4

Revenue trends and tax policy

In brief

- Tax revenue collections for 2017/18 are expected to marginally outperform projections set out in the 2017 *Medium Term Budget Policy Statement* (MTBPS), but additional measures are required to stabilise the public finances.
- Tax policy proposals are designed to raise R36 billion in additional tax revenue for 2018/19.
- Following a review of tax instruments to determine their potential contribution to medium-term fiscal objectives, government proposes to increase the value-added tax (VAT) rate by one percentage point to 15 per cent.
- To support the progressivity of South Africa's tax system, the top four personal income tax brackets will not be adjusted for inflation, and *ad valorem* excise duties for luxury purchases will be increased. Estate duty will also be increased for estates worth more than R30 million.
- Government will continue to strengthen its efforts to combat base erosion and profit shifting.

Overview

Government expects a revenue shortfall of R48.2 billion in 2017/18. This is slightly lower than the R50.8 billion projected in the 2017 MTBPS, but substantially higher than the R30.7 billion revenue gap in 2016/17. As discussed in Chapter 3, government proposes a combination of expenditure cuts and revenue increases to make up for the shortfall.

Revenue shortfall of R48.2 billion projected for 2017/18

Increasing taxes in a low-growth context, when many South Africans are struggling to make ends meet, is not desirable. But the fiscal position is substantially weaker than it was at the time of the 2008 financial crisis, when South Africa had a gross debt-to-GDP ratio that was just above 26 per cent. That ratio now stands at 53.3 per cent. A failure to act now would lead to more drastic spending cuts and tax increases in future.

Tax policy measures are designed to raise R36 billion in additional revenue in 2018/19. These measures, along with public spending cuts, will contribute to reducing the budget deficit and funding fee-free higher education and training for poor and working-class students.

VAT increase and no adjustments to top-four income brackets

The main tax proposals for 2018/19 are:

- A one percentage point increase in VAT to 15 per cent.
- No adjustments to the top four income tax brackets, and below-inflation adjustments to the bottom three brackets.
- An increase of 52c/litre for fuel, consisting of a 22c/litre increase in the general fuel levy and 30c/litre increase in the Road Accident Fund levy.
- Higher *ad valorem* excise duties for luxury goods.
- Increased estate duty, to be levied at 25 per cent for estates above R30 million.
- Increases in the plastic bag levy, the motor vehicle emissions tax and the levy on incandescent light bulbs to promote eco-friendly choices.

These measures were developed following a review of the full range of tax instruments at government's disposal, and taking cognisance of the need to maintain the progressive character of South Africa's tax system.

Raising VAT considered least damaging to economic growth and employment prospects

The VAT proposal recognises limits on the medium-term revenue-raising potential of other major tax instruments, given recent increases in those categories. An appropriate balance is required. VAT is an efficient, certain source of revenue provided that its design is kept simple. Increasing the VAT rate by one percentage point is estimated to have the least detrimental effects on economic growth and employment over the medium term. The zero-rating of basic food items mitigates the effect of the increase on poor households.

Limited adjustments to personal income tax brackets continue the progressive steepening of the income tax curve, which in recent years has also involved increasing capital gains and shareholder dividend tax rates, and establishing a new rate of 45 per cent for the top tax bracket.

Strengthening tax morality

Corruption, wasteful expenditure and poor governance erode taxpayer morality

It has taken many years to build the foundation of trust that underpins South Africa's tax morality. But such trust can erode rapidly. In recent years, corruption and wasteful expenditure in the public sector have eroded taxpayer morality. The lack of an effective government response to allegations of corruption and poor governance has undermined the social contract between taxpayers and the state.

The President will establish a commission of inquiry into the functioning and governance of the South African Revenue Service (SARS). Steps will be taken to improve the governance and accountability of SARS, and to strengthen the operational independence of the Tax Ombud, following recommendations made by the Davis Tax Committee.

Revenue collection and outlook

Revenue shortfall marginally lower than projected in MTBPS owing to improved economic performance

The 2017 Budget estimate for gross tax revenue in 2017/18 was R1.27 trillion. At the time of the 2017 MTBPS, government estimated that revenue would fall R50.8 billion short of this target. Given some improvement in economic performance over the past several months, the overall revenue shortfall is marginally lower than projected in the MTBPS, at R48.2 billion for 2017/18. The significant revenue shortfall reflects weak economic growth, administrative challenges at SARS, and increased tax avoidance and evasion.

Table 4.1 Budget estimates and revenue outcomes[1]

R million	2016/17 Budget[2]	2016/17 Outcome	2016/17 Deviation	2017/18 Budget[2]	2017/18 Revised	2017/18 Deviation	Percentage change[3]
Taxes on income and profits	**660 586**	**664 526**	**3 941**	**739 153**	**712 853**	**-26 299**	**7.3%**
Personal income tax	425 810	424 545	-1 265	482 086	460 968	-21 118	8.6%
Corporate income tax	205 090	204 432	- 658	218 692	218 109	- 583	6.7%
Dividend withholding tax	25 710	31 130	5 420	34 237	29 037	-5 200	-6.7%
Other taxes on income and profits[4]	3 976	4 420	444	4 138	4 739	601	7.2%
Skills development levy	**15 462**	**15 315**	**- 147**	**16 641**	**15 771**	**- 871**	**3.0%**
Taxes on property	**16 043**	**15 661**	**- 381**	**16 509**	**16 047**	**- 461**	**2.5%**
Domestic taxes on goods	**403 909**	**402 464**	**-1 445**	**439 539**	**423 616**	**-15 923**	**5.3%**
Value-added tax	290 000	289 167	- 833	312 750	299 058	-13 692	3.4%
Specific excise duties	35 700	35 774	74	39 871	37 275	-2 596	4.2%
Ad valorem excise duties	3 385	3 396	11	3 640	3 796	157	11.8%
Fuel levy	62 970	62 779	- 191	70 902	71 340	438	13.6%
Other domestic taxes on goods and services[5]	11 854	11 348	- 505	12 376	12 146	- 230	7.0%
Taxes on international trade and transactions	**48 384**	**46 102**	**-2 281**	**53 647**	**50 193**	**-3 454**	**8.9%**
Customs duties	47 500	45 579	-1 921	52 608	49 011	-3 597	7.5%
Diamond export levy	142	117	- 25	147	95	- 51	-18.9%
Miscellaneous customs and excise receipts	741	406	- 335	893	1 087	194	167.9%
Gross tax revenue	**1 144 382**	**1 144 081**	**- 301**	**1 265 488**	**1 217 307**	**-48 181**	**6.4%**
Non-tax revenue[6]	31 957	33 264	1 307	32 880	33 229	349	-0.1%
of which:							
Mineral and petroleum royalties	*6 272*	*5 802*	*- 471*	*6 688*	*7 522*	*833*	*29.6%*
Less: SACU[7] payments	-39 448	-39 448	–	-55 951	-55 951	–	41.8%
Main budget revenue	**1 136 891**	**1 137 896**	**1 006**	**1 242 417**	**1 194 585**	**-47 832**	**5.0%**
Provinces, social security funds and selected public entities	160 404	147 793	-12 611	171 684	159 044	-12 640	7.6%
Consolidated budget revenue	**1 297 295**	**1 285 690**	**-11 605**	**1 414 101**	**1 353 629**	**-60 472**	**5.3%**

1. A more disaggregated view is presented in Tables 2 and 3 of the statistical annexure
2. Budget 2017 estimates
3. Percentage change between outcome in 2016/17 and revised estimate in 2017/18
4. Includes interest on overdue income tax, small business tax amnesty levy and interest withholding tax
5. Includes turnover tax for small businesses, air departure tax, plastic bags levy, electricity levy, CO_2 tax on motor vehicle emissions, incandescent light bulb levy, Universal Service Fund, tyre levy and International Oil Pollution Compensation Fund
6. Includes mineral and petroleum royalties, mining leases, departmental revenue and sales of capital assets
7. Southern African Customs Union. Amounts made up of payments and other adjustments
Source: National Treasury

Slowing wage income, a weaker consumer outlook and substantially lower import growth contributed to the large shortfalls in personal income tax, VAT and customs duties respectively. These three taxes accounted for 80 per cent of the shortfall.

Table 4.2 Budget revenue[1]

R million	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
		Outcome		Revised		Medium-term estimates	
Taxes on income and profits[2]	561 790	606 821	664 526	712 853	772 991	836 074	909 253
of which:							
Personal income tax[3]	*352 950*	*388 102*	*424 545*	*460 968*	*505 845*	*550 912*	*602 828*
Corporate income tax	*184 925*	*191 152*	*204 432*	*218 109*	*231 219*	*246 787*	*264 207*
Skills development levy	14 032	15 220	15 315	15 771	16 929	18 299	19 819
Taxes on property	12 472	15 044	15 661	16 047	17 311	18 567	20 008
Domestic taxes on goods and services	356 554	385 956	402 464	423 616	484 826	524 169	570 461
of which:							
VAT	*261 295*	*281 111*	*289 167*	*299 058*	*348 110*	*378 924*	*415 655*
Taxes on international trade and transactions	41 463	46 942	46 102	50 193	54 050	58 884	64 731
Gross tax revenue	**986 295**	**1 069 983**	**1 144 081**	**1 217 307**	**1 344 965**	**1 454 795**	**1 581 926**
Non-tax revenue[4]	30 900	57 274	33 264	33 229	24 470	19 271	20 876
of which:							
Mineral and petroleum royalties	*5 422*	*3 708*	*5 802*	*7 522*	*7 986*	*8 524*	*9 125*
Less: SACU[5] payments	-51 738	-51 022	-39 448	-55 951	-48 289	-46 281	-60 147
Main budget revenue	**965 457**	**1 076 234**	**1 137 896**	**1 194 585**	**1 321 146**	**1 427 785**	**1 542 655**
Provinces, social security funds and selected public entities	129 865	139 035	147 793	159 044	169 570	181 884	194 247
Consolidated budget revenue	**1 095 322**	**1 215 270**	**1 285 690**	**1 353 629**	**1 490 716**	**1 609 669**	**1 736 902**
As percentage of GDP							
Tax revenue	*25.5%*	*26.0%*	*26.0%*	*25.9%*	*26.8%*	*27.0%*	*27.2%*
Main budget revenue	*25.0%*	*26.1%*	*25.8%*	*25.4%*	*26.3%*	*26.5%*	*26.6%*
GDP (R billion)	*3 867.9*	*4 122.6*	*4 404.5*	*4 699.4*	*5 025.4*	*5 390.1*	*5 808.3*
Tax buoyancy	*1.37*	*1.29*	*1.01*	*0.96*	*1.51*	*1.13*	*1.13*

1. A more disaggregated view is presented in Tables 2 and 3 of the statistical annexure
2. Includes secondary tax on companies/dividend and interest withholding tax, interest on overdue income tax and small business tax amnesty levy
3. Medical tax credits will be adjusted below inflation over the next three years to fund additional expenditure for national health insurance. Additional revenues will amount to R0.7 billion in 2018/19, which will carry through to the two outer years, requiring increases of R0.64 billion and R0.58 billion respectively. These are included in the outer-year estimates for personal income taxes
4. Includes mineral and petroleum royalties, mining leases, departmental revenue and sales of capital assets
5. Southern African Customs Union. Amounts made up of payments and other adjustments
Source: National Treasury and SARS

Personal income tax in particular continues to underperform, negatively affected by lower bonus payments, moderate wage settlements, continued job losses and a stabilisation of overall public-service employment. Increased avoidance in response to tax increases may also be playing a role. In the 2017 Budget, personal income tax changes were expected to yield the majority of additional proposed tax collections. Instead, total personal income tax is expected to undershoot the target by about R21.1 billion.

Corporate income tax collections have improved

Corporate income tax collections improved in the fourth quarter of 2017 as a result of an upturn in the mining, financial and manufacturing sectors.

Tax buoyancy

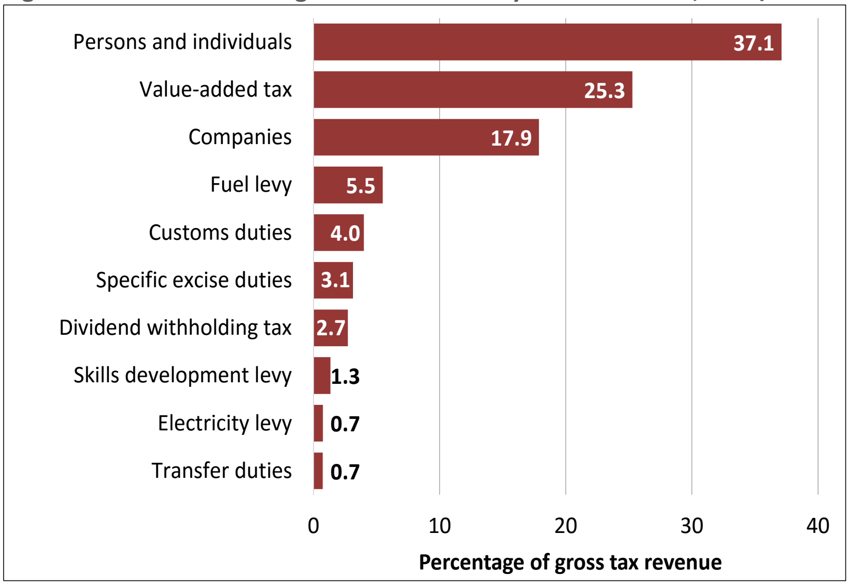
In recent years South Africa has experienced a decline in tax buoyancy – the relationship between tax revenue growth and economic growth. A buoyancy of 1 means the pace of revenue growth is matching that of GDP growth. Between 2010/11 and 2015/16, tax revenue grew faster than the economy. Given large tax increases in 2016/17 and 2017/18, this trend was expected to continue, but revenue growth subsequently slowed, effectively matching the pace of economic growth.

The lower estimated buoyancy of 0.96 for 2017/18 partly reflects a shift in dividend withholding tax revenue to the previous year, as some taxpayers aimed to avoid paying the higher rate introduced in the 2017 Budget. Alongside these temporary effects, lower-than-expected nominal imports weighed down import VAT and customs duties, and personal income tax collections fell short of projections.

Tax buoyancy expected to increase in 2018/19, partly in response to tax increases

These factors are not expected to continue in 2018/19. The projected gross tax revenue buoyancy of 1.51 for 2018/19 includes the R36 billion in additional revenue measures, and assumes a decrease in the personal income tax buoyancy from 1.15 to 1.1.

Figure 4.1 Contribution to gross tax revenue by tax instrument, 2016/17



Source: National Treasury

Tax proposals

Davis Tax Committee recommendations assist in developing tax proposals

The 2018 Budget tax proposals are designed to increase revenue collection. Environmental and health considerations also play a role in the amendments put forward. The recommendations of the Davis Tax Committee provide important input into determining the key tax proposals for consideration.

R6.8 billion will be raised from adjustments to personal income tax rebates

Revenue measures are expected to raise R36 billion in 2018/19. The largest contribution is R22.9 billion from the one percentage point increase in VAT. In addition, R6.8 billion will be raised from lower-than-inflation increases to the personal income tax rebates and brackets. Table 4.3 shows the estimated changes in revenue resulting from the proposed measures.

Table 4.3 Impact of tax proposals on 2018/19 revenue[1]

R million		
Gross tax revenue (before tax proposals)		**1 308 965**
Budget 2018/19 proposals		**36 000**
Direct taxes		**7 310**
Taxes on individuals and companies		
Personal income tax	**7 510**	
Revenue from not fully adjusting for inflation	6 810	
Revenue if no adjustment is made	*14 155*	
Partial bracket creep for personal income tax	*-7 345*	
Medical tax credit adjustment	700	
Corporate income tax	**-350**	
Special economic zones	*-350*	
Taxes on property	**150**	
Estate duty increase	150	
Indirect taxes		**28 690**
Increase in value-added tax	22 900	
Increase in general fuel levy	1 220	
Increase in excise duties on tobacco products	420	
Increase in excise duties on alcoholic beverages	910	
Increase in ad valorem excise duties	1 030	
Increase in environmental taxes	280	
Introduction of health promotion levy	1 930	
Gross tax revenue (after tax proposals)		**1 344 965**

1. Revenue changes are in relation to thresholds that have been fully adjusted for inflation

Source: National Treasury

Increasing the VAT rate

South African VAT lower than global average

Government proposes to raise VAT by one percentage point, from 14 per cent to 15 per cent, effective 1 April 2018. The increase is necessary to meet new spending commitments and prevent further erosion of the public finances. VAT was last adjusted in 1993, and is lower than the global and African averages.

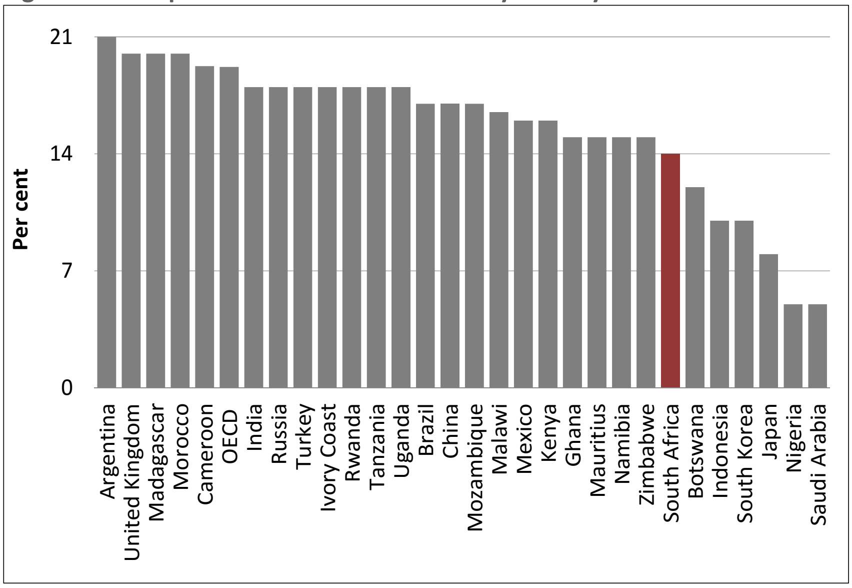
Alternatives considered

In assessing government's revenue requirements over the medium term, the National Treasury considered the potential contributions from each of the main tax instruments.

Personal income tax burden has steadily increased since 2010/11

South Africa's personal income tax burden has increased steadily from 8.3 per cent of GDP in 2010/11 to 9.8 per cent in 2017/18. Last year government added a new top income tax bracket of 45 per cent for those earning above R1.5 million. This followed a one percentage point increase in personal income tax rates that affected all but the lowest-income tax bracket in 2015/16, and below-inflation adjustments to tax brackets in 2015/16 and 2016/17. As a result, the tax burden on individuals has been increasing. Effective capital gains tax rates have also been increased over time to build on the progressive character of the tax system.

Figure 4.2 Comparative standard VAT rates by country*



**Rates are for 2017 and 2018. The OECD rate refers to an unweighted average*
Source: International Bureau of Fiscal Documentation

An additional personal income tax rate increase in 2018/19 would have greater negative consequences for growth and investment than a VAT increase. Moreover, significant shortfalls from this tax in 2017/18 suggest that further increases might not yield the revenue required to stabilise the public finances.

Further increases in personal income tax would constrain growth and investment

Falling corporate income tax rates in advanced and middle-income countries affect South Africa's global competitiveness. This trend limits the room to increase (or even maintain) the tax rate on business. Corporate income tax contributes more as a share of GDP in South Africa than in most other countries. Within the Organisation for Economic Cooperation and Development (OECD), only companies in Chile contribute a higher share.

The global trend to reduce corporate income tax rates includes countries that maintain strong investment and trading ties with South Africa. The United States, for example has reduced its rate from 35 per cent to 21 per cent, the Netherlands from 26 per cent to 21 per cent, and the United Kingdom from 30 per cent to 19 per cent. China's corporate income tax rate is 25 per cent. While some African countries have similar or slightly higher tax rates, these are often effectively reduced with incentives and/or tax holidays. At 28 per cent, South Africa is becoming an outlier, providing an incentive for companies to shift profits abroad and pay lower taxes elsewhere.

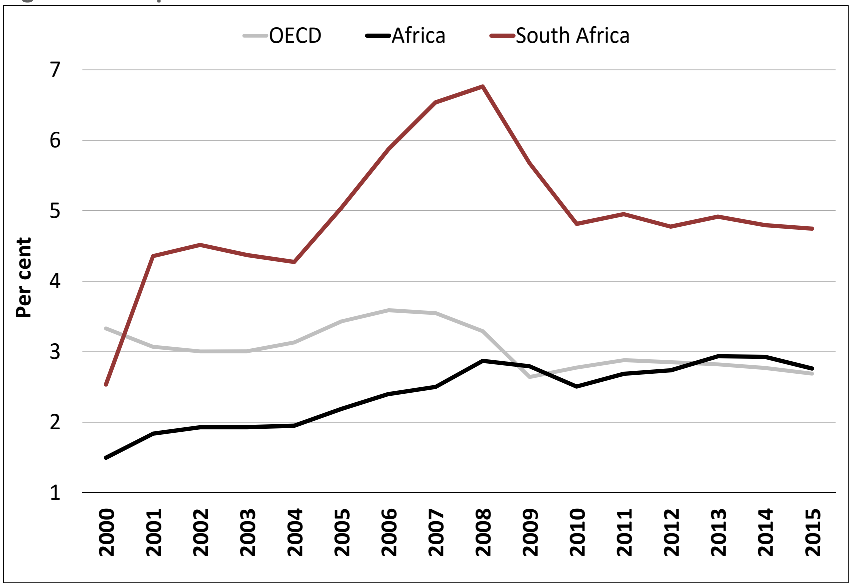
Corporate income tax rate in South Africa exceeds rates in comparable and trading-partner countries

In recent years, government has taken steps to avoid erosion of the corporate tax base and prevent profit shifting, and to remove or redesign wasteful tax incentives. In addition to effective anti-avoidance legislation and adequate enforcement capacity, this requires policy decisions that do not undermine investment and competitiveness.

Furthermore, studies show that the burden from higher corporate taxes does not fall entirely on shareholders. Companies can respond by raising prices, lowering wages or retrenching workers. One means of directly

Companies can shift burden of higher corporate taxes onto consumers or workers increasing the burden on shareholders is the dividend withholding tax, which was increased from 15 per cent to 20 per cent in the 2017 Budget.

Figure 4.3 Corporate income tax as a share of GDP*



**Average corporate income tax to GDP ratios for OECD and 16 African countries (Cape Verde, Cameroon, Democratic Republic of the Congo, Ivory Coast, Ghana, Kenya, Mauritius, Morocco, Niger, Rwanda, Senegal, South Africa, Swaziland, Togo, Tunisia and Uganda)*
Source: OECD

Distributional effects of a VAT increase

VAT increase will affect all households, but zero-rating partially offsets effects on poor

The VAT proposal will increase the cost of living for all households. However, the zero-rating of basic food items and paraffin will reduce the impact on the poor, who will receive further assistance through an above-inflation increase in social grants. The wealthiest 30 per cent of households contribute 85 per cent of VAT revenue.

South Africa's VAT system includes 19 basic food items that are zero-rated. These include dried beans, samp, maize meal and rice. This system remains in place. While government has explored implementing a luxury VAT to make the tax more progressive, this option is not being proposed. Reducing inequality is crucially important, but the VAT system is not the best instrument for achieving redistributive goals. Even though the zero-rated items are mostly well targeted, there are a few food items, such as fruit, where higher-income households reap most of the benefits.

Davis Tax Committee found no evidence that higher rates on luxury goods would improve equity in VAT system

The Katz Commission (1994) argued that "the disadvantages of multiple VAT rates outweigh the possible redistributive gains available from this option". In 2015, the Davis Tax Committee found no global evidence that higher rates on luxury goods would meaningfully improve equity in the VAT system. The committee did observe, however, that multiple rates add significantly to the complexity and administrative burden of the tax. Furthermore, the committee pointed out that *ad valorem* excise duties are already charged on a number of luxury goods (thereby increasing the price on which VAT is charged).

Additional rates would require further enforcement and more SARS resources. Multiple VAT rate structures may also lead to legal uncertainty.

Recently, for example, there has been uncertainty around zero-rating brown bread. The 19 zero-rated food items are only meant to cover basic food items. As of 1 April 2018, government proposes to amend the VAT Act (1991) to reflect the original policy intent – that only brown bread and whole wheat brown bread will be zero-rated. Products such as rye or low GI bread, which in South Africa are much more expensive and tend to be consumed by richer households, will not be zero-rated.

Rye and low GI bread, largely consumed by wealthier households, will not be zero-rated

Raising luxury ad valorem excise duties

A less complex means of applying higher taxes to luxury goods is to increase *ad valorem* excise duties. Government proposes to increase these rates, which are already applied to some goods that are consumed mainly by wealthier households (such as cosmetics, electronics and golf balls). The associated revenue-raising potential is not significant, but it is aligned with the progressive structure of the tax system.

Effective 1 April 2018, the maximum *ad valorem* excise duty for motor vehicles will be increased from 25 per cent to 30 per cent. The classification of cellular telephones will be updated to include "smart phones" to ensure they attract *ad valorem* excise duties. In addition, the *ad valorem* excise duty rates, now at 5 per cent and 7 per cent, will be increased to 7 per cent and 9 per cent, ensuring that households spending more on luxury goods contribute proportionately more to revenue. Government will also consult on a proposal to replace the flat rate for cellphones with a progressive rate structure based on the value of the phone.

Ad valorem excise duty increases support progressive nature of tax system

Increasing the estate duty rate

In line with Davis Tax Committee recommendations, and in keeping with the progressive structure of the tax system, the 2018 Budget proposes to increase estate duty from 20 per cent to 25 per cent for estates worth R30 million and more. To limit the staggering of donations to avoid the higher estate duty rate, any donations above R30 million in one tax year will also be taxed at 25 per cent. Both measures will be effective from 1 March 2018.

Estate duty will increase to 25 per cent for estates worth R30 million and more

Incentives to complement growth initiatives

The Minister of Finance will approve six special economic zones to benefit from additional tax incentives. The Department of Trade and Industry is driving the overall policy approach that seeks to encourage investment in the manufacturing and tradable services sectors to support exports and economic growth, and create jobs. Coega, Dube Trade Port, East London, Maluti-a-Phofung, Richards Bay and Saldanha Bay will offer attractive incentives, including a reduced corporate tax rate for qualifying firms and an employment tax incentive for workers of all ages. The legislation will be reviewed to ensure that the granting of these additional tax incentives does not create opportunities for local companies to shift their activities and reduce their tax liability.

Six special economic zones to benefit from additional incentives, boosting growth and jobs

The Department of Planning, Monitoring and Evaluation is conducting a review of all tax incentives and grants. Annexure B provides an overview of the main tax incentives and what they cost government. Tax incentives are evaluated to ensure that they are aligned with inclusive growth objectives. If not, they will be redesigned or removed.

Review of all tax incentives and grants is under way

Changes to remove complexity from R&D incentive under consideration

Research and development (R&D) can lead to innovation, increased productivity and higher levels of economic growth. To encourage greater investment, the R&D tax incentive allows taxpayers to deduct 150 per cent of expenditure on qualifying projects. Over the past two years, the Department of Science and Technology has worked to reduce an application backlog that developed due to inefficiencies in the system, and has moved to an online system. Government will consider revising aspects of the legislation that have created complexity.

The employment tax incentive appears to have had generally positive results, depending on firm size. Impact analyses consistently find high impact in smaller firms, with lower or negative impacts in large firms. The incentive will be reviewed before it expires on 28 February 2019.

Venture capital incentive boosts investment in start-up firms

The venture capital company tax incentive provides a tax deduction for buying shares in venture capital companies, which in turn invest those funds in qualifying small businesses. Increased equity funding in small businesses enables them to expand and contribute to economic growth and job creation.

The incentive has been in place since 2008. Following recent amendments, the incentive has seen a substantial increase in take-up. From only one in 2008, there are now more than 90 registered venture capital companies with total investments of R2.5 billion. Investment in qualifying small businesses amounts to R615 million. New and existing small businesses in all economic sectors are benefiting from funding, enabling them to hire staff and grow their businesses. An administrative amendment to the incentive is discussed in Annexure C, and legislation will be tightened to reduce the scope for tax structuring.

Ensuring a sustainable tax base

Reviewing the controlled foreign company comparable tax exemption

South African-controlled companies operating in countries where tax payable is less than 75 per cent of what would have been payable at home are required to include the foreign net income in their South African tax calculation. This prevents these firms from shifting profits to low-tax jurisdictions. In the context of a global trend towards lower corporate tax rates, government will review the controlled foreign company tax exemption to determine whether a reduction is warranted.

Reviewing the tax treatment of excessive debt

Tax treatment of excessive debt financing under review

Government has made progress in reviewing the tax treatment of excessive debt financing. The deductibility of interest payments on debt acts as an incentive to use debt rather than equity funding, and can be used to strip profits from high-tax countries. A discussion document inviting comments will soon be published to facilitate public consultation. Government is striving for a balance between certainty, simplicity and adequate base protection to ensure a sustainable corporate tax base.

Updating regulations prescribing foreign electronic services

The 2017 *Budget Review* announced that regulations prescribing foreign electronic services subject to VAT would be broadened to include cloud computing and other online services. Updated draft regulations prescribing foreign electronic services and supporting amendments to the VAT legislation will be published on Budget Day for public comment.

Tax implications of fruitless and wasteful expenditure

To ensure proper governance of public entities and encourage accountability, government proposes that losses or expenditure classified as fruitless and wasteful will not qualify for a tax deduction.

Fruitless and wasteful expenditure should not be tax deductible

Environmental and health taxes

In addition to raising revenue, tax policy supports efforts to protect the natural environment and promote sustainable use of limited resources.

- Cabinet adopted the Carbon Tax Bill in August 2017. Parliament has convened hearings following the release of the draft bill in December 2017. The bill is expected to be enacted before the end of 2018. Government proposes to implement the tax from 1 January 2019 to meet its nationally determined contributions under the 2015 Paris Agreement of the United Nations Framework Convention on Climate Change.
- To reduce litter and dissuade consumers from buying plastic bags, the plastic bag levy is to be increased by 50 per cent to 12 cents per bag, effective 1 April 2018.
- The environmental levy on incandescent light bulbs will increase from R6 to R8 to incentivise more energy-efficient behaviour. This measure will take effect from 1 April 2018.
- The vehicle emissions tax will be increased to R110 for every gram above 120 gCO_2/km for passenger vehicles and R150 for every gram above 175 gCO_2/km for double cab vehicles, effective 1 April 2018.

Government will publish a discussion document outlining design options for the proposed acid mine drainage levy to make polluters pay for the cost of environmental damages, and to help fund treatment of acid mine water.

Discussion document outlining design options for proposed acid mine drainage levy to be published

An environmental fiscal reform policy brief will be published soon. The paper will examine fiscal and regulatory options to improve water resource management, mitigate the emission of pollutants and reduce waste.

The health promotion levy, which taxes sugary beverages, will be implemented from 1 April 2018. A policy brief on the use of taxes to encourage healthy choices will be published shortly.

Medical tax credits

Over the next three years, below-inflation increases in medical tax credits will help government to fund the rollout of national health insurance. Government will increase the medical tax credit from R303 to R310 per month for the first two beneficiaries, and from R204 to R209 per month for the remaining beneficiaries. The medical tax credit will be reviewed after the Davis Tax Committee presents its recommendations.

Below-inflation increases to medical tax credits

Fuel taxes

Government proposes to increase the general fuel levy by 22c/litre and the Road Accident Fund levy by 30c/litre, effective 4 April 2018.

Table 4.4 Total combined fuel taxes on petrol and diesel

	2016/17		2017/18		2018/19	
Rands/litre	**93 octane petrol**	**Diesel**	**93 octane petrol**	**Diesel**	**93 octane petrol**	**Diesel**
General fuel levy	2.85	2.70	3.15	3.00	3.37	3.22
Road Accident Fund levy	1.54	1.54	1.63	1.63	1.93	1.93
Customs and excise levy	0.04	0.04	0.04	0.04	0.04	0.04
Total	**4.43**	**4.28**	**4.82**	**4.67**	**5.34**	**5.19**
Pump price[1]	12.69	11.11	13.55	11.96	13.90	12.57
Taxes as percentage of pump price	*34.9%*	*38.5%*	*35.6%*	*39.0%*	*38.4%*	*41.3%*

1. Average Gauteng pump price for the 2016/17 and 2017/18 years. The 2018/19 figure is the Gauteng pump price in February 2018. Diesel (0.05% sulphur) wholesale price (retail price not regulated)

Source: National Treasury

Personal income tax

The bottom three personal income tax brackets and the primary, secondary and tertiary rebates will be partially adjusted for inflation through a 3.1 per cent increase. The top four brackets will remain unchanged.

Table 4.5 Personal income tax rates and bracket adjustments

2017/18		2018/19	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 - R189 880	18% of each R1	R0 - R195 850	18% of each R1
R189 881 - R296 540	R34 178 + 26% of the amount above R189 880	R195 851 - R305 850	R35 253 + 26% of the amount above R195 850
R296 541 - R410 460	R61 910 + 31% of the amount above R296 540	R305 851 - R423 300	R63 853 + 31% of the amount above R305 850
R410 461 - R555 600	R97 225 + 36% of the amount above R410 460	R423 301 - R555 600	R100 263 + 36% of the amount above R423 300
R555 601 - R708 310	R149 475 + 39% of the amount above R555 600	R555 601 - R708 310	R147 891 + 39% of the amount above R555 600
R708 311 - R1 500 000	R209 032 + 41% of the amount above R708 310	R708 311 - R1 500 000	R207 448 + 41% of the amount above R708 310
R1 500 001 and above	R533 625 + 45% of the amount above R1 500 000	R1 500 001 and above	R532 041 + 45% of the amount above R1 500 000
Rebates		**Rebates**	
Primary	R13 635	Primary	R14 067
Secondary	R7 479	Secondary	R7 713
Tertiary	R2 493	Tertiary	R2 574
Tax threshold		**Tax threshold**	
Below age 65	R75 750	Below age 65	R78 150
Age 65 and over	R117 300	Age 65 and over	R121 000
Age 75 and over	R131 150	Age 75 and over	R135 300

Source: National Treasury

Table 4.6 shows how much tax individuals at different taxable income levels are expected to contribute in 2018/19 relative to what would have been collected without the proposed adjustments.

Table 4.6 Estimates of individual taxpayers and taxable income, 2018/19

Taxable bracket	Registered individuals		Taxable income		Income tax payable before relief		Income tax relief		Income tax from medical tax credits		Income tax payable after proposals	
R thousand	**Number**	**%**	**R billion**	**%**	**R billion**	**%**	**R billion**	**%**	**R billion**	**%**	**R billion**	**%**
R0 - R70[1]	6 557 245	–	170.2	–	–	–	–	–	–	–	–	–
R70 - R150	2 502 678	33.4	262.0	10.8	11.1	2.2	-0.9	12.5	0.04	5.0	10.2	2.0
R150 - R250	1 790 280	23.9	351.8	14.5	34.3	6.7	-1.3	17.3	0.16	23.1	33.2	6.6
R250 - R350	1 178 901	15.7	349.8	14.4	51.6	10.1	-1.3	18.4	0.15	22.1	50.5	10.0
R350 - R500	934 615	12.5	386.8	15.9	74.2	14.5	-1.6	21.5	0.15	21.9	72.7	14.4
R500 - R750	576 469	7.7	348.4	14.3	85.6	16.7	-1.2	16.1	0.10	14.3	84.5	16.7
R750 - R1 000	233 652	3.1	200.7	8.3	58.4	11.4	-0.5	6.5	0.04	6.1	58.0	11.5
R1 000 - R1 500	161 014	2.2	192.3	7.9	62.4	12.2	-0.3	4.5	0.03	4.4	62.1	12.3
R1 500 +	109 783	1.5	339.4	14.0	134.8	26.3	-0.2	3.1	0.02	3.2	134.6	26.6
Total	**7 487 392**	**100.0**	**2 431**	**100.0**	**512.5**	**100.0**	**-7.3**	**100.0**	**0.70**	**100.0**	**505.8**	**100.0**
Grand total	**14 044 637**		**2 601**		**512.5**		**-7.3**		**0.70**		**505.8**	

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

Excise duties on tobacco and alcohol

Government proposes to increase excise duties on tobacco products by 8.5 per cent, and excise duties on alcohol by between 6 per cent and 10 per cent. The National Treasury and the Department of Health will explore additional measures to reduce consumption of tobacco products, including a minimum price and stronger enforcement.

Table 4.7 Changes in specific excise duties, 2018/19

Product	Current excise duty rate	Proposed excise duty rate	Percentage change Nominal	Real
Malt beer	R86.39 / litre of absolute alcohol (146,9c / average 340ml can)	R95.03 / litre of absolute alcohol (161,56c / average 340ml can)	10.0	4.5
Traditional African beer	7,82c / litre	7,82c / litre	–	-5.5
Traditional African beer powder	34,70c / kg	34,70c / kg	–	-5.5
Unfortified wine	R3.61 / litre	R3.91 / litre	8.5	3.0
Fortified wine	R6.17 / litre	R6.54 / litre	6.0	0.5
Sparkling wine	R11.46 / litre	R12.43 / litre	8.5	3.0
Ciders and alcoholic fruit beverages	R86.39 / litre of absolute alcohol (146,9c / average 340ml can)	R95.03 / litre of absolute alcohol (161,56c / average 340ml can)	10.0	4.5
Spirits	R175.19 / litre of absolute alcohol (R56.50 / 750ml bottle)	R190.08 / litre of absolute alcohol (R61.30 / 750ml bottle)	8.5	3.0
Cigarettes	R14.30 / 20 cigarettes	R15.52 / 20 cigarettes	8.5	3.0
Cigarette tobacco	R16.07 / 50g	R17.44 / 50g	8.5	3.0
Pipe tobacco	R4.56 / 25g	R4.94 / 25g	8.5	3.0
Cigars	R75.86 / 23g	R82.31 / 23g	8.5	3.0

Source: National Treasury

Measures to enhance tax administration

SARS to release discussion paper on potential use of electronic cash registers

Several changes to tax administration are under consideration.

- SARS will release a discussion paper on the potential use of electronic fiscal devices, sometimes known as electronic cash registers, to help revenue administration by monitoring business transactions.
- Amendments to the Customs and Excise Act (1964) will be considered to prevent "forestalling" – a practice through which abnormal volumes of products are moved from warehouses into the market to avoid increases in excise duty rates.
- Legislative changes will be made to the Customs and Excise Act to extend the use of "fiscal markers", which are required under the tracking and tracing obligations of the World Health Organisation's Protocol to Eliminate Illicit Trade in Tobacco Products. The extension will enable fiscal marking of other products.
- SARS, which collects more than 30 per cent of total revenue from the customs and excise system, is at an advanced stage in implementing its customs modernisation programme, and strengthening data and revenue collection associated with cross-border trade.