4

Revenue trends and tax proposals

In brief

- Revenue collection continues to underperform as a result of weak economic growth and tax administration concerns. The revised tax revenue estimate for 2018/19 is R15.4 billion lower than the 2018 *Medium Term Budget Policy Statement* (MTBPS) estimate.
- Tax policy proposals are designed to raise R15 billion in additional tax revenue in 2019/20. The proposals reflect government's commitment to narrow the budget deficit and stabilise debt.
- The Commission of Inquiry into Tax Administration and Governance by the South African Revenue Service (the SARS Commission), has recommended steps to improve governance at the agency. SARS is strengthening its operations by re-establishing the Large Business Centre and setting up a dedicated unit to tackle syndicated tax evasion.
- The Minister of Finance will introduce legislative amendments to implement the recommendations of the SARS Commission and to strengthen tax administration and the capacity of SARS.

Overview

The economy's performance continues to weigh heavily on tax revenues. The 2018 MTBPS projected a 2018/19 revenue shortfall of R27.4 billion compared with the estimate published in the 2018 Budget. This shortfall is now R42.8 billion compared with the 2018 Budget estimate. Economic weakness has fed through to lower personal income tax and corporate income tax receipts. Administrative weaknesses in collection were a contributing factor. Total tax collections for 2018/19 are estimated to be R1.3 trillion.

Economic weakness has fed through to lower personal income tax and corporate income tax receipts

The large tax revenue shortfall and new expenditure pressures require further tax policy and spending interventions. In the context of economic weakness, the 2019 Budget tax proposals are designed to minimise the negative impact on growth. Over the medium term, tax policy adjustments will be made as needed to strengthen fiscal consolidation.

The 2019 proposals are estimated to raise tax revenue by R15 billion in 2019/20. Further tax changes are proposed to raise an additional R10 billion in 2020/21, the details of which will be set out in the 2020 Budget.

The main tax proposals for 2019/20 are:

- Increasing the tax-free threshold for personal income taxes from R78 150 to R79 000. No changes will be made to personal income tax brackets.
- Increasing the fuel levy by 29c/litre, consisting of a 15c/litre increase in the general fuel levy, a 5c/litre increase in the Road Accident Fund (RAF) levy and the introduction of a carbon tax on fuel of 9c/litre.
- Increasing excise duties on alcohol and tobacco products by between 7.4 per cent and 9 per cent.
- Increasing the eligible income bands for the employment tax incentive.

Tax policy considerations

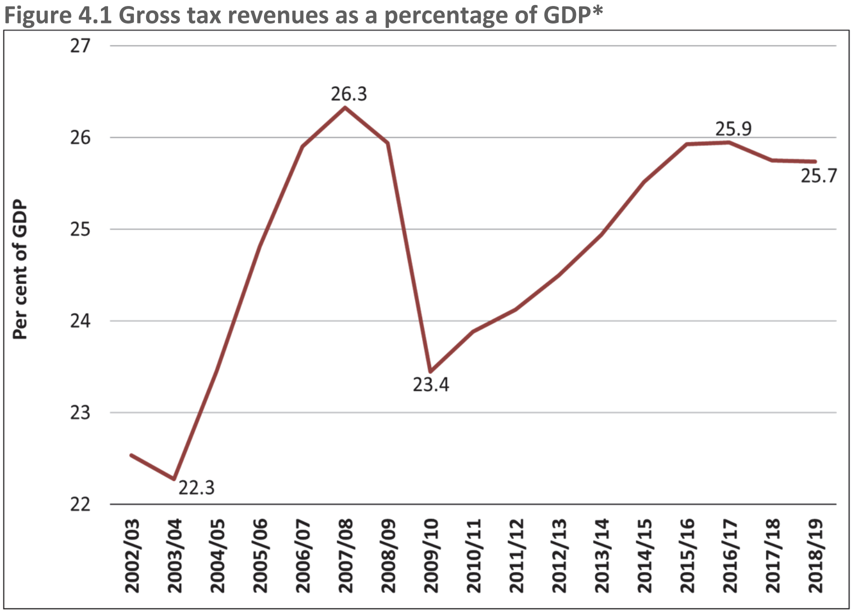
Despite substantial increases over past four years, tax revenue as a proportion of GDP has started to decline

Consistent revenue shortfalls, alongside new expenditure commitments such as fee-free higher education, led to significant tax increases over the past four years. Since 2015/16, measures have been introduced to raise additional amounts of R16.8 billion, R18.1 billion, R28 billion and R36 billion per year. Rates for personal income tax, dividend withholding tax, capital gains tax and value-added tax (VAT) have all been increased. Notwithstanding these large tax increases, tax revenue as a proportion of GDP has started to decline.

2019 Budget proposals will not increase tax rates

To limit the negative impact on economic growth, the 2019 Budget proposals will not increase tax rates in any category. Instead, they will increase collections by not adjusting for inflation.

Figure 4.1 Gross tax revenues as a percentage of GDP*



**2018/19 is an estimate*
Source: National Treasury

Improving SARS efficiency may be more effective than further substantial tax increases

Problems with tax administration, as highlighted in the findings of the SARS Commission, partly explain poor revenue-collection performance. Improving collections hinges on restoring the efficiency of SARS. In the short term, such improvements may be more effective in raising revenue than further substantial tax increases.

Ensuring transparency in tax administration

Commission report highlights "massive failure of governance and integrity" at SARS

To raise the revenue needed to fund its social and economic policy commitments, South Africa requires its tax administration to be efficient, effective and impartial. Reports by the SARS Commission highlight maladministration and abuse of tender procedures that occurred at the entity between 2014 and 2017. The Commission's main finding is that these failings stem from a "massive failure of governance and integrity" after the appointment of the entity's previous commissioner in 2014.

Government has started implementing the most urgent recommendations, as discussed below. A new commissioner is expected to be appointed in the near future. The Minister of Finance intends to introduce legislative amendments this year giving effect to a number of the Commission's governance recommendations. These matters will be included in this year's draft tax legislation. Recommendations relating to the creation of an inspector-general for tax administration will be considered in a discussion document.

Implementing the SARS Commission recommendations

Government is considering a comprehensive response to the SARS Commission's report. In the interim, it is implementing the Commission's most pressing recommendations, including the following:

- The Presidency has started the recruitment process for a new SARS Commissioner, who will have to consider the Commission's recommendations concerning management of the revenue service.
- SARS is re-establishing a division that will focus on large businesses. This process, which includes the recruitment of specialists, is expected to be completed by April 2019.
- In August 2018, SARS launched an Illicit Economy Unit to investigate syndicated tax evasion schemes in high-risk sectors, including the tobacco trade. This unit has also begun to investigate potential tax-related offences in relation to some of the activities highlighted by various commissions of inquiry.
- SARS has taken steps to strengthen the management of its information technology systems, rebuild its technical prowess, and harness opportunities arising from information-sharing agreements between national tax authorities.
- Through internal processes, SARS is implementing recommendations concerning inappropriate actions, fruitless and wasteful expenditure, unfair labour practices and maladministration.
- SARS is reviewing contracts that breached public procurement regulations and will act to recover funds spent.

Revenue collection and outlook

Revenue collection has deteriorated since the 2018 MTBPS. Compared with the 2018 Budget estimate, the projected revenue shortfall for 2018/19 is R42.8 billion – considerably higher than the revised estimate of R27.4 billion published in the 2018 MTBPS.

Weak economic activity has led to a moderation in corporate income tax receipts

Persistently weak economic activity has led to a moderation in corporate income tax receipts – predominantly from reduced production in mining and quarrying, and from the financial sector. Job losses, lower wage settlements and reduced bonuses have put pressure on withholding taxes on earnings. Higher diesel refund payments to electricity generation plants and primary producers, such as farmers and mining companies, have slowed fuel levy collections. Tax collections relating to trade performed better in the latter half of the year, with higher estimated revenue from customs duties and import VAT. Domestic VAT also performed as expected after the increase in the VAT rate. However, net VAT collections have been considerably lower since October, when SARS accelerated payments of VAT refunds.

Table 4.1 Budget estimates and revenue outcomes[1]

R million	2017/18 Budget[2]	2017/18 Outcome	2017/18 Deviation	2018/19 Budget[2]	2018/19 Revised	2018/19 Deviation	Percentage change[3]
Taxes on income and profits	**712 853**	**711 703**	**-1 150**	**772 991**	**751 846**	**-21 146**	**5.6%**
Personal income tax	460 968	460 953	- 15	505 845	497 451	-8 393	7.9%
Corporate income tax	218 109	217 412	- 697	231 219	218 436	-12 783	0.5%
Dividend withholding tax	29 037	27 894	-1 143	30 829	30 341	- 488	8.8%
Other taxes on income and profits[4]	4 739	5 444	705	5 099	5 618	519	3.2%
Skills development levy	**15 771**	**16 012**	**242**	**16 929**	**17 312**	**383**	**8.1%**
Taxes on property	**16 047**	**16 585**	**537**	**17 311**	**16 035**	**-1 276**	**-3.3%**
Domestic taxes on goods	**423 616**	**422 248**	**-1 367**	**484 826**	**460 287**	**-24 539**	**9.0%**
Value-added tax	299 058	297 998	-1 061	348 110	325 917	-22 192	9.4%
Specific excise duties	37 275	37 356	81	40 652	40 276	- 376	7.8%
Health promotion levy	–	–	–	1 685	2 396	711	–
Ad valorem excise duties	3 796	3 781	- 16	4 188	4 163	- 25	10.1%
Fuel levy	71 340	70 949	- 391	77 509	75 374	-2 135	6.2%
Other domestic taxes on goods and services[5]	12 146	12 165	19	12 683	12 161	- 522	-0.0%
Taxes on international trade and transactions	**50 193**	**49 939**	**- 254**	**54 050**	**56 722**	**2 672**	**13.6%**
Customs duties	49 011	49 152	141	52 601	55 638	3 037	13.2%
Health promotion levy on imports	–	–	–	245	78	- 167	–
Diamond export levy	95	87	- 8	101	87	- 14	–
Miscellaneous customs and excise receipts	1 087	701	- 387	1 103	918	- 185	31.1%
Gross tax revenue	**1 217 307**	**1 216 464**	**- 843**	**1 344 965**	**1 302 201**	**-42 763**	**7.0%**
Non-tax revenue[6]	33 229	35 886	2 657	24 470	31 473	7 003	-12.3%
of which:							
Mineral and petroleum royalties	*7 522*	*7 617*	*95*	*7 986*	*8 340*	*354*	*9.5%*
Less: SACU[7] payments	-55 951	-55 951	–	-48 289	-48 289	–	-13.7%
Main budget revenue	**1 194 585**	**1 196 399**	**1 814**	**1 321 146**	**1 285 386**	**-35 760**	**7.4%**
Provinces, social security funds and selected public entities	159 044	157 110	-1 934	169 570	169 831	261	*8.1%*
Consolidated budget revenue	**1 353 629**	**1 353 509**	**- 120**	**1 490 716**	**1 455 217**	**-35 499**	**7.5%**

1. A more disaggregated view is presented in Tables 2 and 3 of the statistical annexure
2. Budget Review 2018 estimates
3. Percentage change between outcome in 2017/18 and revised estimate in 2018/19
4. Includes interest on overdue income tax, small business tax amnesty levy and interest withholding tax
5. Includes turnover tax for micro 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

Table 4.2 Budget revenue[1]

R million	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
		Outcome		Revised		Medium-term estimates	
Taxes on income and profits[2]	606 821	664 526	711 703	751 846	820 342	885 502	958 242
of which:							
Personal income tax[3]	*388 102*	*424 545*	*460 953*	*497 451*	*552 877*	*602 693*	*658 917*
Corporate income tax	*191 152*	*204 432*	*217 412*	*218 436*	*229 608*	*242 440*	*256 335*
Skills development levy	15 220	15 315	16 012	17 312	18 759	20 437	22 307
Taxes on property	15 044	15 661	16 585	16 035	17 159	19 052	20 863
Domestic taxes on goods and services	385 956	402 464	422 248	460 287	504 649	543 698	586 889
of which:							
VAT	*281 111*	*289 167*	*297 998*	*325 917*	*360 471*	*389 889*	*422 746*
Taxes on international trade and transactions	46 942	46 102	49 939	56 722	61 300	66 179	71 356
Revenue measures - 2020 Budget	–	–	–	–	–	10 000	10 751
Gross tax revenue	**1 069 983**	**1 144 081**	**1 216 464**	**1 302 201**	**1 422 208**	**1 544 868**	**1 670 408**
Non-tax revenue[4]	57 276	33 269	35 886	31 473	31 537	26 028	27 905
of which:							
Mineral and petroleum royalties	*3 708*	*5 802*	*7 617*	*8 340*	*8 766*	*9 256*	*9 787*
Less: SACU[5] payments	-51 022	-39 448	-55 951	-48 289	-50 280	-65 778	-65 389
Main budget revenue	**1 076 236**	**1 137 901**	**1 196 399**	**1 285 386**	**1 403 464**	**1 505 118**	**1 632 925**
Provinces, social security funds and selected public entities	139 074	148 041	157 110	169 831	180 347	191 265	203 673
Consolidated budget revenue	**1 215 310**	**1 285 943**	**1 353 509**	**1 455 217**	**1 583 811**	**1 696 382**	**1 836 598**
As percentage of GDP							
Tax revenue	*25.9%*	*25.9%*	*25.8%*	*25.7%*	*26.3%*	*26.6%*	*26.7%*
Main budget revenue	*26.1%*	*25.8%*	*25.3%*	*25.4%*	*25.9%*	*25.9%*	*26.1%*
GDP (R billion)	*4 127.0*	*4 412.7*	*4 721.0*	*5 059.1*	*5 413.8*	*5 812.4*	*6 249.1*
Tax buoyancy	*1.27*	*1.00*	*0.91*	*0.98*	*1.31*	*1.17*	*1.08*

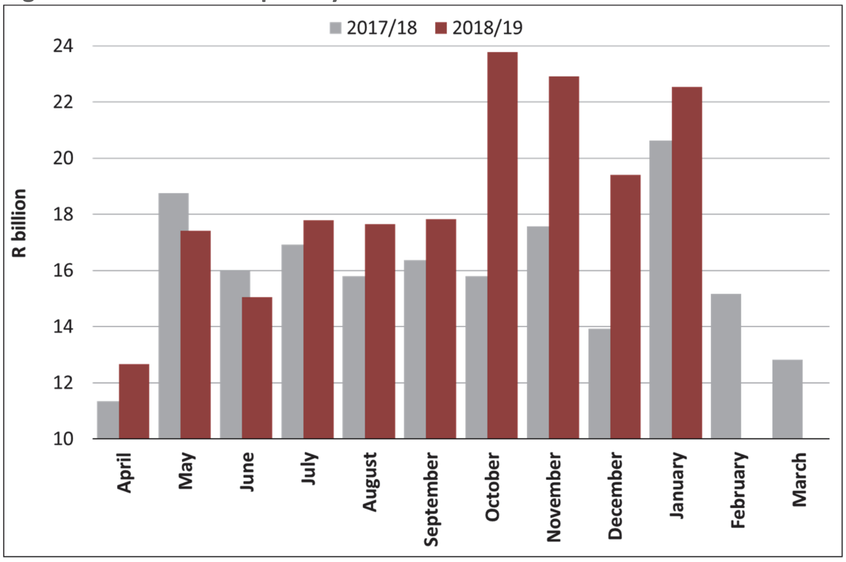
1. A more disaggregated view is presented in Tables 2 and 3 of the statistical annexure
2. Includes secondary tax on companies/dividend and interest withholding tax, interest on overdue income tax and small business tax amnesty levy
3. As announced in the 2018 Budget, medical tax credits will be adjusted below inflation over the next two years to fund additional expenditure for national health insurance. Additional revenues required over the next two years amount to R0.65 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

Clearing the VAT refund backlog

The 2018 MTBPS announced that SARS would pay out overdue VAT refunds, which rose from R30.4 billion at the beginning of the fiscal year to R41.8 billion in September 2018. In subsequent months, SARS has been working to reduce the VAT credit book, which shows the total amount of refunds owed, by paying out an average of R22.2 billion each month.

By end-January 2019, the credit book had decreased from R41.8 billion to R31 billion. In October 2018 SARS estimated that the credit book should be about R19 billion if verified VAT refunds are paid out without delay. After further analysis, it has revised that estimate to about R22 billion as a result of rising VAT refund claims, a higher-than-anticipated level of taxpayers who are not submitting the required documents, and suspected fraud. The extent of VAT refunds submitted to SARS will also be influenced by general economic conditions, such as imports.

Figure 4.2 VAT refunds paid by SARS



Source: South African Revenue Service

Normalising refund payments reduces net in-year revenue, but improves certainty of revenue projections

SARS expects to bring the credit book down to the target during 2019/20. Clearing the VAT refund backlog will reduce net revenue collections in 2018/19, and the estimated amount of refunds to pay out has increased by R8 billion compared with the 2018 MTBPS estimate. Similarly, personal income tax refunds have been revised upwards. Although these interventions have reduced tax revenues for 2018/19, the normalisation of refund payments will minimise the risk of fiscal shocks in future, and provides business with more certainty about cash flow. It will also provide greater certainty about revenue projections.

Tax proposals

The tax measures for the 2019 Budget are designed to raise an estimated R15 billion in additional revenue in 2019/20.

Table 4.3 Impact of tax proposals on 2019/20 revenue[1]

R million		
Gross tax revenue (before tax proposals)		**1 407 208**
Budget 2019/20 proposals		**15 000**
Direct taxes		**13 800**
Taxes on individuals and companies		
Personal income tax	**13 800**	
Revenue from not fully adjusting for inflation	12 800	
Revenue if no adjustment is made	*14 000*	
Partial bracket creep for personal income tax	*-1 200*	
No adjustment to medical tax credit	1 000	
Indirect taxes		**1 200**
General fuel levy adjustment	-500	
Introduction of carbon tax on fuel	1 800	
Additional VAT zero-rated items	-1 100	
Increase in excise duties on tobacco products	400	
Increase in excise duties on alcoholic beverages	600	
Gross tax revenue (after tax proposals)		**1 422 208**

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

Nearly all of the increase in revenue is effected through direct taxes, with no rate increases. Government proposes a small increase in personal income tax rebates, with no inflationary adjustments to the tax brackets, and no inflationary increase in medical tax credits. Indirect taxes make a smaller contribution through the increase in the general fuel levy, after the large increase in indirect taxes as a result of the one percentage point increase in VAT announced in the 2018 Budget.

Personal income tax

Personal income tax rebates increased by 1.1 per cent, providing small amount of inflation relief

The primary, secondary and tertiary rebates will be increased by 1.1 per cent, providing a small amount of relief for inflation. The change in the rebate will increase the tax-free threshold from R78 150 to R79 000. Personal income tax brackets, however, will remain unchanged and will not be adjusted for inflation. This is expected to raise R12.8 billion in revenue, as individuals with an inflationary increase in their taxable income face a larger tax burden.

Table 4.4 shows the proposed personal income tax schedule for 2019/20.

Table 4.4 Personal income tax rates and bracket adjustments

	2018/19		2019/20
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 - R195 850	18% of each R1	R0 - R195 850	18% of each R1
R195 851 - R305 850	R35 253 + 26% of the amount above R195 850	R195 851 - R305 850	R35 253 + 26% of the amount above R195 850
R305 851 - R423 300	R63 853 + 31% of the amount above R305 850	R305 851 - R423 300	R63 853 + 31% of the amount above R305 850
R423 301 - R555 600	R100 263 + 36% of the amount above R423 300	R423 301 - R555 600	R100 263 + 36% of the amount above R423 300
R555 601 - R708 310	R147 891 + 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	R207 448 + 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	R532 041 + 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	R14 067	Primary	R14 220
Secondary	R7 713	Secondary	R7 794
Tertiary	R2 574	Tertiary	R2 601
Tax threshold		**Tax threshold**	
Below age 65	R78 150	Below age 65	R79 000
Age 65 and over	R121 000	Age 65 and over	R122 300
Age 75 and over	R135 300	Age 75 and over	R136 750

Source: National Treasury

Table 4.5 shows how much tax is expected to be paid by individuals at different levels of taxable income for 2019/20.

Table 4.5 Estimates of individual taxpayers and taxable income, 2019/20

Taxable bracket	Registered individuals		Taxable income		Income tax payable before relief		Income tax relief after proposals		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]	6 369 806	–	183.4	–	–	–	–	–	–	–	–	–
R70 - R150	2 385 046	31.2	254.0	10.0	10.3	1.9	-0.34	28.5	0.05	5.0	10.1	1.8
R150 - R250	1 949 150	25.5	387.4	15.2	36.4	6.6	-0.32	26.9	0.20	23.1	36.2	6.5
R250 - R350	1 169 590	15.3	349.9	13.7	49.6	9.0	-0.19	15.8	0.21	22.1	49.7	9.0
R350 - R500	984 790	12.9	408.5	16.0	75.9	13.7	-0.16	13.2	0.23	21.9	76.0	13.7
R500 - R750	610 331	8.0	367.1	14.4	89.1	16.1	-0.10	8.2	0.15	14.3	89.2	16.1
R750 - R1 000	261 631	3.4	224.7	8.8	66.1	12.0	-0.04	3.5	0.07	6.1	66.2	12.0
R1 000 - R1 500	161 868	2.1	193.9	7.6	65.8	11.9	-0.03	2.2	0.05	4.4	65.8	11.9
R1 500 +	120 751	1.6	362.7	14.2	159.8	28.9	-0.02	1.6	0.04	3.2	159.8	28.9
Total	**7 643 157**	**100.0**	**2 548.1**	**100.0**	**553.0**	**100.0**	**-1.18**	**100.0**	**1.00**	**100.0**	**552.9**	**100.0**
Grand total	**14 012 963**		**2 731.5**		**553.0**		**-1.18**		**1.00**		**552.9**	

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

Medical tax credits

The 2018 *Budget Review* announced that medical tax credits would be increased below the rate of inflation over a three-year period to help fund the rollout of national health insurance. To generate additional revenue of R1 billion in 2019/20, there will be no change in the monthly medical tax credit for medical scheme contributions.

Employment tax incentive

Employment tax incentive, which benefits young workers, extended to February 2029

In 2018, government extended the employment tax incentive by 10 years. In addition, the eligible income bands will be adjusted upwards to partially cater for inflation. From 1 March 2019, employers will be able to claim the maximum value of R1 000 per month for employees earning up to R4 500 monthly, up from R4 000 previously. The incentive value will taper to zero at the maximum monthly income of R6 500.

Employment tax incentive boosts job creation

The employment tax incentive was introduced on 1 January 2014 to share the cost of hiring young, inexperienced workers between employers and government. The incentive was reviewed and extended in 2016 and 2018. The most recent review found that the incentive's positive benefits are more pronounced in small firms.

In 2015/16 about 31 000 employers claimed the incentive for 1.1 million individuals. The tax expenditure associated with the incentive amounted to R4.3 billion in 2017/18.

The National Economic Development and Labour Council conducted a review of the incentive, drawing on independent research on the effects of the programme in 2014/15 and 2015/16. The review found that:

- The number of employees and employment growth rates increased significantly in firms claiming the incentive.
- Effects were most pronounced in firms with less than 50 employees, though positive effects held for all firm sizes.
- There is no significant evidence that the incentive displaces older workers.
- The incentive improves employment growth in firms that were growing before claiming, and firms with shrinking employment, demonstrating that it also plays a role in halting job losses.
- Employers tend to retain workers after the two-year eligible period passes because the employees have gained experience and on-the-job training. Young workers indicated that the incentive created opportunities they would not otherwise have.

An additional incentive for special economic zones came into force during 2018. This enables employers to claim for all eligible workers hired in these zones, taking into account wage criteria but not age.

Excise duties on alcohol and tobacco

Excise duties on alcoholic beverages are determined based on a percentage of the weighted average of their retail price. The targeted excise tax burden for wine, beer and spirits is 11 per cent, 23 per cent and 36 per cent respectively. Since 2002, tax rates on these beverages have increased above inflation each year, alongside above-inflation retail price increases, to maintain taxes at the targeted level. Government proposes to increase excise duties on alcoholic beverages by between 7.4 per cent and 9 per cent in 2019/20. The adjustments will lead to an excise burden slightly above the targeted levels.

Excise duties on alcoholic beverages and tobacco to increase above inflation

The targeted excise tax for tobacco products is 40 per cent of the retail selling price of the most popular brand within each product category. Government proposes to increase the excise duties on tobacco products by between 7.4 per cent and 9 per cent. Cigarette makers appear to have absorbed most of the increases last year rather than increasing prices. As a result, the excise burden for cigarettes is likely to remain slightly above the target level.

Table 4.6 Changes in specific excise duties, 2019/20

Product	Current excise duty rate	Proposed excise duty rate	Percentage change Nominal	Real
Malt beer	R95.03 / litre of absolute alcohol (161,56c / average 340ml can)	R102.07/ litre of absolute alcohol (173,51c / average 340ml can)	7.4	2.2
Traditional African beer	7,82c / litre	7,82c / litre	–	-5.2
Traditional African beer powder	34,70c / kg	34,70c / kg	–	-5.2
Unfortified wine	R3.91 / litre	R4.20 / litre	7.4	2.2
Fortified wine	R6.54 / litre	R7.03 / litre	7.4	2.2
Sparkling wine	R12.43 / litre	R13.55 / litre	9.0	3.8
Ciders and alcoholic fruit beverages	R95.03 / litre of absolute alcohol (161,56c / average 340ml can)	R102.07/ litre of absolute alcohol (173,51c / average 340ml can)	7.4	2.2
Spirits	R190.08 / litre of absolute alcohol (R61.30 / 750ml bottle)	R204.15 / litre of absolute alcohol (R65.84 / 750ml bottle)	7.4	2.2
Cigarettes	R15.52 / 20 cigarettes	R16.66 / 20 cigarettes	7.4	2.2
Cigarette tobacco	R17.44 / 50g	R18.73 / 50g	7.4	2.2
Pipe tobacco	R4.94 / 25g	R5.39 / 25g	9.0	3.8
Cigars	R82.31 / 23g	R89.72 / 23g	9.0	3.8

Source: National Treasury

Additional zero-rating for VAT

A one percentage point increase in the VAT rate took effect on 1 April 2018. To mitigate the effects of this increase on low-income households, the 2018 MTBPS announced that the list of zero-rated items, where VAT is charged at 0 per cent, would be expanded. From 1 April 2019, the list will include white bread flour, cake flour and sanitary pads.

White bread flour, cake flour and sanitary pads to be zero-rated

Increase in health promotion levy

The health promotion levy was implemented on 1 April 2018. It applies to beverages with more than 4 grams of sugar content per 100ml. A tax of 2.1 cents per gram is applied for every gram of sugar beyond the first

4 grams, which are levy-free. To avoid an erosion in the value of the tax due to inflation, the levy rate will increase to 2.21 cents per gram in excess of 4 grams of sugar per 100ml from 1 April 2019.

Fuel taxes

Below-inflation increase in general fuel and RAF levies, and carbon tax introduced

South Africa has three main fuel taxes that apply to petrol, diesel and biodiesel: the general fuel levy, the customs and excise levy and the RAF levy. These levies fund general government expenditure, support environmental goals and finance the RAF. From 5 June 2019, a carbon tax of 9c/litre on petrol and 10c/litre on diesel will become effective. Diesel refunds cannot be claimed against this tax. The general fuel levy will be increased by 15c/litre for petrol and diesel from 3 April 2019. The increase is slightly below inflation. Government also proposes to increase the RAF levy by 5c/litre from 3 April 2019.

Table 4.7 Total combined fuel taxes on petrol and diesel

	2017/18		2018/19		2019/20	
Rands/litre	**93 octane petrol**	**Diesel**	**93 octane petrol**	**Diesel**	**93 octane petrol**	**Diesel**
General fuel levy	3.15	3.00	3.37	3.22	3.52	3.37
Road Accident Fund levy	1.63	1.63	1.93	1.93	1.98	1.98
Customs and excise levy	0.04	0.04	0.04	0.04	0.04	0.04
Carbon tax[1]	–	–	–	–	0.09	0.10
Total	**4.82**	**4.67**	**5.34**	**5.19**	**5.63**	**5.49**
Pump price[2]	13.55	11.96	15.30	14.20	13.86	13.14
Taxes as percentage of pump price	*35.6%*	*39.0%*	*34.9%*	*36.5%*	*40.6%*	*41.8%*

1. The carbon tax on fuel is effective from 5 June 2019
2. Average Gauteng pump price for the 2017/18 and 2018/19 years. The 2019/20 figure is the Gauteng pump price in February 2019. Diesel (0.05% sulphur) wholesale price (retail price not regulated)
Source: National Treasury

RAF levy diesel refunds

The farming, forestry and mining industries are refunded levies paid when they buy diesel. This refund is intended to offset the RAF levy these users pay. However, these diesel users still receive benefits from the RAF if they experience accidents involving motor vehicles, even if the accident is off-road. It is proposed that the RAF levy diesel refund benefit for these primary production industries be limited to ensure that diesel users in these sectors equitably contribute towards their RAF indemnity.

Environmental taxes

Energy-efficiency savings tax initiative

Energy-efficiency incentive extended to December 2022

The energy-efficiency savings tax incentive was introduced in November 2013 to offset the tax burden on industry from the introduction of the carbon tax. The incentive expires on 31 December 2019. It provides companies with a tax deduction for energy-efficient investments, contributing to environmental goals while reducing energy costs. To encourage additional investment in energy efficiency, government proposes to extend the incentive to 31 December 2022. During 2019, government will review the design and administration of the incentive to improve its ease of use, effectiveness and economic impact.

Update on implementation of carbon tax

The carbon tax will be implemented on 1 June 2019. It gives effect to the polluter-pays principle, prices greenhouse gas emissions and aims to ensure that businesses and households take these costs into account in their production, consumption and investment decisions. The tax will assist in reducing emissions and ensuring South Africa meets its commitments under the 2015 Paris Climate Agreement. It will be reviewed after three years.

SARS and the Department of Environmental Affairs will jointly administer the tax. To ensure a smooth administration, SARS will publish draft rules for consultation by March 2019. These rules will complement three sets of regulations:

- A draft Regulation on the Carbon Offsets was published in June 2016. A revised regulation, taking public comments into account, was published for further consultation in November 2018. A consultation workshop will be held in March 2019 to finalise the regulation.
- Trade exposure regulations, which provide for higher allowances based on trade intensity, will be published before the end of February 2019, following extensive consultations on methodology.
- Benchmarking regulations will be published in March 2019 for further consultation. A review of the proposed benchmarks will be undertaken in consultation with stakeholders under the Partnership for Market Readiness.

Repeal of tax exemption for certified emissions reduction

To avoid double benefit, exemption for certified emission reductions to be repealed

South Africa is committed to tackling climate change and subscribes to international agreements to reduce greenhouse gas emissions. In 2009, government introduced a tax exemption for income generated from the sale of certified emission-reduction credits. After the introduction of the carbon tax, emission-reduction credits could be used to reduce carbon tax liabilities. To avoid a double-benefit scenario, where the same emission reduction leads to both an income tax exemption and reduced carbon tax liabilities, the tax exemption will be repealed from 1 June 2019.

Ad valorem excise duty on motor vehicles

Because of the way ad valorem excise duty is calculated, vehicles produced locally are taxed at a higher rate than imported vehicles. To remove this anomaly, government proposes to align the tax treatment.

Gambling tax

The 2012 Budget proposed a gambling tax in the form of a 1 per cent levy to fund rehabilitation and awareness-raising programmes to mitigate the negative effects of excessive gambling. Government intends to publish draft legislation for public comment during 2019.

Tax policy reviews and research

Combating base erosion and profit shifting

In recent years, South Africa has taken steps to protect its tax base by closing loopholes exploited by multinationals to artificially shift profits and avoid paying tax. South Africa has played an active role in these efforts through the Organisation for Economic Co-operation and Development/ Group of Twenty Inclusive Framework, and intends to expand the work already under way to combat base erosion and profit shifting.

South Africa is committed to following best practice in combating base erosion and profit shifting

Domestic legislation is already aligned with some measures recommended by the framework, such as limiting double deductions. Although South Africa has measures in place to curb excessive debt financing, which erodes the tax base, government is reviewing these rules against best practice. It is important to strike a balance between attracting capital and investment, and adequately protecting the corporate tax base.

Review of the urban development zone tax incentive

This incentive was introduced in 2003 to encourage investment in urban development zones in 16 municipalities. It is due to expire on 31 March 2020. Government will review the incentive in 2019 to determine whether it should be extended.

Review of tax treatment of oil and gas activities

South Africa to review tax treatment of oil and gas companies

Taxation of the oil and gas industry is currently governed by the tenth schedule to the Income Tax Act (1962), which makes provision for the Minister of Finance to approve a fiscal stability agreement to any qualifying company. A fiscal stability agreement guarantees that both the headline rates of tax and the rules behind the calculation of tax liabilities will continue to apply for the duration of a company's oil and gas right. Government has not approved any fiscal stability agreements in the past five years. South Africa will review its oil and gas tax regimes in 2019.

Taxation of electronic cigarettes and tobacco heating products

Taxation of e-cigarettes and similar products to be implemented

The use of electronic cigarettes and tobacco heating products has increased in recent years. Government intends to start taxing these products. The National Treasury and the Department of Health will consult on the appropriate mechanisms, structure and timing of the tax.

Definition of fuel levy goods

The fuel levy is currently imposed on petrol, diesel and biodiesel. Fossil fuels such as mineral ethanol, illuminating paraffin, aviation kerosene, liquefied petroleum gas, compressed natural gas – as well as biofuels such as bioethanol and biogas – are not subject to fuel taxation. Yet they are used as transport fuels. This creates a discrepancy: claims can be made to the RAF for damages arising from accidents involving motor vehicles operating on fossil fuel sources, but these fuels are not subject to the RAF levy. To address this anomaly, government will review the scope and definition of fuel levy goods in the Customs and Excise Act (1964).

Environmental fiscal reform policy

Treasury to publish draft Environmental Fiscal Reform Policy Paper in 2019

The National Treasury will publish a draft Environmental Fiscal Reform Policy Paper in 2019. It will outline options to reform existing environmental taxes to broaden their coverage and strengthen price signals. The paper will also consider the role new taxes can play in addressing air pollution and climate change, promoting efficient water use, reducing waste and encouraging improvements in waste management. Government will also investigate a tax on "single-use" plastics including straws, caps, beverage cups and lids, and containers to curb their use and encourage recycling. It will also review the biodiversity tax incentive.

Conclusion

The 2019 Budget introduces measures to increase revenue to improve the fiscal position, without resorting to higher tax rates. Government is taking action to strengthen SARS and improve collections over the medium term.