TAX PROPOSALS AT A GLANCE

BUDGET 2012

Dear Taxpayer

Yesterday was another moment that you should be proud of – proud, because your contribution as a taxpayer is helping build a better future for our country.

When the Minister of Finance delivered his Budget Speech in Parliament, he was outlining government's spending plans to make this future a reality. He could announce these plans based on the knowledge that more and more South Africans are meeting their tax obligations.

Whether your contribution is income tax through a PAYE deduction, VAT when you make a purchase or the fuel levy when you travel, every rand in tax counts and helps to build our future.

Because of your commitment, government has been able to allocate billions of rands to infrastructure development to create the conditions for further economic growth and job creation. And we can spend billions on providing essential services to our people … all without the need for excessive borrowing which is currently crippling other countries.

While you are playing your part, we will continue to play our part as well. SARS will continuously strive to make your interaction with us as seamless, efficient, simple and convenient as possible. And we will treat you with fairness, dignity and respect, which as the shareholders in our country you richly deserve.

As we make it easier for all honest taxpayers to do the right thing, we will also make sure that everyone pays their fair share. Around the world ordinary taxpayers are rightfully demanding that everyone – including the wealthy – make a fair contribution.

The tax proposals contained in yesterday's Budget and highlighted in this pamphlet are aimed at ensuring greater fairness in our tax system so that income, however it is derived, is appropriately taxed.

On behalf of SARS I would like to thank you for your support for South Africa and your willingness to make your tax contributions honestly and on time.

Warm regards

Oupa

Oupa Magashula
Commissioner: South African Revenue Service

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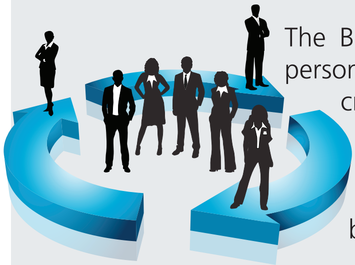
At Your Service

www.sars.gov.za

Relief for Individuals

Personal Income Tax



The Budget provides for personal income tax relief of R9,5 billion for individual taxpayers. While personal income tax brackets and rebates have been adjusted to take account of inflation and "bracket creep", some real relief is also provided for taxpayers. The tax relief has been structured to benefit lower income earners the most. Therefore, 54 per cent of the relief will go to taxpayers who earn R260 000 or less in a year, and 31.8 per cent will go the taxpayers who earn between R260 000 and R600 000 a year. 7.7 per cent of the tax relief will go to individuals who earn between R600 001 and R1 million and 6.5% will go to those earning over R1 million.

The amount an individual can earn before they are required to pay tax has been raised for the tax year that runs from 1 March 2012 to 28 February 2013 as follows:

Tax year 1 March 2011 to 29 February 2012		Tax year 1 March 2012 to 28 February 2013	
Below age 65	R59 750	Below age 65	R63 556
Age 65 and over	R93 150	Age 65 and over	R99 056
Age 75 and over	R104 261	Age 75 and over	R110 889

The rebate (the reduction in the tax you have to pay) for individual taxpayers has also gone up as follows:

Tax year 1 March 2011 to 29 February 2012		Tax year 1 March 2012 to 28 February 2013	
Primary (for all taxpayers)	R10 755	Primary (for all taxpayers)	R11 440
Secondary (age 65 and over)	R6 012	Secondary (age 65 and over)	R6 390
Tertiary (age 75 and over)	R2 000	Tertiary (age 75 and over)	R2 130

Here are some examples of what the new tax rates will mean for your pocket.

Example 1

If you are a taxpayer under the age of 65 earning R65 000 your tax will drop from R945 in 2011/12 to just R260 in 2012/13. You will be paying R685 less in tax in 2012/13. This is 72.5 per cent less than in 2011/12.

Example 2

If you are a taxpayer under the age of 65 earning R200 000 a year you can expect to pay R1 385 less tax in 2012/13. This is 4.8 per cent less than in 2011/12.

Example 3

If you are a taxpayer aged 65 or over earning R120 000 a year you will pay R1 063 less tax in 2012/13. This is 22 per cent less than in 2011/12.

Helping you to save

To encourage people to save more the government is planning to make certain savings and investment plans tax free.

This means that savers using these plans will not pay tax on interest, capital gains, dividends and withdrawals.

The plans will be designed to make it easier for lower income earners to participate. Government wants to introduce these plans on 1 April 2014.

It will publish a discussion document in mid 2012 so that people can have their say.

Medical deductions to be converted to tax credits for persons below 65 years of age

As announced in the 2011 Budget, income tax deductions for medical scheme contributions for taxpayers below 65 years will be converted into tax credits as from 1 March 2012.

Where a person with a disability is not involved, medical scheme contributions in excess of four times the total credits and out-of-pocket medical expenses combined in excess of 7.5% of taxable income, can be claimed as a deduction from taxable income.

For a person with a disability or with a dependant with a disability, medical scheme contributions in excess of four times the total credits and out-of-pocket medical expenses can be claimed as a deduction from taxable income.

As from 1 March 2014, these additional medical deductions claimed by taxpayers aged below 65 years will also be converted to medical tax credits at a rate of 25 per cent (33.3 per cent for persons with disabilities or dependants with disabilities).

See back page for impact of medical tax credits.

Carbon emissions tax

A tax on carbon emissions aims to encourage changes in behaviour and the switch to more "green" options. A concept designed published in the Budget Review indicates that consideration will be given to a higher tax free threshold for certain industries. A policy paper will be published this year for public comment.

Increases in Capital Gains Tax

When an asset that is not for personal use is disposed of (i.e. it is sold) at a profit the person disposing of the asset has to pay Capital Gains Tax (CGT) on the profit made. The maximum effective rate at which the tax is charged has gone up from 10 per cent to 13.3 per cent for individuals and special trusts. The rate for companies has gone up from 14 to 18.6 per cent and for other trusts from 20 to 26.7 per cent. These changes will come into effect from 1 March 2012.

To limit the effect of the higher rates on middle income earners the amounts at which CGT are payable by individuals have been adjusted.

Changes regarding capital gains as from 1 March 2012 are:

- The annual exclusion amount at which no tax on capital gains is payable goes up from R20 000 to R30 000
- Upon the death of a person, the exclusion amount at which no tax on capital gains is payable goes up from R200 000 to R300 000
- Upon the sale of a person's main home, the amount of gain at which no tax on capital gains is payable goes up from R1.5 million to R2 million.
- When a person over the age of 55 disposes of a small business, the amount at which no tax on capital gains is payable goes up to R1.8 million, instead of R900 000 as at present. Also, the maximum market value of assets allowed for a small business disposal has increased from R5 million to R10 million.

Dividends Tax to be implemented

A tax on the dividends received from South African companies and foreign company shares listed on the JSE will come into effect on 1 April 2012.The tax will be levied at a rate of 15 per cent. It replaces the Secondary Tax on Companies.

The Dividends Tax is a withholding tax. That means the company declaring the dividend or specified withholding agent will withhold an amount equal to 15 per cent of the total dividend on behalf of the shareholder and pay this over to SARS.

Certain entities, such as government, pension funds and South African companies, amongst others, do not pay Dividends Tax.

Cutting red tape for small businesses

Micro businesses (i.e. businesses with a turnover of less than R1 million) will have the option to make payments for Turnover Tax, VAT and Employees' Tax (PAYE) only twice a year from 1 March 2012.

Red tape will be reduced even further in 2013 when these businesses will be able to file only one single, combined return for all these taxes twice a year. This means that in 2013 these businesses will have to file only two returns, instead of about 18!

To further encourage small business, the Budget provides for a number of tax breaks that will come into effect for the tax year ending on or after 1 April 2012.

Firstly, the amount at which tax becomes payable for small business corporations (turnover up to R14 million) is raised from R59 750 to R63 556.

Secondly, the rate at which tax is levied has been lowered from 10 per cent to 7 per cent and thirdly, the amount to which the lower tax rate applies has been raised from R300 000 to R350 000.

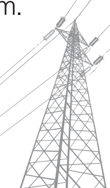
Note that for taxable income above R350 000, the normal corporate tax rate of 28 per cent applies.

Increases in levies

The general fuel levy and the Road Accident Fund levy will increase by 20c/l and 8c/l respectively as from 4 April 2012.

The electricity levy will be increased by 1c/kWh to 3.5c/kWh. The extra money raised will be used to fund energy-efficient initiatives that reduce the use of electricity, such as solar water heaters. The government will also be able to use this money to fund energy-efficiency measures provided by agencies other than Eskom.

The net impact on electricity tariffs should be neutral.



Adjustments to Excise Duties

Excise duties on tobacco and alcohol to rise

The excise duties on alcohol (beer, wine and spirits) will rise between 6 and 20 per cent. There is no change to the excise duty on traditional African beer and beer powder. They remain at 7.82c/litre and 34.70c/kg respectively.

Malt beer – increases by 9c to R1,01 per 340ml can

Fortified wine – increases by by 17,5c per 750ml bottle

Unfortified wine – increases by 13,5c per 750ml bottle

Sparkling wine – increases by 42c per 750ml bottle

Spirits – increases by R6 to R36 per 750ml bottle

Ciders and alcoholic fruit beverages – increases by 8.6c to 98c per 330ml bottle

Cigarettes – increases by 58c to R10,32 per packet of 20

Pipe tobacco goes up by 24c to R3.22 per 25g

Explanation of the Medical Tax Credits

Introduction

As was announced last year by Finance Minister Pravin Gordhan in his 2011 Budget speech, a system of medical **tax credits** will be introduced from 1 March 2012.

The tax credit will apply to you if you are below 65 years of age and you are making a contribution to a registered medical scheme. This will also apply if you are a person with a disability or you have a dependant with a disability.

The medical **tax credit** is a fixed amount that will be offset against tax payable. It will replace the **tax deduction** that was granted for medical scheme contributions.

What is the difference between a tax credit and a tax deduction?

- A **tax deduction** will generally lower the taxable income on which you pay tax. For example, the amount you contribute to your medical scheme is deducted from your taxable income so that you pay tax on a smaller amount.
- A **tax credit** will generally lower the tax you must pay. Once your tax is calculated the tax credit is then offset against this tax payable to reduce the amount of tax you pay.

Why the change?

The system of tax credits seeks to bring about greater fairness. All taxpayers, no matter what their income, will derive an equal tax benefit for their medical scheme contributions because the tax credit is a fixed amount. The current system of deductions for medical scheme contributions had the effect that the higher your income the higher the value of your deductions.

How will the new system work?

For the tax year starting 1 March 2012 if you are younger than 65 years of age a tax credit for medical sheme contributions will be granted to you per month as follows:

- **R230** for the taxpayer
- **R230** for the first dependant
- **R154** for each additional dependant.

How will this affect you?

The effect of the medical tax credit will depend on your individual circumstances. But generally low income earners will experience an increase in net pay, while high income earners will experience a decrease in net pay to bring about equality in the tax system for medical scheme contributions. Here are some examples to show how the new system will work. How these amounts will be influenced by the new tax rates announced by the Minister in his Budget Speech is also shown below.

Example 1

Taxpayer A earns a monthly salary of R16 040. He makes a monthly contribution of R1 203 to a pension fund and R2 263 to a medical scheme for himself and three dependants.

Tax deduction system
Under the current system – after deductions for his pension contribution and his medical scheme contribution – his take home pay is **R11 202**.

Tax credit system
Implementing the proposed tax credit system using the current tax rates (2011/12), Taxpayer A would take home **R11 404** This is R202 more than he would get under the tax deduction system.

But due to the tax relief announced by the Minister of Finance in his Budget Speech yesterday, and the new tax rates, Taxpayer A will take R11 519 home from March 2012 – an additional R317 compared to the current system.

Example 2

Taxpayer B earns a monthly salary of R48 750. She makes a monthly contribution of R3 656 to a pension fund and R5 506 to a medical scheme for herself and three dependants.

Tax deduction system
Under the current system – after deductions for her pension contribution and her medical scheme contributions – her take home pay is **R28 576**.

Tax credit system
Implementing the proposed tax credit system using the current tax rates (2011/12), Taxpayer B would take home **R28 462**. This is R114 less than she would get under the tax deduction system.

But due to the tax relief announced by the Minister of Finance in his Budget Speech yesterday, and the new tax rates, Taxpayer B will take R28 800 home from March 2012 – an additional R224 compared to the current system.

Can you still claim for out of pocket medical expenses if a person with a disability is not involved?

Yes, you can still claim medical expenses not covered by your medical scheme, as well as medical scheme contributions paid by you in excess of four times the medical tax credit.

However, only the amount in excess of 7.5% of taxable income (before this deduction) will be allowed.

How do the changes affect taxpayers over 65 years?

You will not be affected by the changes that come into operation on 1 March 2012.

The Minister has indicated that as from 1 March 2014 taxpayers 65 years and older will be able to convert all medical scheme contributions in excess of three times the total tax credits plus out of pocket medical expenses into a tax credit of 33.3%.

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