4

Revenue trends and tax proposals

- This year's tax proposals stimulate the economy's growth potential by reducing the tax rate on business and supporting industrial incentives. New initiatives reduce the cost of doing business by cutting red tape, especially for small businesses. Government continues to protect individuals from the effects of inflation by adjusting personal income tax brackets and thresholds.
- The 2008/09 tax proposals complement other demand-side measures to deal with the current electricity supply crisis. These proposals will also underpin efforts to support sustainable development and make a contribution to deal with the global challenge of climate change.
- Gross tax revenue in 2007/08 will amount to R571.1 billion, which is R14.5 billion higher than the figure budgeted a year ago and R5 billion higher than the revised figure indicated in the 2007 *Medium Term Budget Policy Statement*. Tax revenue growth, which has a strong cyclical component, is expected to moderate in line with a slower rate of GDP growth over the medium term.

Overview

South Africa's tax policy framework continues to support economic growth. Proposals in the 2008 Budget minimise the potential distortionary impact that taxes might have on growth and employment creation, and stimulate the supply side of the economy. Tax collections continue to be robust as a result of improved compliance and cyclical factors. As the economic cycle moderates, it becomes increasingly important to carefully monitor tax revenue collections.

Tax policy will support economic growth and job creation by stimulating the supply side of the economy

New measures proposed to support small business, reducing compliance costs

Additional measures are proposed to support very small businesses, reducing compliance costs and encouraging the formalisation of informal businesses. Various supply-side interventions are proposed to support sustainable growth. An electricity levy is proposed to support demand-side measures and the energy-efficiency strategy over the medium term, and to support initiatives to deal with environmental concerns, air pollution and climate change over the longer term.

Support for environmental protection using taxes and incentives

Issues under review for future consideration include more targeted use of taxes and incentives to support environmental protection. The tax implications of private equity transactions and funding options for municipalities will also be investigated.

Main tax proposals

The 2008 Budget proposes R10.5 billion in net tax relief. The proposals include:

- Personal income tax relief for individuals amounting to R7.7 billion
- A reduction in the headline corporate tax rate by one percentage point from 29 to 28 per cent
- The second phase of reforms to the secondary tax on companies (STC), culminating in the introduction of a final withholding dividend tax at shareholder level in 2009
- A simplified tax package for very small businesses with an annual turnover up to R1 million
- An increase in the compulsory VAT registration threshold from an annual turnover of R300 000 to R1 million
- Incentives to encourage venture capital equity investments in small and medium-sized businesses
- R5 billion in tax subsidies over the next three years to support the emerging industrial policy
- A review of learnership allowances to encourage apprenticeships
- Measures to encourage private land owners to protect biodiversity
- The introduction of an electricity levy of 2 cents per kilowatt hour.

Consolidated national revenue estimates

Revised consolidated revenue estimated at R580.4 billion for 2007/08

Table 4.1 sets out consolidated national revenue from 2006/07 to 2010/11, consisting of main budget revenue and the receipts of social security funds. Consolidated national revenue in 2006/07 amounted to R501.6 billion, which is 7.7 per cent higher than the 2006 Budget estimate. The revised figure for 2007/08 is estimated at R580.4 billion, which is 2.6 per cent higher than the 2007 Budget estimate.

Table 4.1 Consolidated national revenue, 2006/07 – 2010/11

	2006/07	2007/08		2008/09	2009/10	2010/11
	Outcome	Budget	Revised	Medium-term estimates		
R million		estimate	estimate			
Main budget revenue						
Tax revenue	495 515	556 562	571 063	642 269	711 481	777 948
Non-tax revenue[1]	10 881	11 093	11 612	12 005	13 550	15 000
Less: SACU payments	-25 195	-23 053	-24 713	-28 921	-32 143	-33 992
Main budget revenue	**481 201**	**544 602**	**557 962**	**625 353**	**692 888**	**758 956**
Percentage of GDP	*26.6%*	*28.1%*	*27.3%*	*27.3%*	*27.6%*	*27.5%*
Social security funds						
Tax revenue	17 843	19 664	19 751	21 631	23 824	26 117
Non-tax revenue[2]	2 604	1 442	2 714	3 053	3 433	3 918
Total social security revenue	**20 447**	**21 107**	**22 465**	**24 683**	**27 257**	**30 035**
Consolidated national revenue[3]	**501 647**	**565 708**	**580 427**	**650 036**	**720 145**	**788 991**

1. *Includes interest, dividends, sales of goods and services, other miscellaneous departmental receipts, transactions in assets and liabilities, and sales of capital assets.*
2. *Includes own revenue, sale of capital assets and grants received.*
3. *Transfers between funds have been netted out.*

National budget revenue – revised estimates

Variations between the original revenue estimates and final outcomes reflect estimation uncertainty, changes in economic trends and improved compliance. Table 4.2 highlights budget estimates and revenue outcomes of the major tax instruments for 2006/07 and projected revenue outcomes for 2007/08. Tables 2 and 3 in Annexure B set out these numbers in greater detail.

Outcome for 2006/07 and revised estimate for 2007/08

Audited results show that main budget revenue for 2006/07 was R481.2 billion, in line with the revised estimate. The outcome of main budget revenue for 2006/07, as shown in Table 4.2, was 7.8 per cent higher than the original estimate in February 2006.

Higher tax collections owing to strong economic performance

Based on the revised macroeconomic projections outlined in Chapter 2 and revenue trends for the first nine months of the fiscal year, the main budget revenue estimate for 2007/08 is revised to R558.0 billion, 2.5 per cent higher than the original budget of R544.6 billion announced in February 2007. The increased revenue estimates result from higher collections from personal income tax, STC and corporate income tax and is partly driven by the effects of higher inflation.

Number of registered individual taxpayers grew by nearly 280 000 in 2007

Taxes on income and profits are expected to be 6.4 per cent higher than the original budget estimate. Personal income tax is expected to reach R168.5 billion, which is R13.2 billion above the original estimate, mainly as a result of rising employment and real salary increases. During 2007 the number of registered individual taxpayers increased by 279 862, to 5.3 million.

Table 4.2 Main budget estimates and revenue outcome, 2006/07 and 2007/08

	2006/07			2007/08			2006/07–
R million	Budget	Outcome	Deviation	Budget	Revised	Deviation	2007/08 % change[1]
Taxes on income and profits	**245 816**	**279 991**	**34 175**	**312 150**	**332 270**	**20 120**	***18.7%***
Persons and individuals	132 475	140 578	8 103	155 335	168 500	13 165	*19.9%*
Companies	95 201	118 999	23 798	138 515	141 400	2 885	*18.8%*
Secondary tax on companies	13 850	15 291	1 441	16 000	20 200	4 200	*32.1%*
Tax on retirement funds	2 400	3 191	791	–	160	160	–
Other[2]	1 890	1 932	42	2 300	2 010	-290	*4.1%*
Taxes on payroll and workforce	**5 600**	**5 597**	**-3**	**6 500**	**6 800**	**300**	***21.5%***
Taxes on property	**8 922**	**10 332**	**1 410**	**10 995**	**12 680**	**1 685**	***22.7%***
Domestic taxes on goods and services	**171 885**	**174 638**	**2 753**	**199 210**	**191 612**	**-7 598**	***9.7%***
Value-added tax	131 200	134 463	3 263	155 068	147 000	-8 068	*9.3%*
Specific excise duties	16 616	16 369	-246	17 792	18 000	208	*10.0%*
Ad valorem excise duties	1 340	1 283	-57	1 415	1 615	200	*25.9%*
General fuel levy	21 800	21 845	45	23 938	24 000	62	*9.9%*
Other[3]	929	679	-250	997	997	–	*46.9%*
Taxes on international trade and transactions	**23 600**	**24 002**	**402**	**27 485**	**27 001**	**-484**	***12.5%***
Customs duties	23 200	23 697	497	27 084	26 600	-484	*12.3%*
Miscellaneous customs and excise receipts	400	305	-95	401	401	–	*31.4%*
Stamp duties and fees	**964**	**616**	**-348**	**222**	**700**	**478**	***13.7%***
State miscellaneous revenue[4]	**–**	**339**	**339**	**–**	**–**	**–**	**–**
Total tax revenue	**456 786**	**495 515**	**38 729**	**556 562**	**571 063**	**14 501**	***15.2%***
Non-tax revenue[5]	9 320	10 881	1 560	11 093	11 612	519	*6.7%*
Less: SACU payments	-19 744	-25 195	-5 451	-23 053	-24 713	-1 660	*-1.9%*
Main budget revenue	**446 362**	**481 201**	**34 839**	**544 602**	**557 962**	**13 361**	***16.0%***

1. *Percentage change 2006/07 outcome versus 2007/08 revised estimate.*
2. *Includes interest on overdue income tax and small business tax amnesty.*
3. *Includes air departure tax, plastic bags levy, mining leases and ownership, and Universal Service Fund.*
4. *Revenue received by SARS in respect of taxation which could not be allocated to a specific tax instrument.*
5. *Includes interest, dividends, sales of goods and services, other miscellaneous departmental receipts, transactions in assets and liabilities, and sales of capital assets.*

Revised estimate for corporate income tax revenue is up 2.1 per cent

The revised estimate for corporate income tax is R141.4 billion, which is 2.1 per cent higher than originally budgeted. Corporate income tax and STC are expected to generate R2.9 billion and R4.2 billion more than budgeted respectively.

VAT receipts are expected to total R147.0 billion, about R8.1 billion below the 2007 Budget estimate. The revised tax revenue estimate from specific excise duties of R18.0 billion is R208 million higher than originally budgeted. General fuel levies should raise R24.0 billion, broadly in line with expectations.

Imports of consumer goods moderate

Customs duty and miscellaneous customs and excise revenues are revised downwards by R484 million, indicating a moderation of consumer imports. South Africa's commitment to its trading partners in the South African Customs Union (SACU) will result in a revised payment of R24.7 billion, in terms of the revenue-sharing formula, which is R1.7 billion higher than the 2007 Budget estimate.

Revenue estimates and 2008 tax proposals

Table 4.3 sets out the estimates of revenue before tax proposals for 2008/09, based on the macroeconomic assumptions set out in Chapter 2 and the existing tax structure. Annexure C provides further details.

Main budget revenue in 2008/09 is estimated to be R635.9 billion before any tax changes are proposed. Personal income tax is projected to increase by 18.0 per cent to R198.7 billion. Corporate income tax and VAT are projected to raise R163.4 billion and R167.5 billion, up 15.5 per cent and 14.0 per cent respectively.

Table 4.3 Estimates of revenue before tax proposals, 2008/09

R million	2007/08 Revised	2008/09 Before tax proposals	2007/08–2008/09 % change
Taxes on income and profits	**332 270**	**384 355**	***15.7%***
Persons and individuals	168 500	198 747	*18.0%*
Companies	141 400	163 371	*15.5%*
Secondary tax on companies	20 200	20 000	*-1.0%*
Tax on retirement funds	160	–	–
Other[1]	2 010	2 237	*11.3%*
Taxes on payroll and workforce	**6 800**	**7 530**	***10.7%***
Taxes on property	**12 680**	**14 212**	***12.1%***
Domestic taxes on goods and services	**191 612**	**214 499**	***11.9%***
Value-added tax	147 000	167 528	*14.0%*
Specific excise duties	18 000	19 050	*5.8%*
Ad valorem excise duties	1 615	1 682	*4.1%*
General fuel levy	24 000	25 184	*4.9%*
Other[2]	997	1 055	*5.8%*
Taxes on international trade and transactions	**27 001**	**31 473**	***16.6%***
Customs duties	26 600	31 073	*16.8%*
Miscellaneous customs and excise receipts	401	400	*-0.2%*
Stamp duties and fees	**700**	**700**	**–**
State miscellaneous revenue	**–**	**–**	–
Total tax revenue	**571 063**	**652 769**	***14.3%***
Non-tax revenue[3]	11 612	12 005	*3.4%*
Less: SACU payments	-24 713	-28 921	*17.0%*
Main budget revenue	**557 962**	**635 853**	***14.0%***

1. *Includes interest on overdue income tax and small business tax amnesty.*
2. *Includes air departure tax, plastic bags levy, mining leases and ownership, and Universal Service Fund.*
3. *Includes interest, dividends, sales of goods and services, other miscellaneous departmental receipts, transactions in assets and liabilities, and sales of capital assets.*

Overview of tax proposals

Table 4.4 provides the anticipated revenue impact of the 2008 tax proposals, the net effect of which is to reduce the estimated total tax revenue by R10.5 billion.

Table 4.4 Summary effects of tax proposals, 2008/09

R million	Effect of tax	
Tax revenue		652 769
Non-tax revenue		12 005
Less: SACU payments		-28 921
Main budget revenue (before tax proposals)		**635 853**
Budget 2008/09 proposals:		**-10 500**
Taxes on individuals and companies	**-15 100**	
Personal income tax	***-7 700***	
Adjust personal income tax rate structure	*-7 200*	
Adjustment in monetary thresholds (medical scheme contributions and savings)	*-500*	
Business taxes	***-7 400***	
Reduction in corporate income tax rate	*-5 000*	
Presumptive tax structure for very small businesses	*-200*	
Industrial policy	*-1 000*	
Adjustment in monetary thresholds (VAT, etc.)	*-500*	
Other tax incentives	*-700*	
Indirect taxes	**4 600**	
Increase in general fuel levy	*1 250*	
Increase in excise duties on tobacco products and alcoholic beverages	*1 350*	
Electricity levy	*2 000*	
Main budget revenue (after tax proposals)		**625 353**

Actual revenue collections and estimates

Tax buoyancy is expected to moderate over the medium term

Table 4.5 sets out the actual revenue collections for 2004/05 to 2006/07, and the estimates for 2007/08 to 2010/11. More detailed information is provided in Tables 2 and 3 of Annexure B. The estimates suggest that, due to a projected slowdown in consumption expenditure, higher levels of fixed investments and VAT input credits, tax revenue buoyancy will moderate over the medium term.

Supply-side measures to boost growth and job creation

South Africa's economy faces a number of constraints to economic growth, including infrastructure capacity and a shortage of skills. These realities suggest a need for supply-side measures that can boost the growth and job creation potential of the economy.

Table 4.5 Main budget revenue, 2004/05 – 2010/11

R million	2004/05	2005/06 Outcome	2006/07	2007/08 Revised	2008/09	2009/10 Medium-term estimates	2010/11
Taxes on income and profits	195 219	230 804	279 991	332 270	369 754	409 555	453 853
Taxes on payroll and workforce	4 443	4 872	5 597	6 800	7 530	8 245	9 045
Taxes on property	9 013	11 138	10 332	12 680	14 212	15 685	17 199
Domestic taxes on goods and services	131 983	151 362	174 638	191 612	218 600	241 665	259 430
Taxes on international trade and transactions	13 286	18 202	24 002	27 001	31 473	36 331	38 421
Stamp duties and fees	1 168	793	616	700	700	–	–
State miscellaneous revenue[1]	-131	164	339	–	–	–	–
Tax revenue	**354 980**	**417 334**	**495 515**	**571 063**	**642 269**	**711 481**	**777 948**
Non-tax revenue[2]	6 202	8 559	10 881	11 612	12 005	13 550	15 000
Less: SACU payments	-13 328	-14 145	-25 195	-24 713	-28 921	-32 143	-33 992
Main budget revenue	**347 854**	**411 748**	**481 201**	**557 962**	**625 353**	**692 888**	**758 956**
Percentage of GDP	*24.4%*	*26.0%*	*26.6%*	*27.3%*	*27.3%*	*27.6%*	*27.5%*
GDP (R billion)	*1 427.4*	*1 584.7*	*1 807.3*	*2 045.5*	*2 286.9*	*2 506.9*	*2 758.6*
Tax/GDP multiplier	*1.61*	*1.59*	*1.33*	*1.16*	*1.06*	*1.12*	*0.93*

1. Revenue received by SARS in respect of taxation which could not be allocated to a specific tax instrument.
2. Includes interest, dividends, sales of goods and services, other miscellaneous departmental receipts, transactions in assets and liabilities, and sales of capital assets.

Headline corporate income tax rate

Reduction in headline corporate income tax rate from 29 to 28 per cent

A broadening of the tax base, reduction in tax rates, strengthening of tax administration and enforcement over the past decade have contributed to a more efficient and equitable tax system. Given the positive results of these reforms there is fiscal space for a further reduction in the headline corporate income tax rate from 29 per cent to 28 per cent. This measure is also intended to reduce the cost of capital, facilitating an increase in private sector investment and stimulating the supply side of the economy. To limit tax avoidance and/or tax arbitrage, given the gap between the corporate tax rate and top marginal personal income tax rate, it is proposed that closely held (passive) companies be subject to a 40 per cent tax rate.

Second phase of STC reforms

Dividend withholding tax to be introduced

In 2007 the Minister of Finance announced a reform of the STC regime. The main purpose of this reform is to switch this tax charge from a company-level tax to a shareholder-level tax, consistent with international practice. Under the new regime, all distributions will be treated as dividends unless it is shown that the distribution represents a return of capital.

It is proposed that the new rate remain at 10 per cent, that no dividend withholding tax be applied to dividends declared to income tax-exempt entities and that all STC credits will expire. A 10 per cent final withholding rate for domestic shareholders would apply, except in cases of income tax-exempt entities, such as retirement funds and public benefit organisations (PBOs). The withholding rate for non-domestic shareholders may be limited by specific tax treaties.

It is also proposed to provide cascading relief (i.e. taxing dividends only when profits reach individuals or non-domestic company shareholders). As an anti-avoidance measure, dividends paid to closely held (passive) companies used to accumulate passive income will be subject to a 10 per cent tax rate.

Developing the built environment

Urban development zones

To rejuvenate decaying inner cities, government introduced the urban development zone tax incentive in 2004. The incentive provides accelerated depreciation for refurbished and new commercial buildings in 15 municipalities, and there is evidence that this measure has made a difference in the pace of development. It is recommended that the incentive be extended for five years, until March 2014. Municipalities will be given an opportunity to apply for extension of the designated zones, and consideration will be given to expanding the number of participating municipalities.

Housing for low-income workers

The provision of adequate and affordable low-income housing (owned or rented) remains a challenge. The obstacles to providing such housing are often of a regulatory nature. While these challenges are being addressed it is proposed that current provisions in the Income Tax Act encouraging employers, developers, PBOs and landlords to increase the supply of houses for low-income households be enhanced and that additional incentives be explored.

The existing monetary threshold limits for low-cost housing allowances, such as the R6 000 deductible limit per dwelling for employer-provided housing, will be revised. The depreciation allowances for the construction of low-cost houses and associated public infrastructure that employers and developers may claim will be reviewed and enhanced. In the case of employer-provided low-cost housing, further relief with respect to fringe benefit taxation in the hands of the employee will be considered.

Learnership allowance for apprenticeships

Amended allowance to support long-term apprenticeships

Learnerships and apprenticeships play an important role in strengthening the skills base of the economy. The learnership tax allowance favours short-term learnerships. It is proposed that the allowance be amended to take into account longer-term apprenticeships, focusing on those of a technical nature, such as electricians, welders, plumbers, mechanics and so on.

Tax incentives to support industrial policy

R5 billion to support emerging industrial policy

Carefully designed tax incentives that encourage higher levels of investment in labour-intensive or strategic sectors will be considered. However, incentives have to be implemented with circumspection. It is important to identify clearly where the market failures are, consider the costs and benefits of such actions, and explore alternatives. It is proposed that R5 billion be set aside for tax incentives to be used over three years in support of sectors identified as key to the emerging industrial strategy. The design of this programme will be finalised in consultation with the Department of Trade and Industry and other interested parties over the next few months.

Support for small and medium-sized businesses

Reforming the tax landscape for small business

Over the past several years government has taken steps to reduce the tax liability and tax compliance burden of small businesses. These measures include:

- The introduction in 2001 of a (lower) graduated income tax rate structure for incorporated small businesses, with regular subsequent adjustments to monetary thresholds
- An enhanced depreciation regime for incorporated small businesses, introduced in 2001 and extended in 2005
- Capital gains relief for small businesses in 2001, increased in 2006
- The option to file VAT returns every four months instead of every two months, introduced in 2005 for very small businesses
- Relief from the skills development levy for businesses with a payroll of less than R500 000 per year from 2005.

A simplified tax regime for very small businesses

Measures proposed to reduce paperwork and compliance costs

The 2008 Budget proposes a simplified tax regime that will reduce paperwork related to income tax and VAT for small sole proprietors, partnerships and incorporated businesses.

Tax compliance costs tend to be regressive for small businesses because of the fixed costs and systems needed to fulfil various requirements. Government proposes that a simplified, turnover-based tax system be implemented for businesses with a turnover up to R1 million per year. In addition, it is proposed to increase the compulsory VAT registration threshold to R1 million per year.

An elective, turnover-based presumptive tax is proposed

This turnover-based presumptive tax system will be elective. After joining the system, qualifying businesses will be required to remain in this system for a minimum of three years (provided they remain within the monetary threshold). However, once a business has elected to migrate out of the system, it will not be able to migrate back for a period of five years. To protect the personal income tax base, personal services rendered under employment-like conditions and professional services will be excluded from this tax system.

Encouraging the practice of regular recordkeeping by small businesses

The turnover-based system is intended to reduce the tax compliance costs for very small businesses, and not necessarily their tax liability. This measure also supports the practice of regular recordkeeping in small businesses, which in time will migrate to the normal income tax system. Table 4.6 is a summary of the proposed simplified (presumptive) tax regime for small businesses. The rates and technical aspects will be refined after consultation.

Table 4.6 Proposed presumptive tax for very small businesses

Turnover	Tax liability
0 – R100 000	0%
R100 001 – R300 000	2% of each R1 above R100 000
R300 001 – R500 000	R4 000 + 4% of the amount above R300 000
R500 001 – R750 000	R12 000 + 5.5% of the amount above R500 000
R750 001 – R1 000 000	R25 750 + 7.5% of the amount above R750 000

Venture capital tax incentive

Access to venture capital by small and medium-sized businesses

Access to equity finance by small and medium-sized businesses has been cited as one of the main challenges to the growth of this important sector of the economy. The private-equity industry in South

Africa is well developed but the industry's appetite for start-up, early stage and seed-capital type transactions is low.

Promoting high-growth, high-tech start-ups

To meet the challenge of access to venture capital for small and medium-sized enterprises, government proposes tax incentives for investors in qualifying small enterprises and start-ups. In general, the targeted enterprises are high growth and high-tech companies with an annual turnover of up to R14 million or gross assets of up to R7 million. For junior mining and exploration companies, a different threshold – gross assets of R30 million to R50 million – will be considered. The proposed tax incentives will target individual investors, corporate investors and venture capital funds.

Incentives for equity investments in junior mining exploration companies

It is proposed that general venture capital investments (non-mining) qualify for a 30 per cent up-front deduction, with annual deductions to be capped at R500 000 for individuals, R750 000 for corporations and R7.5 million for venture capital funds. Junior mining exploration investments would qualify for a 50 per cent upfront deduction, with annual deductions capped at R1 million for individuals and R10 million for corporations and venture capital funds. This incentive mechanism is also proposed in the place of the flow-through share incentive mechanism for junior mining exploration companies mentioned in the 2007 *Budget Review*.

Relief for individuals

Personal income tax relief

R7.2 billion in tax relief to compensate for wage inflation

Over the past six years substantial tax relief has been provided to individuals. This was achieved by raising the monetary values of the income tax brackets and adjusting the primary and secondary rebates. The 2008 Budget proposes direct tax relief to individual taxpayers amounting to R7.2 billion. This will compensate taxpayers for the impact of wage inflation, also known as "bracket creep". Table 4.7 provides a summary of the 2008/09 income tax brackets and rates for individuals.

Taxpayers with an annual taxable income of up to R150 000 will receive 33.2 per cent of this relief, those with an annual taxable income between R150 001 and R250 000 receive 27.6 per cent, those between R250 001 and R500 000 receive 25.6 per cent and those with taxable income more than R500 000 per year receive 13.6 per cent of the proposed personal income tax relief.

Medical scheme contributions

Monthly medical caps are increased by more than 7 per cent

It is proposed that the monthly monetary caps for tax-free medical scheme contributions be increased with effect from 1 March 2008 from R530 to R570 (by 7.6 per cent) for each of the first two beneficiaries and from R320 to R345 (7.8 per cent) for each additional beneficiary. Measures to ensure more consistent reporting of contributions by employers will be considered.

Table 4.7 Personal income tax rate and bracket adjustments, 2007/08 and 2008/09

	2007/08		2008/09
Taxable income	**Rates of tax**	**Taxable income**	**Rates of tax**
R0 – R112 500	18% of each R1	R0 – R122 000	18% of each R1
R112 501 – R180 000	R20 250 + 25% of the amount above R112 500	R122 001 – R195 000	R21 960 + 25% of the amount above R122 000
R180 001 – R250 000	R37 125 + 30% of the amount above R180 000	R195 001 – R270 000	R40 210 + 30% of the amount above R195 000
R250 001 – R350 000	R58 125 + 35% of the amount above R250 000	R270 001 – R380 000	R62 710 + 35% of the amount above R270 000
R350 001 – R450 000	R93 125 + 38% of the amount above R350 000	R380 001 – R490 000	R101 210 + 38% of the amount above R380 000
R450 001 and above	R131 125 + 40% of the amount above R450 000	R490 001 and above	R143 010 + 40% of the amount above R490 000
Rebates		**Rebates**	
Primary	R7 740	Primary	R8 280
Secondary	R4 680	Secondary	R5 040
Tax threshold		**Tax threshold**	
Below age 65	R43 000	Below age 65	R46 000
Age 65 and over	R69 000	Age 65 and over	R74 000

Definition of disability

Income tax provisions related to defining disability are outdated

Disabled persons tend to incur additional medical and related expenses, and a full deduction for all medical expenses and other specified expenses is allowed for income tax purposes. However, the provisions contained in the Income Tax Act (1962) defining disabled persons are outdated. The definitions will be reviewed. Consideration will also be given to limiting the types of expenses that may be deducted where they do not reasonably relate to a disability.

Standard income tax on employees (SITE)

The "broken period" principle that forms part of the SITE system assumes that a SITE taxpayer will work for a full tax year. This can result in a taxpayer paying income tax, even though he or she may earn below the tax threshold for a given tax year. It is proposed that SITE payments should become refundable in such instances.

Bursaries for relatives of employees

Support for employer-sponsored education for low- and middle-income workers

As a rule, if an employer grants a bursary to the relative of an employee, that grant results in a taxable fringe benefit. However, for employees earning up to R60 000 per year, this fringe benefit, up to R3 000 per year, is tax-free. To facilitate employer-sponsored education and training of the dependants of low-and middle-income workers, it is proposed that this tax-free fringe benefit be increased to R10 000 per year for employees earning up to R100 000 per year.

Travelling allowances

The deemed cost tables for travelling allowances will be updated for inflation, including higher interest rates and fuel prices.

Savings

Tax-free interest, dividend income and capital gains

Higher thresholds encourage greater savings

To promote greater national savings, and in line with prior adjustments, government proposes to increase the interest and dividend income tax-free threshold for individuals under 65 years from R18 000 to R19 000, and for individuals 65 years and over from R26 000 to R27 500 per year. It is similarly proposed to increase the threshold for the tax-free income of foreign dividends and interest from R3 000 to R3 200 per year. In addition, it is proposed to increase the annual exclusion threshold for capital gains or losses from R15 000 to R16 000.

Retirement savings

Taxation of early retirement fund withdrawals to be simplified

Major reforms to social security and retirement savings are being studied (see Chapter 6). A number of interim reforms related to retirement savings will help facilitate this process. The taxation of lump sum payments on retirement was simplified during 2007. It is now proposed to also simplify the taxation of other withdrawals from retirement funds. It is also proposed that divorce settlement payments made by retirement funds will be taxable in the hands of the non-member spouse. In addition, consideration will be given to consolidating the various tax-relief related monetary thresholds and percentage contributions, by both employees and employers, towards the various retirement saving vehicles. An overall monetary cap to limit the tax benefits of such contributions will also be considered.

An electricity levy to support energy efficiency

Proposal for a 2 c/kWh tax on electricity

Recent electricity shortages suggest a need for interventions to support demand-side management while encouraging long-term protection of the environment. Government proposes to impose a 2 c/kWh tax on the sale of electricity generated from non-renewable sources, to be collected at source by the producers/generators of electricity. This measure will serve a dual purpose of helping to manage the current electricity supply shortages and protecting the environment. This measure is expected to raise about R4 billion per year.

Coal-based electricity generation accounts for a significant share of carbon dioxide emissions, contributing to global warming. The introduction of this tax will be complemented by incentives that encourage firms to behave in a more environmentally responsible manner. Tax incentives to encourage the uptake and development of renewable energy, such as accelerated depreciation allowances, are already in place and could be further enhanced.

Biodiversity conservation and management

Landowners to receive a deduction for preserving biodiversity on their land

The 2008 Budget proposes measures to encourage conservation of South Africa's rich biodiversity. Tax reforms to encourage biodiversity conservation by private landowners will be considered.

Landowners will receive an income tax deduction for preserving habitats and biodiversity on their land. The deduction will cover expenses incurred in developing and implementing an approved conservation management plan under either the National Biodiversity Act (2004) or the Protected Areas Act (2003). The deductions contemplated would be limited to income derived from the land.

The existing PBO framework will be reviewed for impediments to tax deductions for property donated to a PBO or parastatal conservation agency where that property is declared a nature reserve or national park under the Protected Areas Act (2003). A similar review will be conducted for estate duty, transfer duty, or donations tax exemptions for properties bequeathed, sold or donated to a PBO for declaration as a protected area under that act.

Value-added tax

Compulsory registration threshold

Threshold for compulsory VAT registration increased to assist small businesses

The introduction of the simplified tax package for very small businesses with an annual turnover below R1 million will provide scope to increase the compulsory VAT registration threshold. It is proposed that this threshold be increased from an annual turnover of R300 000 to R1 million.

It is also proposed to increase, from R1.2 million to R1.5 million, the thresholds applicable to farmers who submit VAT returns every six months and businesses that submit VAT returns every four months.

Customs and excise duties

Alcoholic beverages

Excise duties are increased in accordance with policy framework

Excise duties on alcoholic beverages will be increased in accordance with the policy decision to target a total tax burden (excise duties plus VAT) of 23, 33 and 43 per cent on wine, malt beer and spirits respectively. No increase in the excise duty on traditional beer is proposed. The proposed increases for the various alcoholic beverages vary between 7 and 11 per cent as indicated in Table 4.8.

Tobacco products

Excise duties on tobacco products will be increased in accordance with the policy decision to target a total excise burden (excise duties plus VAT) of 52 per cent for all categories of tobacco products. The proposed increases for the various tobacco products vary between 5.2 and 11.0 per cent.

Table 4.8 Changes in specific excise duties, 2008/09

Product	Current excise duty rate	Proposed excise duty rate	Percentage change Nominal	Real
Malt beer	R39.61 /l of absolute alcohol (67c / average 340ml can)	R42.38 /l of absolute alcohol (72c / average 340ml can)	*7.0%*	*0.8%*
Traditional beer	7.82 c/l	7.82 c/l	*0.0%*	*-6.2%*
Traditional beer powder	34.70 c/kg	34.70 c/kg	*0.0%*	*-6.2%*
Unfortified wine	R1.72 /l	R1.84 /l	*7.3%*	*1.1%*
Fortified wine	R3.17 /l	R3.40 /l	*7.4%*	*1.2%*
Sparkling wine	R5.12 /l	R5.63 /l	*9.9%*	*3.7%*
Ciders and alcoholic fruit beverages	R1.98 /l (67c / average 340ml can)	R2.12 /l (72c / average 340ml can)	*7.0%*	*0.8%*
Spirits	R61.01 /l of absolute alcohol (R19.67 /750ml bottle)	R67.72 /l of absolute alcohol (R21.84 /750ml bottle)	*11.0%*	*4.8%*
Cigarettes	R6.16 /20 cigarettes	R6.82 /20 cigarettes	*10.8%*	*4.6%*
Cigarette tobacco	R8.24 /50g	R8.67 /50g	*5.2%*	*-1.0%*
Pipe tobacco	R2.18 /25g	R2.30 /25g	*5.3%*	*-0.9%*
Cigars	R37.73 /23g	R39.72 /23g	*5.3%*	*-0.9%*

Ad valorem excise duties

The list of products subject to *ad valorem* excise duties will be further reviewed. A small list of products, mostly outdated technologies, will be eliminated from the list. See Annexure C.

Duty-free shops on arrival

Inbound duty-free shops will be investigated

In addition to duty-free shops at departure, many major international airports also operate such shops on arrival. The feasibility of duty-free shops on arrival at South Africa's major international airports will be investigated.

Fuel levies

General fuel levy

General levy on fuel increases below the expected rate of inflation

Government has over the past few years limited increases in the general fuel levy to the expected annual inflation rate. It is proposed that the general fuel levy on petrol and diesel be increased by 6 c/l to 127 c/l and 111 c/l respectively with effect from 2 April 2008. This constitutes an increase of 5 per cent for petrol and 5.7 per cent for diesel respectively. Both these increases are below the expected inflation rate.

The diesel fuel tax refund and biodiesel fuel tax rebate schemes are expressed in percentage terms and will adjust automatically to maintain the relative benefits for qualifying beneficiaries.

Cabinet endorsed the revised biofuels industrial strategy in November 2007. It approved an increase in the biodiesel fuel tax concession from 40 per cent to 50 per cent, and for bioethanol to remain outside the fuel tax net, but to remain subject to VAT at the standard rate.

Table 4.9 Total combined fuel levy on leaded petrol and diesel, 2006/07 – 2008/09

	2006/07		2007/08		2008/09	
c / litre	93 Octane petrol	Diesel	93 Octane petrol	Diesel	93 Octane petrol	Diesel
General fuel levy	116.00	100.00	121.00	105.00	127.00	111.00
Road Accident Fund levy	36.50	36.50	41.50	41.50	46.50	46.50
Customs and excise levy	4.00	4.00	4.00	4.00	4.00	4.00
Equalisation fund levy	–	–	–	–	–	–
Illuminating paraffin marker	–	0.01	–	0.01	–	0.01
Total	**156.50**	**140.51**	**166.50**	**150.51**	**177.50**	**161.51**
Pump price: Gauteng (as in February)[1]	550.00	517.80	561.00	542.10	750.00	732.30
Taxes as % of pump price	*28.5%*	*27.1%*	*29.7%*	*27.8%*	*23.7%*	*22.1%*

1. *Diesel (0.05% sulphur) wholesale price (retail price not regulated).*

Road Accident Fund levy

It is proposed to increase the Road Accident Fund (RAF) levy on petrol and diesel by 5 c/l from 41.5 c/l to 46.5 c/l. This adjustment will further seek to stabilise the financial position of the RAF. These increases will come into effect on 2 April 2008.

Public benefit organisations

Restrictions on PBOs

PBO restrictions eased

PBOs are required to conduct 85 per cent or more of their activities in South Africa. It is proposed that this restriction on PBOs be dropped.

Deductions for donations to PBOs

Employers to be allowed to deduct certain employee donations to PBOs

Currently deductions of donations under section 18A of the Income Tax Act (1962) are allowed to taxpayers only on assessment. To expand the potential pool of donors, accelerate the tax benefit to employees and reduce the number of refunds on assessment, it is proposed that employers be allowed to deduct donations by employees to section 18A organisations in determining employees' tax payments.

Donations to multilateral humanitarian organisations

Deductions for foreign-registered PBOs to be considered on a case-by-case basis

Multilateral humanitarian organisations offering developmental assistance in South Africa are exempt from income tax here. However, donations made to such organisations for activities that otherwise might qualify in terms of section 18A of the Income Tax Act are not deductible for income-tax purposes. The act requires that an organisation be registered in South Africa in order for donors to be able to deduct donations to such entities. Where it might be impractical for such organisations to register here, a legislative exception will be considered.

Extending tax-exempt status to PBOs providing student loans

To support the activities of PBOs that provide bursaries and loans to needy students, it is proposed that the provision of student loans by PBOs should be included in the list of public benefit activities.

Cap for PBO-provided housing

The Income Tax Act makes provision for the tax exemption of PBOs that provide housing for the benefit of the poor. In order for a PBO to qualify for this concession, the legislation prescribes that the intended beneficiaries must have a maximum monthly household income of R3 500. It is proposed that this be increased to R7 000 per month.

Financing options for provincial and local government

Sharing of fuel levy between national, provincial and local government under consideration

Government is studying alternatives to replace the Regional Services Council and Joint Services Board levies, which were abolished from July 2006, and considering sustainable funding models for municipalities. One option under consideration is the sharing of revenue from the general fuel levy. A percentage of revenue from the general fuel levy will from 2009/10 accrue to category A and B municipalities. The share of each municipality will be based on fuel sales per municipality. In addition, as a possible alternative to the proposed provincial fuel levy, provinces will receive a share of the general fuel levy revenue based on the fuel sales per province. These revenues will be expressed in terms of cents per litre to ensure greater transparency and provide certainty. The national fiscus will receive the balance, about 20 per cent of the total revenue.

Tax reform measures under review

Tonnage tax

A discussion document on the proposed sea freight tonnage tax will be released at the end of February 2008.

Private equity transactions

Discussion document to be prepared on impact of private-equity deals on tax system

Private equity transactions can contribute to economic growth in various ways, for example by catapulting medium-sized businesses onto a larger stage or optimising the potential of larger businesses. However, some private equity deals, particularly highly leveraged buyouts, have the potential to undermine corporate governance and/or the tax system. The deductibility of interest payments in highly geared transactions and the tax treatment of management-carried interest (reward for fund managers in the form of shares/equity) will be investigated. Given the complexities involved, a discussion document will be developed to raise options and elicit public comment.

Protecting the tax base

With the continuing relaxation of exchange controls, complementary measures to protect the tax base from artificial outflows will be taken into account.

Supporting sustainable development

Use of market-based instruments to support sustainable development

The National Treasury published a draft policy paper entitled *A Framework for Considering Market-based Instruments to Support Environmental Fiscal Reform in South Africa* for public comment in April 2006. The draft paper was well received. It focuses on how taxes, charges and incentives can support regulatory measures to promote environmental protection and biodiversity conservation.

Emission charges and taxes

Over the past two years climate change has dominated the international environmental policy arena. The *Stern Review Report on the Economics of Climate Change* and reports by the United Nations-appointed International Panel on Climate Change highlight the importance of these matters. The reports recognise that climate change requires urgent action and identify a range of policy instruments that could be applied, including taxes and tradable permits, to address climate change. The National Treasury and the Department of Environmental Affairs and Tourism will explore the introduction of additional emission taxes and charges in 2009. The draft policy paper will serve as a guideline for evaluating such interventions.

Tax incentives for cleaner production technologies

There may be a case to provide incentives to businesses to encourage them to make use of cleaner production techniques. It may be possible to implement targeted tax incentives to encourage the uptake and/or development of "cleaner" competitive technologies.

Vehicle taxes

Review of vehicle taxes to address environmental concerns in transport sector

Reforms to the existing vehicle tax regime could be used to create incentives for the introduction of vehicles with reduced emissions and increased fuel efficiency. At the national level, reforms to existing vehicle ad valorem excise duties could play an important role, with environmental criteria incorporated into their design. One possibility is the inclusion of engine size as a proxy for the level of emissions and/or fuel consumption.

Measures to enhance tax and customs administration

Ten years of the South African Revenue Service

Since its establishment by the South African Revenue Service Act (1997), SARS has changed and grown in response to national needs. Robust revenue collection and improved administration has seen SARS collect in excess of R3 trillion over its first decade. This allowed government to fund its economic and social programmes while at the same time offering income tax relief to individuals and companies to the value of R96 billion over the same period. Further improvements in SARS operations will be driven through the implementation of its modernisation agenda.

Modernisation of tax administration

A record 3 million taxpayers met the deadline for manual submission of returns in 2007

As foreshadowed in the 2007 *Budget Review*, major changes were introduced in the income tax return process for 2007. Individual income tax returns were rationalised and simplified, the electronic filing facility expanded to handle all income tax returns, and risk management improved through statistical analysis and reliance on third-party data. As a result, a record 3 million taxpayers met the deadline for the manual submission of income tax returns. By the end of January 2008, more than 650 000 income tax returns had been submitted electronically – an increase of more than 1 500 per cent over 2006.

Further simplification of income tax return filing for individuals

SARS intends to build on this achievement by moving towards further simplification of classes of individual income tax returns in the medium term. As part of this process, the basis for charging and paying interest on assessed income tax will be reviewed.

International and domestic experience has shown that employers are the leading providers of the third-party information required to simplify income tax returns for their employees. Accordingly, steps will be taken to rationalise employees' tax returns submitted by employers while improving the returns' quality and timeliness.

Modernisation of customs administration

Strengthening and streamlining border protection

Increased trade requires a visible and effective enforcement capability. The Customs Border Control Unit was established in 2006 to provide an enforcement function. Many of its personnel are undergoing paramilitary and customs functional training for a pilot deployment at OR Tambo International Airport. Amendments to the Customs and Excise Act (1964) will be considered to further support customs enforcement at the border, while pilot projects will be created for the real-time electronic exchange of information with major trading partners. The first new-generation container scanner is undergoing testing in Durban and is scheduled to be brought into service shortly.

South Africa is a signatory to the Revised Kyoto Convention on the Simplification and Harmonisation of Customs Procedures, and further amendments to the Customs and Excise Act (1964) may be required to ensure the successful implementation of the General Annex to the Convention by the target date of 3 February 2009.