Service Council levies from 1 July 2006

This is more broad-based relief than a reduction in corporate income tax or STC. The benefit to businesses is approximately equal to a 2 per cent cut in the corporate tax rate.

Improve attractiveness of learnership incentive

- Extend learnership tax incentive to 2011

- Increase deductible amounts on registration and completion of learnerships
- Introduce increased deductions for disabled persons

Deduction of 150 per cent of certain research and development expenditure

Eliminate *ad valorem* excise duties on facsimile machines and vending machines

Commence with phasing in of an advance ruling system

eFiling of income tax returns

A pilot programme of eFiling for large company income tax returns will commence in 2006

General anti-avoidance rule

A discussion paper on strengthening the general anti-avoidance rule was released in November 2005. Comments received will be evaluated before legislation is proposed. The due date for comment on the paper has been extended to 28 February 2006.

Introduction of a diamond export levy and investigation of a tax on windfall profits of the synthetic fuel industry