4

Revenue trends and tax proposals

In brief

- South Africa's tax system remains resilient in a weak economic environment. Nominal tax revenue was R986.3 billion in 2014/15, a 9.6 per cent increase from the prior year.
- The 2015 Budget estimated that tax revenues would grow by 10.4 per cent in 2015/16. Owing to weaker-than-expected economic conditions, this has been revised to 8.5 per cent.
- As part of fiscal measures to narrow the budget deficit and stabilise debt growth, government proposes to raise an additional R18.1 billion in revenue in 2016/17. Proposals to raise another R15 billion in both 2017/18 and 2018/19 will be put forward in future budgets.
- In addition to raising revenues, the 2016 tax proposals are aligned with broader goals of reducing inequality, developing skills, encouraging environmental sustainability and promoting public health.
- Government will continue to maintain the tax base by strengthening measures to prevent corporate base erosion and profit shifting.

Overview

Deteriorating economic growth outlook impedes revenue growth

When he tabled the October 2015 *Medium Term Budget Policy Statement* (MTBPS) in Parliament, former Minister of Finance Nhlanhla Nene cautioned that, "If we do not achieve growth, revenue will not increase. If revenue does not increase, expenditure cannot be expanded." Since then, the economic growth outlook has deteriorated. Last year's budget anticipated GDP growth of 2 per cent in 2015, but growth reached only 1.3 per cent. The economic growth outlook for 2016 has been revised down to 0.9 per cent.

Tax revenues projected to be R11.6 billion below 2015 Budget estimate

Tax revenues in 2015/16 are projected to be R11.6 billion below the 2015 Budget forecast: corporate income tax collection is estimated to be R13 billion lower, value-added tax (VAT) R5.7 billion lower and personal income tax R1.9 billion lower. These lower revenue outcomes will be partially offset by an increase of R4.3 billion from customs duties.

Despite difficult economic conditions, the tax system remains resilient, with tax revenues continuing to grow faster than nominal GDP. However, tax collection projections are vulnerable to the risk of a weaker-than-expected economic performance.

Medium-term tax policy considerations

Tax policy and other revenue measures to raise R48.1 billion in extra revenue over medium term

In line with the fiscal policy objectives set out in Chapter 3, the 2016 Budget proposes action to increase revenue collection by R18.1 billion in 2016/17. A series of interventions will add R15 billion to revenue – over and above baseline forecasts – in each of the subsequent two years. These measures, along with the spending plans and efficiency measures set out in Chapters 5 and 6, are expected to narrow the budget deficit and stabilise public debt.

The proposals for 2016 are outlined in this chapter. The nature of interventions in the two outer years will be subject to further work and development. As government reviews its options in this regard, it will consult widely and draw on the work of the Davis Tax Committee. Key considerations include the need to maintain the progressive nature of South Africa's fiscal system, and ensure that tax measures do not unduly prejudice economic growth or poor households.

Maintaining the social compact

Social compact central to effective tax system

Government's ability to provide public services depends on its ability to raise revenue. The payment of taxes is enforced by law, but effective tax systems rely on the voluntary adherence of citizens and a culture of tax morality. Maintaining this social compact is an essential component of fiscal sustainability. Government is obliged to ensure that public funds are used effectively, and citizens have an obligation to pay their taxes.

Public compliance with tax obligations remains high. As the tax burden increases, government will strengthen its efforts to ensure that spending is efficient by eliminating waste and corruption. It will also take steps to improve the impact of each rand spent on policy objectives, demonstrating the effective use of limited resources.

Over the past 22 years, South Africa has built one of the most efficient tax authorities in the developing world. Strengthening the South African Revenue Service (SARS), increasing its effectiveness, and reinforcing its commitment to transparency and integrity are important considerations over the period ahead.

Ensuring a sustainable tax burden

Tax-to-GDP ratio will increase to 27.8 per cent in 2018/19

To ensure that the fiscal framework is sustainable over the medium-term expenditure framework (MTEF) period, the 2016 Budget proposals will increase the tax-to-GDP ratio from 26.3 per cent in 2015/16 to 27.8 per cent in 2018/19.

The ratio of tax collection to GDP is a standard measure of a country's overall tax burden. In South Africa, the national tax-to-GDP ratio has averaged just below 25 per cent since 1994. Strong economic growth during the early 2000s led to a peak of 27.6 per cent in 2007/08, after which the ratio dropped to 24.4 per cent in 2009/10.

South Africa's tax burden sits roughly between the average for developing and developed economies. While personal and corporate income taxes are relatively high, the VAT rate is lower than in most other jurisdictions, especially those with high levels of social spending.

South Africa's VAT rate lower than most countries

Table 4.1 Tax burden and tax rates in selected countries

	Tax-to-GDP ratio	Personal income tax[1]	Corporate income tax	Value-added tax[2]
Sweden	42.7	56.9	22.0	25.0
Germany	36.1	47.5	30.2	19.0
Russia	34.8	13.0	20.0	18.0
Brazil[3]	33.4	27.5	34.0	17.0 - 19.0
Spain	33.2	52.0	28.0	21.0
UK	32.6	45.0	20.0	20.0
Canada	30.5	49.5	26.3	5.0
Turkey	28.7	35.8	20.0	18.0
Australia	27.5	46.5	30.0	10.0
South Africa[4]	**25.7**	**41.0**	**28.0**	**14.0**
Chile	19.8	39.5	22.5	19.0
China	19.4	45.0	25.0	17.0
Kenya	16.2	30.0	30.0	16.0
Ghana	16.1	25.0	25.0	15.0
Rwanda	13.9	30.0	30.0	18.0

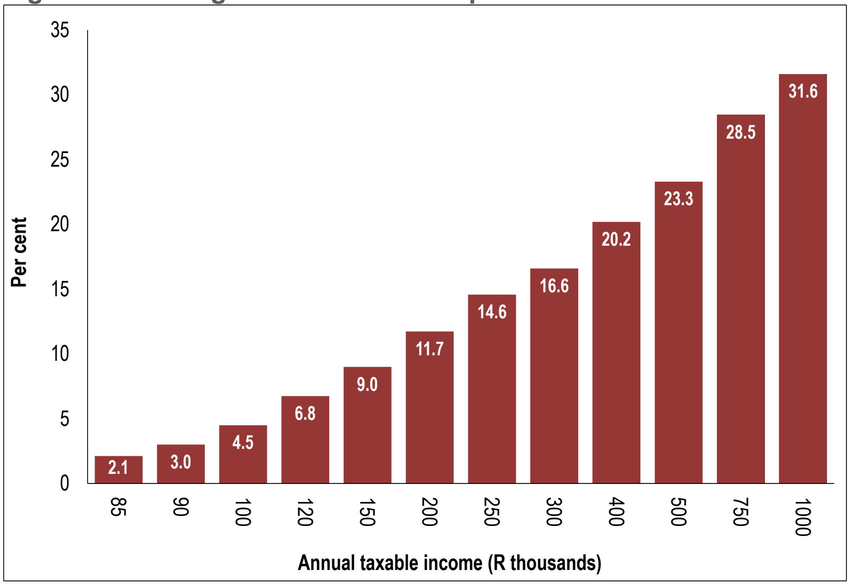
1. Highest marginal rate
2. Value-added-tax standard rate
3. In Brazil value-added-tax rates differ by subnational states
4. The national tax-to-GDP ratio for South Africa is for 2014/15
Source: OECD, Avalara VATlive, IMF and national tax authorities. Data is for 2014, or the most recent year if this is not available

Keeping the tax system progressive

South Africa's tax system is highly progressive. Those below age 65 whose annual taxable income exceeds R1 million pay 31 per cent of such income in tax, while those earning below R250 000 pay less than 15 per cent. Of the 13.7 million registered taxpayers, fewer than 1 million individuals contribute 64 per cent of personal income tax revenue.

Fewer than 1 million individuals contribute 64 per cent of personal income tax revenue

Figure 4.1 Average effective rates of personal income tax



Source: National Treasury

Using household survey data, a recent World Bank report concluded that VAT and fuel levies are mildly progressive in South Africa, with poorer households paying a lower share of such taxes than their share of disposable income. Most VAT revenue is contributed by the top 20 per cent of households. Well-targeted expenditure programmes mean that tax revenue mainly benefits poor South Africans through social protection, healthcare, education and other public services.

There may be room to increase indirect taxes

Last year, government increased marginal rates of personal income tax. In future, the balance between taxes on income (direct taxes) and consumption (indirect taxes) will be an important consideration in ensuring a diversified, efficient, equitable and sustainable tax system. The current tax mix suggests that there may be greater room to increase indirect taxes, such as VAT. Any proposals along these lines would need to be accompanied by measures to improve the pro-poor character of expenditure programmes so that the fiscal system remains progressive.

Protecting the corporate income tax base

Increased focus on multinational tax avoidance and evasion

In recent years, greater attention has been paid to multinational companies that avoid or evade tax by shifting taxable income to low-tax regimes or tax havens. Such practices reduce the corporate income tax base and put domestic companies at a disadvantage. Of particular concern are:

- Unacceptable transfer-pricing practices, where the value or nature of cross-border transactions is manipulated to reduce overall tax liability.
- Treaty shopping, where related companies in different countries establish a third entity in another location to obtain tax-treaty benefits.
- Highly geared financing structures that reduce companies' tax liabilities with excessive interest-expense deductions.

South Africa working with other countries to combat base erosion and profit shifting

The international character of these abuses means that solutions require global cooperation. South Africa has been proactive in taking policy action in this area, and has joined the efforts of the Group of Twenty (G20) and the Organisation for Economic Cooperation and Development (OECD) to examine base erosion and profit shifting. In November 2015, G20 leaders endorsed a series of recommendations to combat these practices. South Africa is working with 93 other governments to develop a multilateral instrument that will enable preventive measures to be incorporated into the existing network of bilateral treaties.

Government has also taken the following steps in this area:

- Improving the quality of information firms must provide to SARS, enabling it to identify aggressive or abusive tax-planning schemes.
- Taking action on transfer pricing. Large multinationals will be required to submit reports for each country in which they do business to the tax authority where their head office is located. Tax authorities will share this information starting in 2018. SARS will have access to country-by-country information on all large multinationals operating in South Africa.
- Enhancing rules on foreign companies controlled by a South African resident, so that a portion of profits earned by a South African-owned

subsidiary operating in another country is taxed in South Africa if no meaningful economic activity took place in the other country.

- Introducing rules that limit excessive interest deductions.

Addressing imbalances associated with earmarked taxes

The National Treasury remains concerned about the imbalances associated with earmarked taxation in the fiscal system. For example, the accumulated surplus of the Unemployment Insurance Fund will increase from R123 billion to R175 billion. At the same time, the Road Accident Fund's liability will rise from R145 billion to R233 billion in 2018/19.

Government examining whether earmarked levy is best way to promote skills development

South Africa maintains an integrated fiscal framework in which funding is directed where it is needed. To provide more flexibility for spending priorities, the use of earmarked taxes should be limited. Over the past year, there has been greater public interest in the skills development levy and the meaningful use of the revenues collected through this mechanism. Government is examining whether the levy is the best way to support skills development, and whether funds raised can also be used to improve access to on-the-job training and post-school education.

Revenue collection and outlook

Table 4.2 shows tax revenue performance over the past seven years. Gross tax revenue reached R986.3 billion in 2014/15, growing by 9.6 per cent, or R86.3 billion, compared with the prior year.

Table 4.2 Tax revenue performance, 2009/10 – 2015/16

Annual percentage change	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16 Revised
Personal income tax	5.1	10.6	10.3	10.2	12.3	13.9	11.1
Corporate income tax	-18.4	-1.5	14.1	5.0	11.3	4.3	2.2
Dividends tax	-22.7	11.1	27.9	-10.1	-12.3	22.8	11.3
Skills development levy	6.5	10.9	17.6	11.8	9.6	12.5	12.6
Transfer duties	-5.0	13.7	-28.0	11.6	28.3	9.7	25.7
Value-added tax	-4.1	24.1	4.1	12.6	10.5	9.9	7.7
Customs duties	-14.0	36.1	28.4	14.0	13.3	39.3	8.7
Specific excise duties	5.5	7.9	10.6	11.7	2.3	3.3	5.6
Electricity levy[1]	–	49.5	28.7	24.2	10.5	3.0	8.7
Fuel levy	15.9	19.4	6.3	10.4	8.1	25.3	2.5
Total tax revenue	**-4.2**	**12.6**	**10.2**	**9.6**	**10.6**	**9.6**	**8.5**
Nominal GDP growth	5.9	10.8	9.0	8.0	8.5	6.5	6.0
Tax buoyancy[2]	-0.7	1.2	1.1	1.2	1.2	1.5	1.4
Mineral and petroleum royalties[3]	–	–	57.9	-10.6	28.4	-15.3	-36.6

1. Electricity levy introduced in 2009/10
2. Tax buoyancy is calculated by dividing total tax revenue growth by nominal GDP growth
3. Mineral and pretoleum royalties were introduced in 2010/11. They are classified as resources rentals, not taxes which is why they are listed seperately
Source: National Treasury and SARS

Nominal gross tax revenues grew at an average of 10.5 per cent per year between 2010/11 and 2014/15. Average nominal economic growth for the same period was 8.6 per cent, meaning that tax revenue growth has outpaced GDP growth. Personal income tax, VAT and dividends tax were the main contributors to this increase. Growth in corporate income tax in the two outer years was notably lower than in 2013/14, a trend that is likely to continue over the medium term given the weak economic outlook. Significant fluctuations in revenues from mineral royalties are the result of a combination of changing commodity prices and the profitability of mining companies.

Table 4.3 summarises tax revenue performance in 2014/15 and 2015/16.

Table 4.3 Budget estimates and revenue outcomes, 2014/15 and 2015/16

	2014/15			2015/16			%
R million	**Budget**	**Outcome**	**Deviation**	**Budget**	**Revised**	**Deviation**	**change[1]**
Taxes on income and profits	**556 700**	**561 790**	**5 090**	**620 890**	**608 654**	**-12 237**	**8.3%**
Persons and individuals	350 000	352 950	2 950	393 890	392 000	-1 890	11.1%
Companies	183 000	184 925	1 925	202 032	189 000	-13 032	2.2%
Dividends tax	21 400	21 247	- 153	22 484	23 866	1 382	12.3%
Other taxes on income and profits[2]	2 300	2 667	367	2 485	3 787	1 303	42.0%
Taxes on payroll and workforce	**13 200**	**14 032**	**832**	**14 690**	**15 800**	**1 110**	**12.6%**
Taxes on property	**12 603**	**12 472**	**- 131**	**13 692**	**14 762**	**1 070**	**18.4%**
Domestic taxes on goods and services	**355 718**	**356 554**	**837**	**389 427**	**383 995**	**-5 433**	**7.7%**
Value-added tax	260 600	261 295	695	283 794	278 060	-5 734	6.4%
Specific excise duties	32 000	32 334	334	34 483	35 100	617	8.6%
Ad valorem excise duties	3 232	2 962	- 269	3 491	3 037	- 454	2.5%
General fuel levy	48 200	48 467	267	55 666	56 700	1 034	17.0%
Other domestic taxes on goods and services[3]	11 686	11 497	- 189	11 993	11 098	- 896	-3.5%
Taxes on international trade and transactions	**40 779**	**41 463**	**684**	**42 576**	**46 490**	**3 914**	**12.1%**
Customs duties	39 900	40 679	779	41 660	46 000	4 340	13.1%
Diamond export levy	87	117	30	91	120	29	2.7%
Miscellaneous customs and excise receipts	792	667	- 125	824	369	- 455	-44.6%
Total tax revenue	**979 000**	**986 295**	**7 295**	**1 081 275**	**1 069 700**	**-11 575**	**8.5%**
Non-tax revenue[4]	27 006	30 900	3 894	19 038	55 841	36 803	80.7%
of which:							
Mineral royalties	*5 636*	*5 455*	*- 181*	*6 221*	*3 460*	*-2 760*	*-36.6%*
less: SACU[5] payments	-51 738	-51 738	–	-51 022	-51 022	–	-1.4%
Main budget revenue	**954 268**	**965 457**	**11 188**	**1 049 291**	**1 074 519**	**25 228**	**11.3%**
Provinces, social security funds and selected public entities	136 722	134 498	-2 224	139 564	148 545	8 981	10.4%
Consolidated budget revenue	**1 090 990**	**1 099 954**	**8 964**	**1 188 855**	**1 223 064**	**34 208**	**11.2%**

1. Percentage change between outcome in 2014/15 and revised estimate in 2015/16

2. Includes interest on overdue income tax, and small business tax amnesty levy

3. Includes turnover tax for small businesses, air departure tax, plastic bags levy, electricity levy, CO2 tax on motor vehicle emissions, incandescent light bulb levy and Universal Service Fund

4. Revenue received by SARS that could not be allocated to a specific tax instrument. Includes mineral royalties, mining leases, departmental revenue and sales of capital assets. 2015/16 Revised includes proceeds from the sale of Vodacom shares

5. Southern African Customs Union. Amounts made up of payments and other adjustments

Source: National Treasury

Revenue in 2014/15 exceeded the 2014 Budget estimate, driven by buoyant personal income tax collections. Weak economic performance led to a decrease in the 2015/16 revenue estimate at the time of the 2015 MTBPS. Since then, economic conditions have deteriorated. The depreciation of the rand and subdued commodity demand have weighed on investor sentiment and individual purchasing power. This has had a negative effect on the three largest tax bases – individual earnings (labour and capital income), taxable business profits, and consumption. The result is a downward revision in nominal gross tax revenues of R11.6 billion compared with the 2015 Budget estimate.

Table 4.4 highlights medium-term tax revenue estimates. Nominal gross tax revenues after tax proposals are expected to grow by 9.8 per cent in 2016/17, reaching R1.175 trillion.

Table 4.4 Budget revenue, 2012/13 – 2018/19

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
R million		**Outcome**		**Revised**		**Medium-term estimates**	
Taxes on income and profits[1]	457 314	507 759	561 790	608 654	668 387	737 785	817 593
of which:							
Personal income tax	*275 822*	*309 834*	*352 950*	*392 000*	*441 040*	*476 778*	*519 339*
Corporate income tax	*159 259*	*177 324*	*184 925*	*189 000*	*198 293*	*214 843*	*233 215*
Taxes on payroll and workforce	11 378	12 476	14 032	15 800	17 640	19 687	22 057
Taxes on property	8 645	10 487	12 472	14 762	15 455	16 145	16 904
Domestic taxes on goods and services	296 921	324 548	356 554	383 995	418 771	447 871	481 163
of which:							
VAT	*215 023*	*237 667*	*261 295*	*278 060*	*301 260*	*327 645*	*357 705*
Taxes on international trade and transactions	39 549	44 732	41 463	46 490	54 536	59 988	65 593
Revenue measures in 2017 Budget						15 000	16 426
Revenue measures in 2018 Budget							15 000
Total tax revenue	**813 826**	**900 013**	**986 295**	**1 069 700**	**1 174 788**	**1 296 477**	**1 434 737**
Non-tax revenue[2]	28 468	30 626	30 900	55 841	26 657	18 896	16 942
of which:							
Mineral and petroleum	*5 026*	*6 439*	*5 455*	*3 460*	*4 430*	*4 800*	*5 210*
less: SACU[3] payments	-42 151	-43 374	-51 738	-51 022	-39 448	-51 068	-62 981
Main budget revenue	**800 142**	**887 265**	**965 457**	**1 074 519**	**1 161 996**	**1 264 305**	**1 388 698**
Provinces, social security funds and selected public entities	107 424	120 822	134 498	148 545	162 343	172 438	182 899
Consolidated budget revenue	**907 566**	**1 008 087**	**1 099 954**	**1 223 064**	**1 324 339**	**1 436 743**	**1 571 597**
As percentage of GDP							
Tax revenue	*24.5%*	*24.9%*	*25.7%*	*26.3%*	*26.8%*	*27.3%*	*27.8%*
Main budget revenue	*24.0%*	*24.6%*	*25.1%*	*26.4%*	*26.5%*	*26.6%*	*26.9%*
GDP (R billion)	*3 327.6*	*3 609.8*	*3 843.8*	*4 073.2*	*4 388.4*	*4 750.7*	*5 161.3*
Tax/GDP multiplier	*1.20*	*1.25*	*1.48*	*1.42*	*1.27*	*1.25*	*1.23*

1. Includes secondary tax on companies/dividends and interest tax, interest on overdue income tax and small business tax amnesty levy

2. Revenue received by SARS that could not be allocated to a specific tax instrument. Includes mineral royalties, mining leases, departmental revenue and sales of capital assets

3. Southern African Customs Union. Amounts made up of payments and other adjustments

Source: National Treasury and SARS

The table includes revenue from tax proposals that will be detailed in future budgets. In 2017/18, R15 billion is included, and this amount carries forward into the following year in line with the overall buoyancy of tax relative to nominal GDP growth. A further R15 billion is included in revenue for 2018/19. Options to raise this revenue include providing limited relief for fiscal drag, increasing marginal personal income tax rates, introducing a new personal income tax bracket, raising the VAT rate and/or increases in other taxes. These options will be the subject of further analysis, consultation and debate.

Tax proposals

2016 tax proposals raise additional revenue of R18.1 billion in 2016/17

The 2016 tax proposals raise additional gross revenue of R18.1 billion in 2016/17 – relative to the baseline – and narrow the budget deficit. The additional amount comprises R9.5 billion through higher excise duties, the general fuel levy and other environmental taxes. In combination, adjustments to capital gains tax and transfer duty raise R2 billion. An amount of R7.6 billion will be raised as a result of limited fiscal drag relief, less R1.1 billion for an increase in medical scheme tax credits.

Fiscal drag relief entails adjusting personal income tax brackets and rebates for inflation so that an individual's purchasing power remains the same from one year to the next. Such adjustments are not automatic and require an announcement by the Minister of Finance to be legislated. Full fiscal drag relief for 2016/17 would amount to an estimated R13.1 billion. Government proposes partial fiscal drag relief for 2016/17 amounting to R5.5 billion, leaving R7.6 billion as additional revenue.

Table 4.5 shows the net revenue effects of the tax proposals. Using a baseline where no adjustments are made to the personal income tax table, net additional revenue amounting to an estimated R5 billion from all tax proposals will be generated. This comprises R9.5 billion in additional indirect tax revenue (excise duties, general fuel levy, environmental taxes), and R2 billion from capital gains tax and transfer duty increases, less R5.5 billion from partial fiscal drag relief, and R1.1 billion for medical scheme tax credit increases.

Table 4.5 Impact of tax proposals on 2016/17 revenue

R million	Effect of tax proposals	
Total tax revenue (before tax proposals)		**1 169 798**
Non-tax revenue		26 657
Less: SACU[1] payments		-39 448
National budget revenue		**1 157 007**
Provinces, social security funds and selected public entities		162 343
Budget revenue (before tax proposals)		**1 319 349**
Budget 2016/17 proposals		**4 990**
Taxes on individuals and companies		
Personal income tax	**-5 650**	
Adjustment in personal income tax structure	-5 500	
Adjustment to medical tax credits	-1 100	
Capital gains tax	950	
Business income tax	**1 000**	
Capital gains tax	1 000	
Taxes on property	**100**	
Transfer duty rate increase	100	
Indirect taxes	**9 084**	
Increase in general fuel levy	6 800	
Increase in excise duties on tobacco products	767	
Increase in excise duties on alcoholic beverages	1 517	
Other	**456**	
Total tax revenue (after tax proposals)		**1 174 788**
Budget revenue (after tax proposals)		**1 324 339**

1. Southern African Customs Union
Source: National Treasury

The main tax proposals are described below, with proposals of a more technical nature set out in Annexure C.

Personal income tax

To reduce the impact of inflation on lower- and middle-income earners, government proposes that the primary rebate and the bottom three income brackets be adjusted by 1.8 per cent and 3.4 per cent respectively. Table 4.6 provides an overview of the proposed personal income tax schedule for 2016/17.

Table 4.6 Personal income tax rate and bracket adjustments, 2015/16 – 2016/17

	2015/16		2016/17
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 - R181 900	18% of each R1	R0 - R188 000	18% of each R1
R181 901 - R284 100	R32 742 + 26% of the amount above R181 900	R188 001 - R293 600	R33 840 + 26% of the amount above R188 000
R284 101 - R393 200	R59 314 + 31% of the amount above R284 100	R293 601 - R406 400	R61 296 + 31% of the amount above R293 600
R393 201 - R550 100	R93 135 + 36% of the amount above R393 200	R406 401 - R550 100	R96 264 + 36% of the amount above R406 400
R550 101 - R701 300	R149 619 + 39% of the amount above R550 100	R550 101 - R701 300	R147 996 + 39% of the amount above R550 100
R701 301 and above	R208 587 + 41% of the amount above R701 300	R701 301 and above	R206 964 + 41% of the amount above R701 300
Rebates		**Rebates**	
Primary	R13 257	Primary	R13 500
Secondary	R7 407	Secondary	R7 407
Tertiary	R2 466	Tertiary	R2 466
Tax threshold		**Tax threshold**	
Below age 65	R73 650	Below age 65	R75 000
Age 65 and over	R114 800	Age 65 and over	R116 150
Age 75 and over	R128 500	Age 75 and over	R129 850

Source: National Treasury

Table 4.7 shows how much tax is expected to be paid by individuals at different levels of taxable income for 2016/17.

Table 4.7 Estimates of individual taxpayers and taxable income, 2016/17

Taxable bracket	Registered individuals		Taxable income		Income tax payable before relief		Income tax and medical tax credits relief		Income tax payable after relief	
	Number	**%**	**R billion**	**%**	**R billion**	**%**	**R billion**	**%**	**R billion**	**%**
R0 - R70 000[1]	6 619 854		178.2		–		–		–	
R70 001 - R150 000	2 583 046	36.3	271.9	12.5	12.6	2.8	0.6	9.1	12.0	2.7
R150 001 - R250 000	1 733 463	24.4	338.8	15.6	35.7	8.0	1.2	17.7	34.5	7.8
R250 001 - R350 000	1 071 798	15.1	317.9	14.6	49.5	11.1	1.3	20.0	48.2	10.9
R350 001 - R500 000	800 990	11.3	330.7	15.2	66.1	14.8	1.5	22.5	64.6	14.6
R500 001 - R750 000	497 722	7.0	300.7	13.9	75.9	17.0	1.1	16.3	74.9	17.0
R750 001 - R1 000 000	197 813	2.8	169.8	7.8	50.3	11.2	0.4	6.6	49.9	11.3
R1 000 001 - R1 500 000	136 782	1.9	163.4	7.5	53.6	12.0	0.3	4.6	53.3	12.1
R1 500 001+	94 578	1.3	276.5	12.7	104.0	23.2	0.2	3.2	103.8	23.5
Total	**7 116 192**	**100.0**	**2 170**	**100.0**	**447.6**	**100.0**	**6.6**	**100.0**	**441.0**	**100.0**
Grand total	**13 736 046**		**2 348**		**447.6**		**6.6**		**441.0**	

1. Registered individuals with taxable income below the income-tax threshold
Source: National Treasury

Medical tax credits

Monthly medical scheme contribution tax credits to increase from 1 March 2016

Government proposes to increase monthly medical scheme contribution tax credits in line with inflation, maintaining the current level of relief in real terms. These tax credits will be increased from R270 to R286 from 1 March 2016 for the first two beneficiaries, and from R181 to R192 for additional beneficiaries. This will cost the fiscus an estimated R1.1 billion.

Retirement savings

From 1 March 2016, an important change to the tax treatment of contributions to retirement savings and how they are withdrawn at retirement comes into effect. Further technical refinements to the legislation are necessary to provide clarity. Details appear in Annexure C. After further consultation, government proposes to postpone the requirement for provident fund members to annuitise to 1 March 2018.

Voluntary disclosure

Relaxed voluntary disclosure rules for six months from 1 October 2016

South Africa's voluntary disclosure programme gives non-compliant taxpayers the opportunity to correct their tax affairs. With a new OECD global standard for the automatic exchange of financial information between tax authorities coming into effect from 2017, time is running out for taxpayers who still have undisclosed assets abroad. The National Treasury, SARS and the Reserve Bank have received requests from parties with unauthorised foreign assets who wish to regularise their affairs. Accordingly, government proposes to relax voluntary disclosure rules for a period of six months, from 1 October 2016, to allow non-compliant individuals and firms to disclose assets held and income earned offshore.

Economic growth and skills development

Learnership and employment tax incentives

Review of employment and learnership tax incentives under way

The learnership tax incentive, introduced in 2002, aims to encourage education and work-based training. The employment tax incentive, introduced in 2014, was designed to promote the employment of young workers. Both incentives will expire towards the end of 2016. SARS has made data on the employment tax incentive available and a review is under way. It is envisaged that results from the review of both incentives will be published and presented to Parliament by the third quarter of 2016. If there are delays in completing these reviews, government may consider extending the incentives by one year.

Increasing the incentive for employers to provide bursaries

Government to increase incentive for employer bursaries

To support skills development, government proposes to increase the fringe benefit tax exemption thresholds for bursaries provided to employees or their relatives. The income eligibility threshold for employees to access the relief will be increased from R250 000 to R400 000. The value of qualifying bursaries will be increased from R10 000 to R15 000 for National Qualifications Framework levels 1 to 4, and from R30 000 to R40 000 for levels 5 to 10.

Education and training-based public benefit activities

Government is considering expanding the list of public-benefit education and training activities to accommodate industry-based training organisations, which would exempt them from tax.

Research and development

A task team established by the Minister of Science and Technology is investigating the challenges faced by businesses in trying to access the R&D tax incentive. Its work should be completed in April 2016, after which proposals will be considered to enhance this incentive.

Infrastructure investment in mining communities

Tax relief for mining companies investing in communities

The Mining Charter requires companies to invest in communities where they operate. It is typically agreed that a company will build housing, hospitals, schools and recreational facilities to benefit workers and communities. Companies can only deduct such capital expenditure if it relates directly to employees. Government proposes that the same relief be provided for community-related expenditure agreed to in a community-endorsed social and labour plan. The Department of Mineral Resources will improve monitoring and oversight of such plans.

Additional measures to protect the tax base

Hybrid debt instruments

Proposal to address double non-taxation in hybrid debt instruments

Government will implement measures, effective 24 February 2016, to eliminate mismatches associated with hybrid debt instruments where the issuer is not a South African resident taxpayer. Such situations potentially result in double non-taxation. Interest payments on debt and dividend payments on equity are treated differently for tax purposes. Hybrid financial instruments, which exhibit both debt and equity features, have become commonplace. This can result in one party to a transaction deducting the payment while the counterparty receives exempt income. Existing rules reclassify an interest payment as a dividend payment for tax purposes. However, it is only possible to deny interest deductions for a South African resident that issues a debt instrument. This results in a mismatch in tax treatment between two countries, as the South African rules apply a low or zero tax rate to the reclassified dividend payment.

Tax treatment of trusts

Measures to prevent tax avoidance through trusts

An important role of the tax system is to reduce inequality. Some taxpayers use trusts to avoid paying estate duty and donations tax. For example, if the founder of a trust sells his or her assets to the trust, and grants the trust an interest-free loan as payment, donations tax is not triggered and the assets are not included in his or her estate at death. To limit taxpayers' ability to transfer wealth without being taxed, government proposes to ensure that the assets transferred through a loan to a trust are included in the estate of the founder at death, and to categorise interest-free loans to trusts as donations. Further measures to limit the use of discretionary trusts for income-splitting and other tax benefits will also be considered.

Capital gains tax

Effective capital gains tax rate for companies raised to 22.4 per cent

Government proposes to increase the inclusion rate for capital gains for individuals from 33.3 per cent to 40 per cent, and for companies from 66.6 per cent to 80 per cent. This will raise the maximum effective capital gains tax rate for individuals from 13.7 per cent to 16.4 per cent, and for companies from 18.6 per cent to 22.4 per cent. The annual amount above which capital gains become taxable for individuals will increase from R30 000 to R40 000. The effective rate applicable to trusts will increase from 27.3 per cent to 32.8 per cent. These new rates will become effective for years of assessment beginning on or after 1 March 2016.

Transfer duty

Government proposes to increase the transfer duty rate on property sales above R10 million from 11 percent to 13 per cent. This new rate will become effective for property acquired on or after 1 March 2016.

Table 4.8 Transfer duty rate adjustments, 2015/16 – 2016/17

2015/16		2016/17	
Property value (R)	**Rates of tax**	**Property value (R)**	**Rates of tax**
R0 - R750 000	0% of property value	R0 - R750 000	0% of property value
R750 001 - R1 250 000	3% of property value above R750 000	R750 001 - R1 250 000	3% of property value above R750 000
R1 250 001 - R1 750 000	R15 000 + 6% of property value above R1 250 000	R1 250 00 - R1 750 000	R15 000 + 6% of property value above R1 250 000
R1 750 001 - R2 250 000	R45 000 + 8% of property value above R1 750 000	R1 750 001 - R2 250 000	R45 000 + 8% of property value above R1 750 000
R2 250 001 and above	R85 000 + 11% of property value above R2 250 000	R 2 250 001 - R10 000 000	R85 000 + 11% of property value above R2 250 000
		R10 000 001 and above	R937 500 + 13% of property value above R10 000 000

Source: National Treasury

Encouraging sustainable practices for a cleaner environment

Government is committed to protecting the environment. In addition to raising revenue, environmental taxes and levies are designed to encourage businesses and individuals to make more environmentally friendly decisions about their purchases and behaviour.

Encouraging the manufacture of clean fuels

To facilitate refinery upgrades to meet new standards, depreciation allowance is adjusted

Compliance with new fuel specifications will require an estimated R40 billion in capital expenditure by South African oil refineries. To facilitate the necessary upgrades, government proposes to provide an accelerated depreciation allowance for a limited time. This would allow qualifying capital expenditure to be deducted over a three-year period, instead of the normal five years.

Renewable energy incentives

Over the past several years, government has provided incentives to encourage investment in renewable energy through targeted accelerated depreciation allowances. However, capital expenditure that indirectly supports renewable electricity production, such as the construction of fences and roads, does not qualify for such deductions. To encourage investment in renewable energy, government will consider enhancing existing provisions to include some necessary indirect infrastructure costs.

Fuel taxes

Fuel taxes raise general revenue, fund compensation for road accidents, and help to address pollution and congestion. Government proposes to increase the general fuel levy by 30c/litre, effective 6 April 2016.

Fuel levy to increase by 30c/litre

Table 4.9 Total combined fuel taxes on petrol and diesel, 2014/15 – 2016/17

	2014/15		2015/16		2016/17	
Cents/litre	**93 octane petrol**	**Diesel**	**93 octane petrol**	**Diesel**	**93 octane petrol**	**Diesel**
General fuel levy	224.50	209.50	255.00	240.00	285.00	270.00
Road Accident Fund levy	104.00	104.00	154.00	154.00	154.00	154.00
Customs and excise levy	4.00	4.00	4.00	4.00	4.00	4.00
Illuminating paraffin marker	–	0.01	–	0.01	–	0.01
Total	**332.50**	**317.51**	**413.00**	**398.01**	**443.00**	**428.01**
Pump price: Gauteng (as in February)[1]	1 206.00	1 129.17	1 009.00	926.09	1 215.00	943.17
Taxes as percentage of pump price	*27.6%*	*28.1%*	*40.9%*	*43.0%*	*36.5%*	*45.4%*

1. Diesel (0.05% sulphur) wholesale price (retail price not regulated)
Source: National Treasury

Tyre levy

The tyre levy proposed in the 2015 Budget is intended to reduce waste, while encouraging reuse, recycling and recovery, and discouraging disposal into landfills. This levy will be implemented at a rate of R2.30/kg of tyre, effective 1 October 2016. See Annexure C for more details. The levy will replace the current fee arrangements for tyres, as regulated by the Department of Environmental Affairs.

Tyre levy of R2.30/kg of tyre to reduce waste

Incandescent globe tax

An environmental levy on incandescent light bulbs was introduced in 2009 to encourage the use of more efficient compact fluorescent bulbs and reduce electricity demand. This levy was last increased in 2013. To take account of inflation, it is proposed that the levy be increased from R4 to R6 per globe, effective 1 April 2016.

Plastic bag levy

This levy, in place for 10 years, aims to counter the dispersion of plastic bags that end up as wind-blown litter or in waste facilities. Overall, it has helped to reduce the production and import of plastic bags. This levy was last increased in 2013. Government proposes to increase the levy from 6 cents to 8 cents per bag, effective 1 April 2016, to account for inflation.

Plastic bag levy increase of 2 cents

Motor vehicle emissions tax

The motor vehicle emissions tax aims to encourage consumers to use more fuel-efficient, low-carbon-emitting vehicles, and manufacturers to improve fuel efficiency. To maintain this strategy, government proposes that a combined inflationary adjustment based on the 2013–2015 period be implemented, effective 1 April 2016. For passenger vehicles, this will increase the tax rate from R90 to R100 for every gram of emissions/km

Motor vehicle emissions tax to encourage fuel-efficient, low-carbon vehicles above 120 gCO_2/km and, for double cabs, from R125 to R140 for every gram of emissions/km in excess of 175 gCO_2/km.

Update on implementation of carbon tax

The main aim of the carbon tax is to put a price on the environmental and economic damages caused by excessive emissions of greenhouse gases. A secondary aim is to change the behaviour of firms and consumers, encouraging them to use cleaner technology.

Given the economic outlook, the carbon tax has been designed to ensure that its overall impact will be revenue neutral up to 2020. The draft Carbon Tax Bill was published in November 2015, with 90 comments received to date. The draft bill will be revised, taking into account public comments and further consultation.

Promoting public health and social wellbeing

Taxing sugar-sweetened beverages

Tax on sugar-sweetened beverages from 1 April 2017

Obesity stemming from overconsumption of sugar is a global concern. Over the past 30 years the problem has grown in South Africa, which has the worst obesity ranking in sub-Saharan Africa, and led to greater risk of heart disease, diabetes and cancer. The Department of Health has published a policy paper on the growing problem of obesity. Fiscal interventions such as taxes are increasingly recognised as complementary tools to help tackle this epidemic. Countries such as Denmark, Finland, France, Hungary, Ireland, Mexico and Norway have levied taxes on sugar-sweetened beverages. Government proposes to introduce such a tax on 1 April 2017 to help reduce excessive sugar intake.

Excise duties on alcoholic beverages and tobacco products

Alcohol excise duty rates to increase by between 6.7 per cent and 8.5 per cent

In line with health and fiscal policy objectives, tax rates on alcoholic beverages have been consistently increased beyond inflation since 2002. The 2016 Budget continues this trend, with excise duty rate increases of between 6.7 per cent and 8.5 per cent. Mixtures of grain-fermented beverages (such as beverages made from maize) with an alcohol content ranging from 2.5 per cent to 9 per cent by volume are proposed as an additional excise duty category. These beverages will be taxed at the beer rate based on absolute alcohol content. Government proposes that other fermented beverage mixtures and ciders be taxed per absolute alcohol content.

Historical changes in duty structure and regulatory requirements have led to brandy being at a competitive disadvantage relative to other spirits. To level the playing field, government proposes that a 10 per cent lower excise duty, based on litres of absolute alcohol content, be applied to pot-stilled and vintage brandy, and phased in over the next two years.

The excise duty on sparkling wine has risen well above inflation in recent years, mainly due to the influence of high-priced imports. As a result, the difference between the excise duties on sparkling wine and still wine has increased substantially. It is proposed that the current difference between the excise duties on natural and sparkling wine be maintained by pegging the sparkling wine excise rate at 3.2 times that of natural unfortified wine.

Tobacco taxation review in 2016/17

The excise adjustments for cigarettes, cigarette tobacco and pipe tobacco are attributable to inflation-linked price increases for the most popular brands in each category. A review of tobacco product taxation will begin in 2016/17, and will consider both existing and non-traditional tobacco products and their alternatives, such as e-cigarettes.

Table 4.10 Changes in specific excise duties, 2016/17

Product	Current excise duty rate	Proposed excise duty rate	Percentage change Nominal	Real
Malt beer	R73.05 / litre of absolute alcohol (124c / average 340ml can)	R79.26 / litre of absolute alcohol (135c / average 340ml can)	8.5	1.9
Traditional African beer	7.82c / litre	7.82c / litre	–	-6.6
Traditional African beer powder	34.70c / kg	34.70c / kg	–	-6.6
Unfortified wine	R3.07 / litre	R3.31 / litre	8.0	1.3
Fortified wine	R5.46 / litre	R5.82 / litre	6.7	0.0
Sparkling wine	R9.75 / litre	R10.53 / litre	8.0	1.4
Ciders and alcoholic fruit beverages	R73.05 / litre of absolute alcohol	R79.26 / litre of absolute alcohol	8.5	1.9
Spirits	R149.23 / litre of absolute alcohol (R48.13 / 750ml bottle)	R161.47 / litre of absolute alcohol (R52.07 / 750ml bottle)	8.2	1.6
Cigarettes	R12.42 / 20 cigarettes	R13.24 / 20 cigarettes	6.7	0.0
Cigarette tobacco	R13.94 / 50g	R14.88 / 50g	6.8	0.1
Pipe tobacco	R3.89 / 25g	R4.16 / 25g	7.0	0.4
Cigars	R64.96 / 23g	R69.28 / 23g	6.7	0.0

Source: National Treasury

Reducing red tape for small business

To support business development, SARS is working to reduce red tape. It has rolled out small business desks, designed a mobile tool to help small firms register at their own premises, and implemented a single registration process, avoiding the need to reregister for different taxes.

Summary

Resilient tax revenue performance has resulted from a coherent tax policy framework and improvements in tax administration. To maintain the social compact, government is reiterating its commitment to efficient spending that provides taxpayers with value for money.

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