C

Miscellaneous tax amendments

Tax expenditure statement: February 2013

Introduction

This is the third instalment of the summarised tax expenditure estimates. In brief, tax expenditures are provisions in tax legislation that reduce the amount of tax revenue that could otherwise have been realised. Tax expenditures can be defined as deviations from the benchmark of a standard tax legislative framework.

Table C.2 details the 2013 tax expenditure statement. Tax expenditure estimates reported in the previous statements might have changed due to availability of more reliable data, updated estimating assumptions and other corrections.

Major changes for tax expenditure

Tax expenditure on exempt interest income was estimated in the previous tax expenditure report. Figures have been revised as accuracy improves due to increased use of e-filing and assessed data (as opposed to information on taxpayer returns). The calculation is based on whether taxpayers are under or over 65 years and whether their interest income has breached the applicable threshold or not. For taxpayers with interest income over the exemption cap, the calculation applied is the number of taxpayers multiplied by the exemption cap and the marginal tax rate for each income group. For those taxpayers with interest income below the exemption cap, the amounts allowed are multiplied by the appropriate marginal tax rates.

For tax expenditures associated with the small business corporation (SBC) tax regime, data for the 2012 calculation was obtained from a list of all companies with a turnover of up to R14 million per year based on the last year assessed. The estimate was based on the difference between the income tax a company would have paid at the corporate tax rate and what the same business would have paid at the SBC tax rate. This has been rectified by obtaining the actual tax cost of the SBC regime. In addition, the latest report includes estimates of tax expenditure stemming from the accelerated depreciation allowance for small businesses.

Previously reported figures for urban development zones include tax expenditure associated with businesses, individuals and trusts. This data has been grouped accordingly and only the business component is reported for all years. Due to a small portion of the tax expenditure being attributable to individuals and trusts, and the unreliability of this data, it has been excluded from the report.

The motor industry development programme's outer year reflects a considerable increase relative to prior years. This is due to a change in the way that data is extracted and a retrospective change to include dumpers (heavy duty trucks) as part of the heavy motor vehicle motor industry development programme, which was implemented at the end of 2010 retrospectively to 2007.

VAT relief on fuel sales

As petrol, diesel and illuminating paraffin are zero-rated for value-added tax (VAT) purposes, the resulting deviation is regarded as tax expenditure. This is calculated by estimating the value for sales and making assumptions about the estimated volumes used by final consumers. It was assumed that 20 per cent of petrol sales was used for business purposes (by VAT vendors) and would have qualified to claim input VAT. For diesel, it was assumed that 90 per cent of sales was used for business purposes and would have qualified for input VAT.

Average national diesel, petrol and paraffin prices are shown below.

Table C.1 National average price and national quantity fuel sold (million litres)

	2007		2008		2009		2010		2011	
Fuel type	Price (Rand/l)	Quantity	Price (Rand/l)	Quantity	Price (Rand/l)	Quantity	Price (Rand/l)	Quantity	Price (Rand/l)	Quantity
Diesel	5.8	8 977	6.7	9 976	9.0	9 914	6.7	9 570	7.7	10 333
Petrol	6.1	11 400	7.1	11 531	8.6	11 055	7.6	11 319	8.4	11 541
Paraffin	4.5	714	5.2	694	7.1	506	4.8	776	5.4	482

Estimates of tax expenditure

The following table summarises tax expenditure in terms of the Income Tax Act (1962), the VAT Act (1991) and the Customs and Excise Act (1964).

Table C.2 Tax expenditure estimates

	2007/08	2008/09	2009/10	2010/11
Personal income tax				
Pension and retirement annuity[1]	13 078	15 554	17 566	20 592
pension contributions – employees	*4 774*	*5 765*	*6 602*	*7 265*
pension contributions – employers	*5 368*	*6 484*	*7 425*	*9 372*
retirement annuity	*2 936*	*3 305*	*3 538*	*3 955*
Medical	8 544	10 222	11 771	13 959
medical contributions & deductions – employees	*4 750*	*5 696*	*6 663*	*13 959*
medical contributions – employers[2]	*3 793*	*4 527*	*5 108*	–
Interest exemptions	1 961	2 518	2 423	2 157
Secondary rebate (65 years and older)	1 194	1 426	1 430	1 710
Donations	84	107	111	118
Capital gains tax (annual exclusion)	126	84	64	66
Total personal income tax	**24 987**	**29 913**	**33 364**	**38 602**
Corporate income tax				
Small business corporation tax savings	1 196	1 279	1 330	1 343
reduced headline rate	*1 174*	*1 254*	*1 307*	*1 321*
Section 12E[3] depreciation allowance	*22*	*25*	*23*	*22*
Research and development	358	538	714	416
Learnership allowances	424	397	644	501
Strategic industrial policy	228	61	215	138
Film incentive	297	280	180	2
Urban development zones	110	159	238	354
Total corporate income tax	**2 613**	**2 715**	**3 321**	**2 754**
Value-added tax				
Zero-rated supplies				
19 basic food items[4]	13 107	13 907	14 606	15 962
Petrol[5]	9 176	10 524	9 463	10 845
Diesel[5]	948	1 249	918	1 107
Paraffin[5]	516	520	356	367
Municipal property rates	3 081	3 210	4 309	5 536
Reduced inclusion rate for "commercial" accommodation	94	112	127	142
Subtotal zero-rated supplies	**26 921**	**29 522**	**29 779**	**33 958**
Exempt supplies (public transport & education)	**785**	**832**	**922**	**1 001**
Customs duties and excise				
Motor vehicles (MIDP, including IRCCs)[6]	16 169	12 089	12 673	22 645
Textile and clothing (Duty credits – DCCs)[6]	1 829	2 024	2 231	1 621
Furniture and fixtures	166	128	153	562
Other customs[7]	1 141	1 231	787	2 801
Diesel refund (mining, agriculture and fishing)	1 030	1 242	1 295	1 283
Total customs and excise	**20 334**	**16 714**	**17 139**	**28 912**
Total tax expenditure	**75 641**	**79 695**	**84 524**	**105 226**
Tax expenditure as % of total gross tax revenue	**13.2%**	**12.7%**	**14.1%**	**15.6%**
Total gross tax revenue	**572 815**	**625 100**	**598 705**	**674 183**
Tax expenditure as % of GDP	**3.6%**	**3.5%**	**3.5%**	**3.8%**

1. Some of this tax expenditure is recouped when amounts are withdrawn as either a lump sum or an annuity
2. Prior to 2010/11 employer contributions were assumed to be equivalent to employee deductions
3. Section 12E of the Income Tax Act No. 58 of 1962
4. VAT relief in respect of basic food items based on an independent study
5. Based on fuel volumes and average retail selling prices
6. MIDP = motor industry development programme, IRCC = import rebate credit certificate, DCC = duty credit certificates
7. Goods manufactured exclusively for exports, television monitors and agricultural goods exempted

Direct tax proposals

Personal income tax rate and bracket structure

The primary rebate has been increased to R12 080 per year for all individuals. The secondary rebate, which applies to individuals aged 65 years and over, is increased to R6 750 per year. The third rebate, which applies to individuals aged 75 years and over, is increased to R2 250 per year. The threshold below which individuals are not liable for personal income tax is increased to R67 111 of taxable income per year for those below the age of 65, R104 611 per year for those aged 65 to 74, and R117 111 for age 75 and over. The rates for the 2012/13 tax year and the proposed rates for 2013/14 are set out in Table C.3.

Table C.3 Personal income tax rate and bracket adjustments, 2012/13 – 2013/14

2012/13		2013/14	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 - R160 000	18% of each R1	R0 - R165 600	18% of each R1
R160 001 - R250 000	R28 800 + 25% of the amount above R160 000	R165 601 - R258 750	R29 808 + 25% of the amount above R165 600
R250 001 - R346 000	R51 300 + 30% of the amount above R250 000	R258 751 - R358 110	R53 096 + 30% of the amount above R258 750
R346 001 - R484 000	R80 100 + 35% of the amount above R346 000	R358 111 - R500 940	R82 904 + 35% of the amount above R358 110
R484 001 - R617 000	R128 400 + 38% of the amount above R484 000	R500 941 - R638 600	R132 894 + 38% of the amount above R500 940
R617 001	R178 940 + 40% of the amount above R617 000	R638 601	R185 205 + 40% of the amount above R638 600
Rebates		**Rebates**	
Primary	R11 440	Primary	R12 080
Secondary	R6 390	Secondary	R6 750
Tertiary	R2 130	Tertiary	R2 250
Tax threshold		**Tax threshold**	
Below age 65	R63 556	Below age 65	R67 111
Age 65 and over	R99 056	Age 65 and over	R104 611
Age 75 and over	R110 889	Age 75 and over	R117 111

Table C.4 Medical scheme contributions, 2012/13 – 2013/14

Description	Illustrative thresholds 2012/13	Proposed thresholds 2013/14
Medical scheme fees tax credit, in respect of benefits to the taxpayer	R230	R242
Medical scheme fees tax credit, in respect of benefits to the taxpayer and one dependant	R460	R484
Medical scheme fees tax credit, in respect of benefits to each additional dependant	R154	R162

Table C.5 Employee-related fringe benefits, 2012/13 – 2013/14

Description	Illustrative thresholds 2012/13	Proposed thresholds 2013/14
Employee accommodation	R63 556	R67 111

Table C.6 Miscellaneous proposals, 2012/13 – 2013/14

Description	Illustrative thresholds 2012/13	Proposed thresholds 2013/14
Low-cost housing		
Max cost of residential unit where that residential unit is an apartment in a building, paragraph (a)	R250 000	R350 000
Max cost of residential unit where that residential unit is an apartment in a building, paragraph (b)	R200 000	R300 000
Exempt scholarships and bursaries		
Annual income ceiling for employees	R100 000	R200 000
Annual ceiling for bursaries to employee relatives – higher education	R10 000	R30 000
Annual ceiling for bursaries to employee relatives – basic education	R10 000	R10 000

The proposed tax schedule in Table C.3 largely compensates individuals for the effect of inflation on income tax liabilities and results in reduced tax liability for all taxpayers. These tax reductions are set out in tables C.7, C.8 and C.9. The average tax rates (tax as a percentage of taxable income) for individuals are illustrated in figures C.1, C.2 and C.3.

Table C.7 Income tax payable, 2013/14 (taxpayers below age 65)

Taxable income (Rands)	2012 rates (Rands)	Proposed rates (Rands)	Tax deduction (Rands)	% reduction
75 000	2 060	1 420	-640	-31.1%
80 000	2 960	2 320	-640	-21.6%
85 000	3 860	3 220	-640	-16.6%
90 000	4 760	4 120	-640	-13.4%
100 000	6 560	5 920	-640	-9.8%
120 000	10 160	9 520	-640	-6.3%
150 000	15 560	14 920	-640	-4.1%
200 000	27 360	26 328	-1 032	-3.8%
250 000	39 860	38 828	-1 032	-2.6%
300 000	54 860	53 391	-1 469	-2.7%
400 000	87 560	85 486	-2 075	-2.4%
500 000	123 040	120 486	-2 555	-2.1%
750 000	220 700	217 685	-3 015	-1.4%
1 000 000	320 700	317 685	-3 015	-0.9%

Figure C.1 Average tax rates for taxpayers under age 65

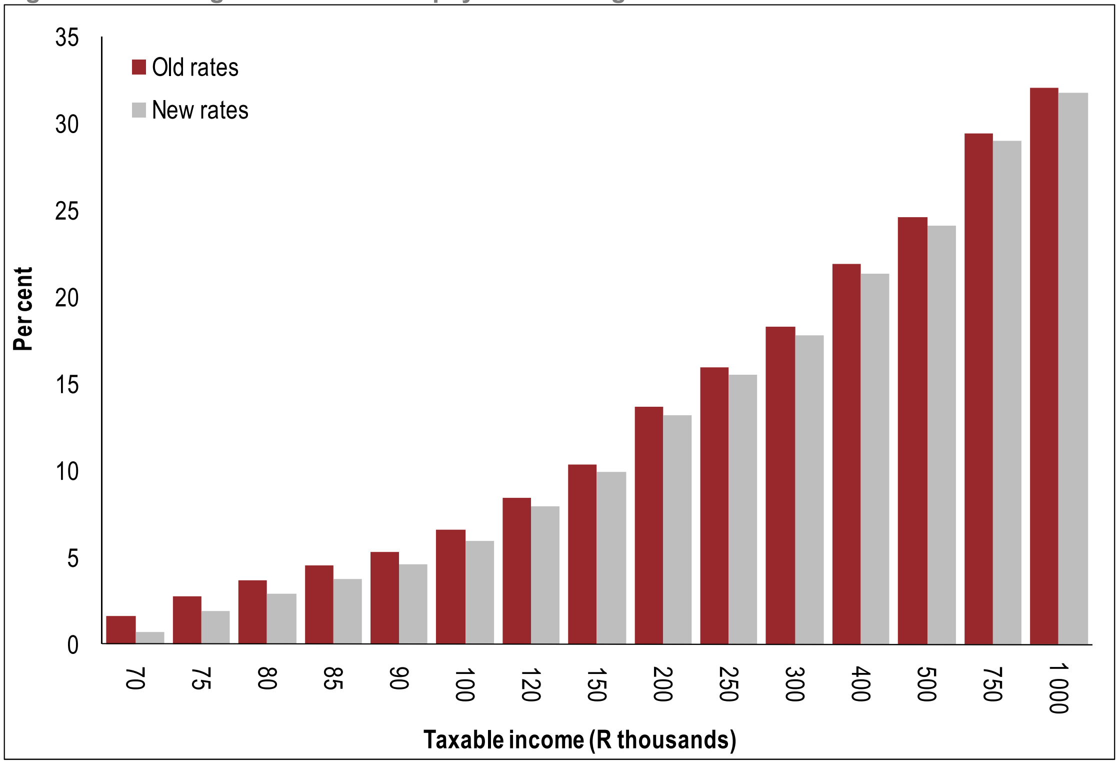


Table C.8 Income tax payable, 2013/14 (taxpayers age 65 and over)

Taxable income (Rands)	2012 rates (Rands)	Proposed rates (Rands)	Tax deduction (Rands)	% reduction
120 000	3 770	2 770	-1 000	-26.5%
150 000	9 170	8 170	-1 000	-10.9%
200 000	20 970	19 578	-1 392	-6.6%
250 000	33 470	32 078	-1 392	-4.2%
300 000	48 470	46 641	-1 829	-3.8%
400 000	81 170	78 736	-2 435	-3.0%
500 000	116 650	113 736	-2 915	-2.5%
750 000	214 310	210 935	-3 375	-1.6%
1 000 000	314 310	310 935	-3 375	-1.1%

Figure C.2 Average tax rates for taxpayers age 65 and over

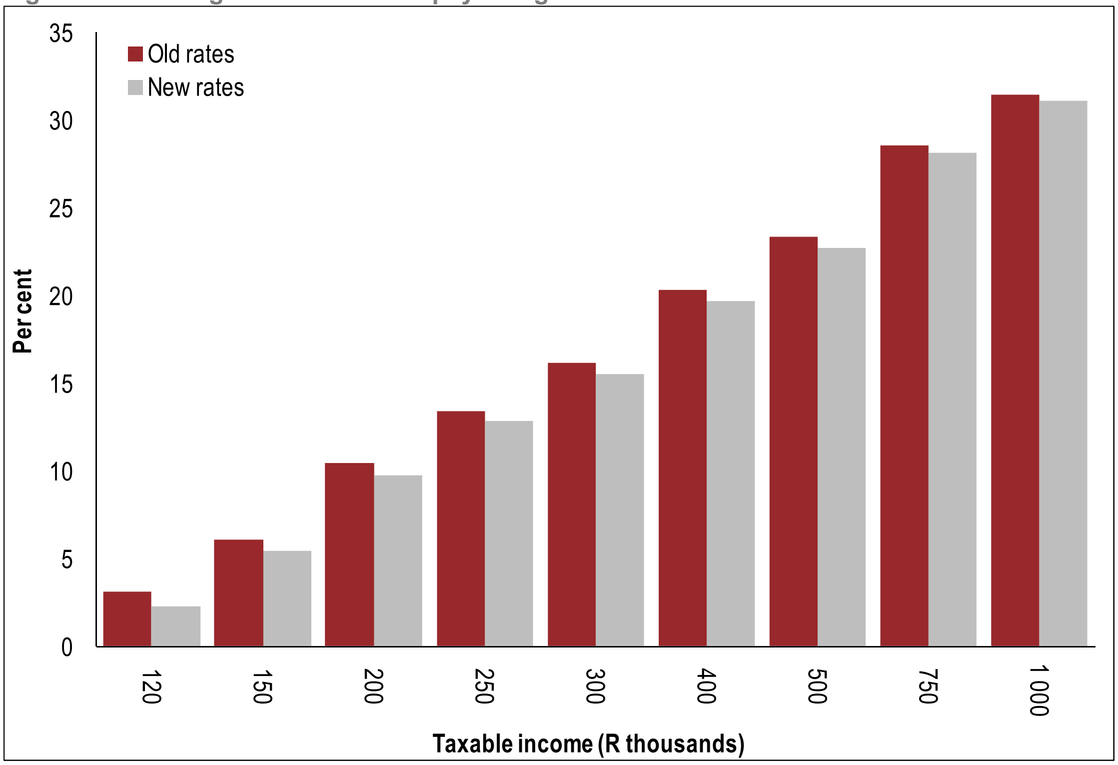
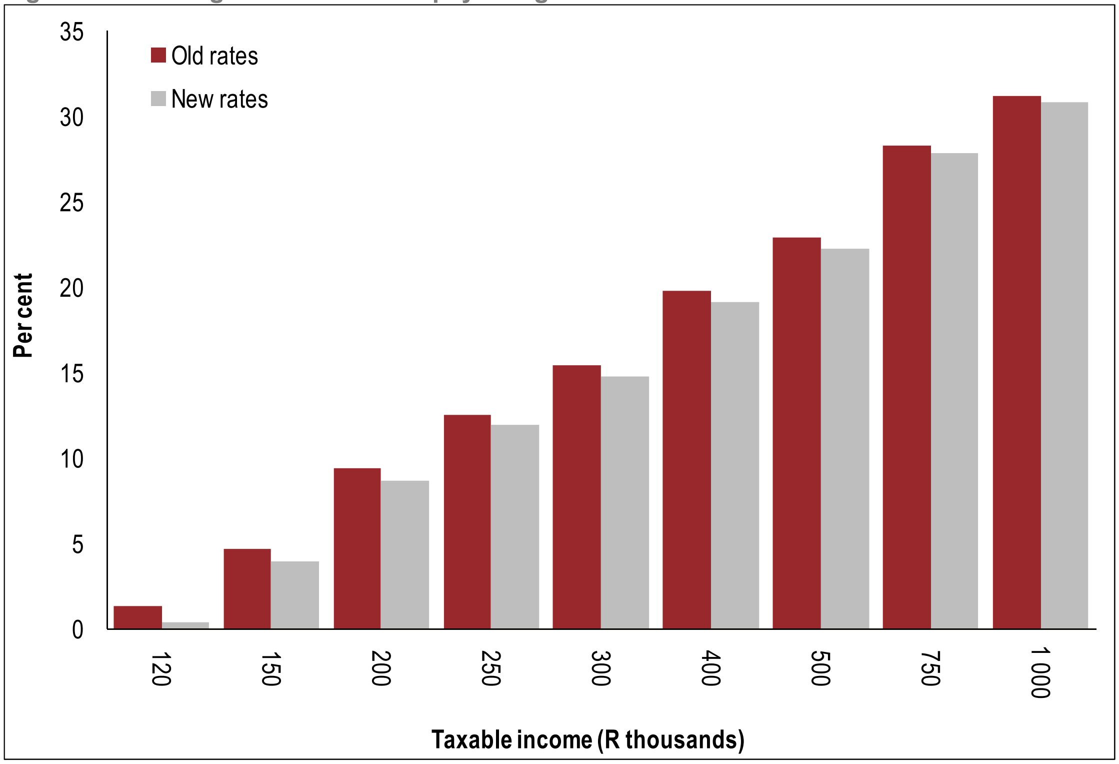


Table C.9 Income tax payable, 2013/14 (taxpayers age 75 and over)

Taxable income (Rands)	2012 rates (Rands)	Proposed rates (Rands)	Tax deduction (Rands)	% reduction
120 000	1 640	520	-1 120	-68.3%
150 000	7 040	5 920	-1 120	-15.9%
200 000	18 840	17 328	-1 512	-8.0%
250 000	31 340	29 828	-1 512	-4.8%
300 000	46 340	44 391	-1 949	-4.2%
400 000	79 040	76 486	-2 555	-3.2%
500 000	114 520	111 486	-3 035	-2.6%
750 000	212 180	208 685	-3 495	-1.6%
1 000 000	312 180	308 685	-3 495	-1.1%

Figure C.3 Average tax rates for taxpayers age 75 and over



Indirect tax proposals

It is proposed that the customs and excise duties in the Customs and Excise Act (schedule 1, part 2 of section A) be amended with effect from 27 February 2013 to the extent shown in Table C.10.

Table C.10 Specific excise duties, 2012/13 – 2013/14

Tariff Item	Tariff subheading	Article description	2012 Rate of excise duty	2013 Rate of excise duty
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:**		
104.01.10	1901.90.20	Traditional African beer powder as defined in Additional Note 1 to Chapter 19	34.7c/kg	34.7c/kg
104.10	**22.03**	**Beer made from malt:**		
104.10.10	2203.00.05	Traditional African beer as defined in Additional Note 1 to Chapter 22	7.82c/li	7.82c/li
104.10.20	2203.00.90	Other	R59.36/li aa	R63.81/li aa
104.15	**22.04**	**Wine of fresh grapes, including fortified wines; grape must (excluding that of heading 20.09):**		
104.15.01	2204.10	Sparkling wine	R7.53/li	R8.28/li
104.15	**2204.21**	**In containers holding 2 li or less:**		
104.15	**2204.21.4**	**Unfortified wine:**		
104.15.03	2204.21.41	With an alcoholic strength of at least 6.5 per cent by volume but not exceeding 16.5 per cent by vol.	R2.50/li	R2.70/li
104.15.04	2204.21.42	Other	R111.64/li aa	R122.80/li aa
104.15	**2204.21.5**	**Fortified wine:**		
104.15.05	2204.21.51	With an alcoholic strength of at least 15 per cent by volume but not exceeding 22 per cent by vol.	R4.59/li	R4.85/li
104.15.06	2204.21.52	Other	R111.64/li aa	R122.80/li aa
104.15	**2204.29**	**Other:**		
104.15	**2204.29.4**	**Unfortified wine:**		
104.15.07	2204.29.41	With an alcoholic strength of at least 6.5 per cent by volume but not exceeding 16.5 per cent by vol.	R2.50/li	R2.70/li
104.15.08	2204.29.42	Other	R111.64/li aa	R122.80/li aa
104.15	**2204.29.5**	**Fortified wine:**		
104.15.09	2204.29.51	With an alcoholic strength of at least 15 per cent by volume but not exceeding 22 per cent by vol.	R4.59/li	R4.85/li
104.15.10	2204.29.52	Other	R111.64/li aa	R122.80/li aa
104.16	**22.05**	**Vermouth and other wine of fresh grapes flavoured with plants or aromatic substances:**		
104.16	**2205.10**	**In containers holding 2 li or less:**		
104.16.01	2205.10.10	Sparkling	R7.53/li	R8.28/li
104.16	**2205.10.2**	**Unfortified:**		
104.16.03	2205.10.21	With an alcoholic strength of at least 6.5 per cent by volume but not exceeding 15 per cent by vol.	R2.50/li	R2.70/li
104.16.04	2205.10.22	Other	R111.64/li aa	R122.80/li aa
104.16	**2205.10.3**	**Fortified:**		
104.16.05	2205.10.31	With an alcoholic strength of at least 15 per cent by volume but not exceeding 22 per cent by vol.	R4.59/li	R4.85/li
104.16.06	2205.10.32	Other	R111.64/li aa	R122.80/li aa
104.16	**2205.90**	**Other:**		
104.16	**2205.90.2**	**Unfortified:**		
104.16.09	2205.90.21	With an alcoholic strength of at least 6.5 per cent by volume but not exceeding 15 per cent by vol.	R2.50/li	R2.70/li
104.16.10	2205.90.22	Other	R111.64/li aa	R122.80/li aa

Table C.10 Specific excise duties, 2012/13 – 2013/14 *(continued)*

Tariff Item	Tariff subheading	Article description	2012 Rate of excise duty	2013 Rate of excise duty
104.16	**2205.90.3**	**Fortified:**		
104.16.11	2205.90.31	With an alcoholic strength of at least 15 per cent by volume but not exceeding 22 per cent by vol.	R4.59/li	R4.85/li
104.16.12	2205.90.32	Other	R111.64/li aa	R122.80/li aa
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:**		
104.17.03	2206.00.05	Sparkling fruit beverages and sparkling mead	R7.53/li	R8.28/li
104.17.05	2206.00.15	Traditional African beer as defined in Additional Note 1 to Chapter 22	7.82c/li	7.82c/li
104.17.07	2206.00.17	Other fermented beverages, unfortified, with an alcoholic strength below 2.5 per cent by vol.	R59.36/li aa	R63.81/li aa
104.17.15	2206.00.81	Other fermented apple or pear beverages, unfortified, with an alcoholic strength of at least 2.5 per cent by volume but not exceeding 15 per cent by vol.	R2.97c/li	R3.19c/li
104.17.16	2206.00.82	Other fermented fruit beverages and mead beverages, including mixtures of fermented beverages derived from the fermentation of fruit or honey, unfortified, with an alcoholic strength of at least 2.5 per cent by volume but not exceeding 15 per cent by vol.	R2.97c/li	R3.19c/li
104.17.17	2206.00.83	Other fermented apple or pear beverages, fortified, with an alcoholic strength of at least 15 per cent by volume but not exceeding 23 per cent by vol.	R45.60/li aa	R50.16/li aa
104.17.21	2206.00.84	Other fermented fruit beverages and mead beverages including mixtures of fermented beverages derived from the fermentation of fruit or honey, fortified, with an alcoholic strength of at least 15 per cent by volume but not exceeding 23 per cent by vol.	R45.60/li aa	R50.16/li aa
104.17.22	2206.00.85	Other mixtures of fermented fruit beverages or mead beverages and non-alcoholic beverages, unfortified, with an alcoholic strength of at least 2.5 per cent by volume but not exceeding 15 per cent by vol.	R2.97c/li	R3.19c/li
104.17.25	2206.00.87	Other mixtures of fermented fruit beverages or mead beverages and non-alcoholic beverages, fortified, with an alcoholic strength of at least 15 per cent by volume but not exceeding 23 per cent by vol.	R45.60/li aa	R50.16/li aa
104.17.90	2206.00.90	Other	R59.36/li aa	R63.81/li aa
104.21	**22.07**	**Undenatured ethyl alcohol of an alcoholic strength by volume of 80 per cent vol. or higher; ethyl alcohol and other spirits, denatured, of any strength:**		
104.21.01	2207.10	Undenatured ethyl alcohol of an alcoholic strength by volume of 80 per cent vol. or higher	R111.64/li aa	R122.80/li aa
104.21.03	2207.20	Ethyl alcohol and other spirits, denatured of any strength	R111.64/li aa	R122.80/li aa
104.23	**22.08**	**Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80 per cent vol.; spirits, liqueurs and other spirituous beverages:**		
104.23	**2208.20**	**Spirits obtained by distilling grape wine or grape marc:**		
104.23.01	2208.20.10	In containers holding 2 li or less	R111.64/li aa	R122.80/li aa
104.23.03	2208.20.90	Other	R111.64/li aa	R122.80/li aa
104.23	**2208.30**	**Whiskies:**		
104.23.05	2208.30.10	In containers holding 2 li or less	R111.64/li aa	R122.80/li aa
104.23.07	2208.30.90	Other	R111.64/li aa	R122.80/li aa
104.23	**2208.40**	**Rum and other spirits obtained by distilling fermented sugarcane products:**		
104.23.09	2208.40.10	In containers holding 2 li or less	R111.64/li aa	R122.80/li aa
104.23.11	2208.40.90	Other	R111.64/li aa	R122.80/li aa

Table C.10 Specific excise duties, 2012/13 – 2013/14 *(continued)*

Tariff Item	Tariff subheading	Article description	2012 Rate of excise duty	2013 Rate of excise duty
104.23	**2208.50**	**Gin and Geneva:**		
104.23.13	2208.50.10	In containers holding 2 li or less	R111.64/li aa	R122.80/li aa
104.23.15	2208.50.90	Other	R111.64/li aa	R122.80/li aa
104.23	**2208.60**	**Vodka:**		
104.23.17	2208.60.10	In containers holding 2 li or less	R111.64/li aa	R122.80/li aa
104.23.19	2208.60.90	Other	R111.64/li aa	R122.80/li aa
104.23	**2208.70**	**Liqueurs and cordials:**		
104.23	**2208.70.2**	**In containers holding 2 li or less:**		
104.23.21	2208.70.21	With an alcoholic strength by volume exceeding 15 per cent vol. but not exceeding 23 per cent vol.	R45.60/li aa	R50.16/li aa
104.23.22	2208.70.22	Other	R111.64/li aa	R122.80/li aa
104.23	**2208.70.9**	**Other:**		
104.23.23	2208.70.91	With an alcoholic strength by volume exceeding 15 per cent vol. but not exceeding 23 per cent vol.	R45.60/li aa	R50.16/li aa
104.23.24	2208.70.92	Other	R111.64/li aa	R122.80/li aa
104.23	**2208.90**	**Other:**		
104.23	**2208.90.2**	**In containers holding 2 li or less:**		
104.23.25	2208.90.21	With an alcoholic strength by volume exceeding 15 per cent vol. but not exceeding 23 per cent vol.	R45.60/li aa	R50.16/li aa
104.23.26	2208.90.22	Other	R111.64/li aa	R122.80/li aa
104.23	**2208.90.9**	**Other:**		
104.23.27	2208.90.91	With an alcoholic strength by volume exceeding 15 per cent vol. but not exceeding 23 per cent vol.	R45.60/li aa	R50.16/li aa
104.23.28	2208.90.92	Other	R111.64/li aa	R122.80/li aa
104.30	**24.02**	**Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes:**		
104.30	**2402.10**	**Cigars, cheroots and cigarillos containing tobacco:**		
104.30.01	2402.10.10	Imported from Switzerland	R2 306.48/kg net	R2 467.83/kg net
104.30.03	2402.10.90	Other	R2 306.48/kg net	R2 467.83/kg net
104.30	**2402.20**	**Cigarettes containing tobacco:**		
104.30.05	2402.20.10	Imported from Switzerland	R5.16/10 cigarettes	R5.46/10 cigarettes
104.30.07	2402.20.90	Other	R5.16/10 cigarettes	R5.46/10 cigarettes
104.30	**2402.90.1**	**Cigars, cheroots and cigarillos of tobacco substitutes:**		
104.30.09	2402.90.12	Imported from Switzerland	R2 306.48/kg net	R2 467.83/kg net
104.30.11	2402.90.14	Other	R2 306.48/kg net	R2 467.83/kg net
104.30	**2402.90.2**	**Cigarettes of tobacco substitutes:**		
104.30.13	2402.90.22	Imported from Switzerland	R5.16/10 cigarettes	R5.46/10 cigarettes
104.30.15	2402.90.24	Other	R5.16/10 cigarettes	R5.46/10 cigarettes
104.30	**2402.90.1**	**Cigars, cheroots and cigarillos of tobacco substitutes:**		
104.30.09	2402.90.12	Imported from Switzerland	R2 306.48/kg net	R2 467.83/kg net
104.30.11	2402.90.14	Other	R2 306.48/kg net	R2 467.83/kg net

Table C.10 Specific excise duties, 2012/13 – 2013/14 *(continued)*

Tariff Item	Tariff subheading	Article description	2012 Rate of excise duty	2013 Rate of excise duty
104.30	**2402.90.2**	**Cigarettes of tobacco substitutes:**		
104.30.13	2402.90.22	Imported from Switzerland	R5.16/10 cigarettes	R5.46/10 cigarettes
104.30.15	2402.90.24	Other	R5.16/10 cigarettes	R5.46/10 cigarettes
104.35	**24.03**	**Other manufactured tobacco and manufactured tobacco substitutes; “homogenised” or “reconstituted” tobacco; tobacco extracts and essences:**		
104.35	**2403.1**	**Smoking tobacco, whether or not containing tobacco substitutes in any proportion:**		
104.35.01	2403.11	Water pipe tobacco specified in Subheading Note 1 to Chapter 24	R128.69/kg net	R141.60/kg net
104.35	**2403.19**	**Other:**		
104.35.02	2403.19.10	Pipe tobacco, in immediate packings of a content of less than 5 kg	R128.69/kg net	R141.60/kg net
104.35.03	2403.19.20	Other pipe tobacco	R128.69/kg net	R141.60/kg net
104.35.05	2403.19.30	Cigarette tobacco	R221.04/kg	R243.20/kg
104.35	**2403.99**	**Other:**		
104.35.07	2403.99.30	Other cigarette tobacco substitutes	R221.04/kg	R243.20/kg
104.35.09	2403.99.40	Other pipe tobacco substitutes	R128.69/kg net	R141.60/kg net

Excise duties of fruit fermented beverages

The structure of tariff heading 22.06 has been amended to align the excise duty provisions for fruit fermented beverages with the requirements of the Liquor Products Act (1989). As a result, only products that are predominantly fruit fermented will be distinctly classified in this beverage category. Fermented products that are not mainly derived from fruit will be included in the band for beverages with an alcoholic strength below 2.5 per cent or in the generic “other” band. The other band uses the highest excise rate – the full spirits rate – to encourage products to comply with the requirements for fruit fermented beverages. However, as current manufacturers may need time to comply with the requirements for fruit fermentation, the other band will only be increased to the highest spirits rate in Budget 2014. These changes necessitate corresponding amendments to part 1 of schedule 1 of the Customs and Excise Act, as indicated in Table C.11.

Table C.11 Amendment of part 1 of schedule 1

By the insertion of additional note 5 to chapter 22 in part 1 of schedule 1 with the following

5. For the purposes of heading 22.06 –

(a) Not more than 20 per cent of the fermentable sugars used in any fermented fruit beverage, fortified or unfortified, may be of an origin other than fruit.

(b) Subject to paragraph (c)(iii) and (c)(iv) below, fortified apple or fortified pear beverages shall be fortified by the addition of a rectified spirits derived *from apples or pears respectively.*

(c) Not more than 25 per cent of the final volume of –

(i) Fermented apple beverages shall consist of fruit juice derived from pears or added fermented pear beverages.

(ii) Fermented pear beverages shall consist of fruit juice derived from apples or added fermented apple beverages.

(iii) Fortified fermented apple beverages shall consist of fruit juice derived from pears, or added fermented pear beverages or fortified fermented pear beverages.

(iv) Fortified fermented pear beverages shall consist of fruit juice derived from apples, or added fermented apple beverages, or fortified fermented apple beverages.

By the insertion of the following:

Heading	Subheading	Check digit	Article description	Statistical unit	Rate of duty: General	European Union	European Free Trade Association	Southern African Develop–ment Community
22.06	2206.00.17	7	Other fermented beverages, unfortified, with an alcoholic strength below 2.5 per cent vol.	li	25%	free	25%	free
22.06	2206.00.84	3	Other fermented fruit beverages and mead beverages including mixtures of fermented beverages derived from the fermentation of fruit or honey, fortified, with an alcoholic strength of at least 15 per cent by volume but not exceeding 23 per cent by vol.	li	25%	free	25%	free

By the substitution of the following:

Heading	Subheading	Check digit	Article description	Statistical unit	Rate of duty: General	European Union	European Free Trade Association	Southern African Develop–ment Community
22.06	2206.00.05	3	Sparkling fruit beverages and sparkling mead	li	25%	free	25%	free
22.06	2206.00.15	0	Traditional African beer as defined in Additional Note 1 to Chapter 22	li	25%	free	25%	free
22.06	2206.00.81	9	Other fermented apple or pear beverages, unfortified, with an alcoholic strength of at least 2.5 per cent by volume but not exceeding 15 per cent by vol.	li	25%	free	25%	free
22.06	2206.00.82	7	Other fermented fruit beverages and mead beverages, including mixtures of fermented beverages derived from the fermentation of fruit or honey, unfortified, with an alcoholic strength of at least 2.5 per cent by volume but not exceeding 15 per cent by vol.	li	25%	free	25%	free
22.06	2206.00.83	5	Other fermented apple or pear beverages, fortified, with an alcoholic strength of at least 15 per cent by volume but not exceeding 23 per cent by vol.	li	25%	free	25%	free
22.06	2206.00.85	1	Other mixtures of fermented fruit beverages or mead beverages and non-alcoholic beverages, unfortified, with an alcoholic strength of at least 2.5 per cent by volume but not exceeding 15 per cent by vol.	li	25%	free	25%	free
22.06	2206.00.87	8	Other mixtures of fermented fruit beverages or mead beverages and non-alcoholic beverages, fortified, with an alcoholic strength of at least 15 per cent by volume but not exceeding 23 per cent by vol.	li	25%	free	25%	free
22.06	2206.00.90	8	Other	li	25%	free	25%	free

Ad valorem excise duties

It is proposed that video recorders of item 124.55.01, with eight or more input channels and a value for duty purposes exceeding R13 000, be exempted from ad valorem excise duties with effect from 1 April 2013. The exemption will only remove industrial type recorders from the ad valorem tax base, as the value differs vastly between these and household-type recorders.

Miscellaneous tax amendments

Miscellaneous tax amendments proposed for the upcoming tax legislative cycle are set out below.

Individuals, employment and savings

Cross-border remuneration and retirement savings

Cross-border salaries and retirement savings give rise to special issues.

- *Cross-border services*: South African residents are generally subject to worldwide tax, except for long-term services provided offshore (for example, for at least 183 days or more in any 12 month period). At issue is whether the worldwide tax regime of South African services should be extended (subject to appropriate credits), especially if a South African employer is involved.
- *Cross-border pensions*: South African residents working abroad and foreign residents working in South Africa regularly contribute to local and foreign pension funds, which gives rise to a variety of tax issues. While certain limited rules have long been in place, these rules are largely ad hoc. With overall retirement reform now in effect, cross-border pension issues need to be fully reconsidered. The main issue is whether the tax focus should rely solely on the national source of the services provided or the national origin of the pension fund serving as the savings vehicle.

Given the complexity of the issues involved, extensive consultation is required. Possible legislative action may occur if consensus is easily achieved (such as neutralising any unintended differences between cross-border lump sum payouts and annuities).

Business (general)

Share cross-issues

Share cross-issues have longstanding anti-avoidance rules. These rules prevent taxpayers from obtaining any tax cost when issuing shares for the cross-issue of other shares, because the cross-issue does not trigger tax for any party (justifying a rollover result at zero tax cost). Unfortunately, these rules are impractical in South Africa, because cross-issues are a common feature of many commercially driven share schemes (especially involving black economic empowerment). In addition, cross-issues can also be used to migrate offshore without incurring an exit charge. To mitigate these problems, the anti-avoidance cross-issue rules will be completely reworked. The zero base cost rule will either be eliminated or narrowed. Cross-issues (and share-for-share transactions) acting as a mechanism to indirectly shift value into tax-exempt hands will trigger immediate taxation.

Business (financial institutions)

Banks and brokers

In 2012, mark-to-market taxation was legislatively added to income tax, but the effective date was deferred until 2014. This legislation will be refined based on further consultations. The main refinements are as follows:

- Covered persons will be extended to include most of the companies in regulated banking groups to reduce the potential for mismatches between the new mark-to-market system and the historic system of realisation.

- Rules to prevent artificial losses from dividend transactions.
- Assets and liabilities will be disregarded to the extent that they are not recognised under relevant international financial reporting standards (IFRS).
- Different treatment of impairment of financial assets for accounting and bad and doubtful debt for tax purposes are under consideration.

Revised treatment of captive insurers

In 2012, a new set of rules were proposed that deny deductions for payments of insurance premiums to short-term insurers if the overall arrangement lacks any significant risk transfer. Risk transfer was measured from an IFRS perspective as opposed to a legal perspective. While these rules were conceptually correct, the focus of the risk transfer should have been on the policyholder, not the insurer. In addition, concerns continue to exist that dividends from captive insurers most likely represent the recoupment of previous reserved amounts as opposed to dividends from underlying taxable profits. The anti-avoidance rules in this area will be revised accordingly. These anti-avoidance rules will also be extended to long-term insurer policyholders that pay premiums to reinsurers in respect of reinsurance that similarly lacks a significant element of risk transfer.

Financial intermediaries and securities transfer tax

Unlike the London Stock Exchange, only brokers can be members of the JSE and receive exemption from the securities transfer tax (STT). Other financial intermediaries, such as banks, do not receive comparable relief. This lack of relief for financial intermediaries inadvertently disrupts intermediary transactions where profits are small, because the STT potentially eliminates (or even exceeds) all intermediary profits. It is accordingly proposed that certain intermediaries be exempt from the STT so that transacting on the JSE remains internationally competitive.

Business (incentives)

Streamlining the oil and gas incentive

Oil and gas tax incentives were finalised in 2006 as part of the overall changes associated with the Mineral and Petroleum Resources Development Act (2002). With regulatory approvals now fully under way, a series of minor issues have emerged that could be streamlined for easier enforcement and compliance. In addition, certain anomalies have emerged that have left new entrants in a worse position than previous stakeholders. These anomalies will be removed and a uniform system of fiscal stability agreements will be developed.

Tenant improvements to landlord land

Many sophisticated commercial tenants undertake substantial improvements (or wholesale construction) on the fixed property of a landlord, especially in the case of long-term leases. However, none of these improvements are depreciable because depreciation is generally allowed only on “owned” property, and tenant improvements are not technically owned by the tenant. This lack of depreciation is complicating many commercial arrangements. It is proposed that the ownership test for depreciation be replaced with “possession and use”. Associated amendments to the taxation of the lessor and treatment of leasehold improvements will be effected.

Ancillary aspects to pipelines

As pipelines are depreciable, ancillary equipment such as electrical wiring and certain related components will be depreciable to the same extent as the underlying pipelines.

Clarification of trading stock cost calculations

The cost price of trading stock is currently calculated in line with generally accepted accounting practices, approved by the South African Revenue Service (SARS). Given recent changes to IFRS, it is proposed that the cost price of trading stock automatically comport to IFRS without the need for SARS approval.

Closure of unintended claims for the research and development incentive

Although the research and development incentive was recently adjusted, information has come to light that it is still being misused. The incentive aims to facilitate South Africa's establishment as an innovation hub by global standards. It is not intended to assist in routine upgrades or standard adjustments to match global competition. The criteria for eligibility will be adjusted to ensure that the incentive is available only in support of the initial policy intention.

Mining dewatering association

Although the tax system contains an exemption for mining rehabilitation entities, a comparable exemption does not exist for a mining dewatering association, which restores water levels adversely impacted by mining. This association is funded by several mining houses in a manner similar to a mining rehabilitation fund. The exemption of this association is under consideration.

Incentives for the construction of affordable housing

A tax incentive is under consideration for developers (and employers) to build new housing stock (at least five units in compliance with prescribed standards) for sale below R300 000 per dwelling. This incentive would address challenges faced by households in the "gap market". An exclusion of R60 000 per qualifying house sold is proposed.

International

Deferral of expenditure incurred by certain connected persons

The tax system triggers income upon receipt or accrual, as well as deductible expenditure based on payment or incurral. While this system is largely appropriate, taxpayers have an incentive to accelerate deductions on incurred expenditure if a connected counterparty lacks immediate (or deferred) corresponding income. This situation often arises in the case of a South African subsidiary when expenditure is incurred in relation to a foreign parent company. To limit potential abuse, deductions will be deferred until payment.

Further easing of cross-border anomalies

Over the past several years, a number of amendments have been undertaken to eliminate double taxation in the case of South African investment into offshore active operations. While most of the issues have been resolved, certain concerns remain, such as complexities associated with the calculation of the acceptably taxed exemption, the threshold for the participation exemption and transfer pricing requirements in management activities for the benefit of foreign branches. Headquarter company relief also needs to be refined to ensure it is more effective and easier to understand. These anomalies will be removed.

Gateway subsidiary

It is not uncommon for South African multinationals to use an offshore subsidiary as a treasury operation. Unlike local treasuries, offshore treasuries can freely move currency without regulatory approvals, creating an incentive to move offshore. To eliminate this incentive, listed South African multinationals will be allowed to treat a single local subsidiary as a non-resident company for Reserve

Bank purposes, so treasury operations can remain within South Africa. In addition, these entities can use their foreign functional currency, rather than the rand, as the starting point for tax calculations.

Controlled foreign company activities

Imputation for controlled foreign companies should theoretically apply only in the case of passive income and certain forms of income likely to lead to transfer pricing avoidance (known as diversionary income). Although the current rules achieve this result in most cases, certain anomalies have arisen over the years that require clarification. In particular, active offshore research and development activities appear to be inadvertently falling within the net, as well as international shipping activities, international pipelines and commodity hedges associated with active operations. It is also a concern that intra-controlled foreign companies' insurance premiums are not receiving the same relief as their other payments. These anomalies will be removed.

Removal of source focus for initial copyright authors

Under current law, the initial author of a copyright is exempt from tax on a foreign source of income if that source is subject to foreign tax. This relief was initially enacted in line with source principles many years ago. With the shift to worldwide taxation in 2001, this relief no longer makes sense and should be removed.

Streamlining currency taxation

The current tax calculation of currency gains and losses is extremely complex and not wholly in sync with accounting principles. The currency taxation rules are being simplified in favour of a more practical approach. Changes in this area will continue along these lines, especially in regard to the capital gains tax and basic measurement methods (for example, spot versus weighted average). A longer-term shift is being considered towards an IFRS approach that simplifies the tax system without compromising enforcement.

Value-added tax

Motor cars

The current definition of "motor car" in the VAT Act excludes, among others, a vehicle capable of accommodating only one person. A racing car or cart that is acquired by a vendor partly for recreational use and partly for business use (for example, advertising purposes) falls into this exclusion. As a result, the purchase of these vehicles could qualify for a deduction of input tax, even though these cars are often used for recreational (or even normal commuting) purposes. There are no policy reasons to treat these vehicles differently from that of a normal passenger vehicle and the law will be changed accordingly.

Repossession of goods

A vendor (debtor) makes a deemed supply of goods under an instalment credit agreement to the creditor if the creditor (at their discretion) repossesses those goods. With the introduction of the National Credit Act (2005), a debtor (at the debtor's discretion) may similarly surrender goods supplied under an instalment credit agreement. For VAT purposes, the rules should be the same regardless of whether the creditor or the debtor is exercising the discretion to surrender the goods.

Future supplies of services

A special time-of-supply rule exists for goods supplied under an agreement (excluding rental or instalment credit agreements). When the recipient takes possession of those goods and consideration for that supply cannot be determined upfront, the supply is deferred until the earlier of the dates when payments are due or received, or when an invoice is issued. A similar rule for services will be added when the consideration for that service cannot be determined upfront due to a contingent future event (for example, share price and exchange rate).

In-flight entertainment

Input tax deductions on entertainment expenditure are disallowed. However, this general prohibition does not apply in several circumstances where business objectives dominate. In-flight entertainment (movies and video games) is currently disallowed even though it is ancillary to the flight. This in-flight entertainment should accordingly not be part of the prohibition (like the meals and refreshments, which are not disallowed).

Supplies between connected persons

Special time-of-supply rules apply to transactions between connected persons. The purpose of these rules is to prevent artificial deferrals. However, no apparent reason exists for this rule to apply if the transaction gives rise to an input for the purchaser that is simultaneous with the output for the seller. Relief in this area is accordingly proposed.

Tax invoices issued in foreign currency

Under current law, a valid tax invoice must be stated in rands. However, the VAT Act does not prescribe how to deal with a scenario in which the transaction is conducted in foreign currency. This will be addressed by converting foreign currency invoices to rands at the spot rate agreed upon by the parties. In the absence of an agreement, the spot rate on the date of supply will be used.

Temporary letting of residential fixed property

Developers that use the temporary relief provisions for the letting of residential fixed property are required to furnish SARS with a declaration containing certain information within 30 days of the supply. It would be more practical and appropriate if the vendors retained the information as part of their normal recordkeeping (without being required to file a declaration with SARS).

Conversion from a share block scheme to a sectional title

The conversion of a share block company to a sectional title is considered a “non-supply” for VAT purposes (from an output tax point of view, no VAT is levied on the supply). From an input tax point of view, there is some debate on whether the shareholder is entitled to a notional input tax deduction on acquisition of the unit supplied by the share block company. This mismatch will be removed.

Home-owners association

The supply of services by a sectional title association to its members in the course of the management of the sectional title body corporate is generally exempt from VAT. However, a home-owners association lacks a similar exemption (due to previous differences in how municipalities billed sectional title body corporates versus home-owner associations). It is proposed that this unequal treatment be removed.

The right of use of fixed property

The supply of a share by a share block company falls within the definition of “fixed property” in the VAT Act and is consequently subject to VAT at the standard rate (because a share block unit is roughly equivalent to a direct interest in property). However, a cooperative that supplies membership units falls outside the VAT Act. Property cooperatives will accordingly be treated like share block companies.

Indirect exports

The export incentive scheme will be replaced by new export regulations. Legislative amendments will be required to ensure alignment.

Imported goods – damaged or destroyed

Goods imported into South Africa are levied with VAT at the rate of 14 per cent when those goods are entered for home consumption. In terms of the Customs and Excise Act, imported goods that are destroyed, damaged or abandoned are considered to have been entered for home consumption (with a rebate of the customs duty becoming applicable). The VAT Act does not have a similar relief mechanism for goods damaged, destroyed or abandoned, which means that when those goods are entered for home consumption, VAT applies. It is proposed that comparable VAT relief be provided for goods that are destroyed, damaged or abandoned.

Pooling arrangements

Pooling arrangements are mainly applicable to the agricultural and rental markets to simplify VAT administration. To address the complexities that may emanate from the "pool" being treated as separate from its members, it is proposed that a VAT review of all pooling arrangements be undertaken, resulting in possible legislation in 2014.

Square Kilometre Array

The Square Kilometre Array, an international collaboration to build the world's largest radio telescope, is eligible for income-tax exemption under existing public-benefit provisions. VAT relief will be provided through a refund mechanism or the zero-rating of consideration received by the project and for imported goods and services.

Mineral and petroleum royalties

The Mineral and Petroleum Resources Royalty Act (2008), which has been in operation for three years, needs to be refined. Areas of ongoing concern include the appropriate specified condition of mineral extraction acting as a reference point to calculate the mineral royalty tax base, interaction of the royalty regime rate with the income tax calculation and information reporting requirements. Concerns also exist that small business relief needs to be more administratively accessible. All of these concerns will be addressed.

Gambling tax

A national gambling tax was proposed in 2011. The tax will apply at a rate of 1 per cent of gross gambling revenue in addition to provincial rates. This legislation will be implemented by the close of 2013.

Research projects

Company restructurings

In 2012, the National Treasury (in consultation with SARS) began a series of workshops to review the tax rules relating to domestic and foreign reorganisations so that these rules can be streamlined (while continuing to safeguard against undue tax avoidance). These engagements will continue in 2013, with legislative focus on urgent matters and anomalies.

Dividend cessions and manufactured dividends

The tax impact of a dividend transfer depends on whether the transfer is a cession or a dividend compensation payment (even though the economic impact is largely the same). In the case of a cession, the dividend generally retains its tax nature. In the case of a dividend compensation payment, the payment is largely deductible by the payor and largely includible by the payee. Both sets of rules continually give rise to tax avoidance or mismatches that reduce the ultimate tax due before the economic profit. Under consideration is a single unified treatment for both forms of transfers and certain anti-avoidance rules to eliminate the shifting of income from taxable parties to exempt parties.

Relief for international shipping

In 2006, the possibility of a tonnage tax for international shipping was mooted (as a substitute for the 28 per cent income tax on companies). Upon review and extensive consultation with the industry, relief in the form of an outright exemption for shipping income appears to be the most viable option to attract international shipping, given recent trends. However, for any tax incentive to be viable, comparable relief mechanisms will be required. The National Treasury will continue to engage with other national departments to ensure that any tax incentive proposed is part of a regulatory package.

Debt relief

The payback provisions within the VAT Act seek to claw-back input tax claimed on supplies received by a vendor if the vendor has not discharged the debt for that supply within a period of 12 months. This claw-back is often onerous when debts are relieved to help the debtor avoid potential or actual insolvency. Debt relief to assist distressed debtors (such as business rescue) is under consideration. The question is whether the need for this relief can be balanced against potential misuse (deliberate input deductions without any subsequent output).

Apportionment – non-financial sectors

The default apportionment method, which is based on turnover, appears to be inequitable at times because there may not be a direct correlation between expenditure incurred versus turnover generated. It is proposed that the default application of this method be re-evaluated.

Collateral for share lending

The pension fund rules were recently amended to tighten the margin required if a borrower pledges a non-cash margin as security to a pension fund that undertakes a share lending transaction. This heightened level of security triggers income tax and the STT. Given these adverse tax consequences, the new pension margin requirements will be postponed so that they can be properly coordinated with the related tax rules.

Technical corrections

In addition to the amendments described above, the 2013 tax legislation will effect various technical corrections (as in prior years). These technical corrections mainly cover inconsequential items – typing errors, grammar, punctuation, numbering, misplaced cross-references, updating and removing obsolete provisions, the removal of superfluous text, and the incorporation of regulation and commonly accepted interpretations into formal law. Technical corrections also include changes to effective dates and the proper coordination of transitional tax changes.

A final set of technical corrections relates to modifications that account for practical implementation of the tax law. Although tax amendments go through an intensive comment and review process, new issues arise once the law is applied (including obvious omissions and ambiguities). These issues typically arise when returns are prepared for the first time after legislation is applied. Technical corrections of this nature are almost exclusively limited to recent legislative changes.