

# 4

## Revenue trends and tax proposals

### In brief

- Gross tax revenue for 2020/21 is expected to be 10.6 per cent lower than in the previous fiscal year and R213.2 billion lower than projected in the 2020 Budget, but higher than estimated in the October 2020 MTBPS.
- Government will not introduce measures to increase tax revenue in the 2021 Budget; previously announced increases amounting to R40 billion will also be withdrawn. This change is expected to support economic recovery by reducing financial pressure on households and businesses.
- A gradual recovery in revenue is expected over the medium term. The tax-to-GDP ratio now stands at 24.6 per cent. A strong and sustained economic rebound is required for this ratio to return to pre-COVID-19 levels of 26.3 per cent of GDP.
- The main tax proposals for 2021/22 include above-inflation increases in personal tax brackets and rebates, and an 8 per cent increase in excise duties on tobacco and alcohol products.

### Overview

The COVID-19 pandemic has had a severe impact on tax revenue collection. Given large predicted shortfalls in revenue for 2020/21 and over the next three years, the 2020 *Medium Term Budget Policy Statement* (MTBPS) confirmed that tax increases totalling R40 billion would be required over the next four years to help stabilise public debt and return the public finances to a sustainable position. These increases were first announced in the June 2020 special adjustments budget.

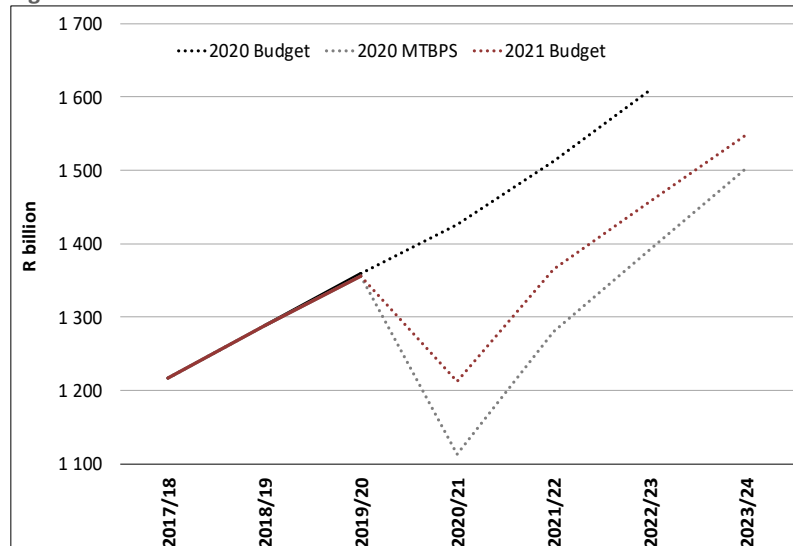
Gross tax revenue for 2020/21 is now expected to be 10.6 per cent lower than in the previous fiscal year and R213.2 billion lower than projected in the 2020 Budget due to the pandemic. However, as a result of the recovery in consumption and wages between October and December 2020, and a boost to corporate income tax receipts from the mining sector, 2020/21 revenue collections are expected to be R99.6 billion above the 2020 MTBPS estimate.

COVID-19 has led to many business closures and job losses. To support households, businesses and the economy in the context of relatively high



income tax rates, government will not introduce measures to increase tax revenue in the 2021 Budget, and previously announced increases over the next three years will be withdrawn.

**Figure 4.1 Forecast tax revenue collections**



Source: National Treasury



The main tax proposals for 2021/22 are:

- An above-inflation increase of 5 per cent in personal income tax brackets and rebates.
- An inflation-linked general fuel levy increase of 15c/litre for petrol and diesel, and an above-inflation increase of 11c/litre in the Road Accident Fund levy.
- An 8 per cent increase in alcohol and tobacco excise duties.

## Revenue collection and outlook

Shortly after the 2020 Budget was tabled, South Africa entered a strict lockdown to contain the pandemic, severely limiting economic activity. Government provided relief for households and businesses, including through tax deferrals and direct tax relief. In combination, these dynamics led to a steep downward revision to tax estimates. Compared with the 2020 Budget estimate, the projected revenue shortfall for 2020/21 is R213.2 billion. The revised revenue estimate is, however, not as large as the R312.8 billion shortfall estimated in the 2020 MTBPS.

The revenue outcome highlights the severe economic impact of COVID-19 on a struggling economy. As a result, expectations of tax base growth have deteriorated significantly since the 2020 Budget. Personal income tax collection has been affected by rising job losses and lower earnings for those who are employed. Corporate income tax collections have been contracting since 2018/19 and will continue to fall this year. Specific excise duties are expected to fall by nearly 50 per cent as a result of restrictions on trading activity and tax deferrals.

**Table 4.1 Budget estimates and revenue outcomes<sup>1</sup>**

R million	2019/20			2020/21			Percentage change <sup>3</sup>
	Budget <sup>2</sup>	Outcome	Deviation	Budget <sup>2</sup>	Revised	Deviation	
<b>Taxes on income and profits</b>	<b>778 280</b>	<b>772 685</b>	<b>-5 595</b>	<b>813 588</b>	<b>700 050</b>	<b>-113 539</b>	<b>-9.4%</b>
Personal income tax	527 584	527 633	48	546 771	482 143	-64 628	-8.6%
Corporate income tax	216 718	211 522	-5 196	230 226	188 801	-41 425	-10.7%
Dividends tax	29 144	27 930	-1 215	31 169	22 980	-8 189	-17.7%
Other taxes on income and profits <sup>4</sup>	4 833	5 600	767	5 422	6 126	704	9.4%
<b>Skills development levy</b>	<b>18 576</b>	<b>18 486</b>	<b>- 90</b>	<b>19 413</b>	<b>10 175</b>	<b>- 9 238</b>	<b>-45.0%</b>
<b>Taxes on property</b>	<b>16 038</b>	<b>15 980</b>	<b>- 58</b>	<b>17 510</b>	<b>15 480</b>	<b>- 2 029</b>	<b>-3.1%</b>
<b>Domestic taxes on goods and services</b>	<b>488 711</b>	<b>492 283</b>	<b>3 572</b>	<b>514 267</b>	<b>440 888</b>	<b>-73 379</b>	<b>-10.4%</b>
Value-added tax	344 202	346 761	2 559	360 555	324 554	-36 000	-6.4%
Specific excise duties	46 765	46 827	62	48 836	24 694	-24 142	-47.3%
Health promotion levy	2 590	2 446	- 144	2 860	1 952	- 909	-20.2%
Ad valorem excise duties	4 112	4 124	12	4 328	3 252	-1 077	-21.2%
Fuel levy	79 277	80 175	898	83 441	75 236	-8 206	-6.2%
Other domestic taxes on goods and services <sup>5</sup>	11 764	11 950	186	14 246	11 201	-3 046	-6.3%
<b>Taxes on international trade and transactions</b>	<b>57 330</b>	<b>56 322</b>	<b>-1 007</b>	<b>60 640</b>	<b>45 613</b>	<b>-15 027</b>	<b>-19.0%</b>
Customs duties	56 325	55 428	- 897	59 500	45 218	-14 282	-18.4%
Health promotion levy on imports	54	67	12	75	56	- 19	-15.8%
Diamond export levy	90	95	4	101	54	- 47	-42.5%
Miscellaneous customs and excise receipts	860	733	- 127	964	285	- 679	-61.2%
<b>Gross tax revenue</b>	<b>1 358 935</b>	<b>1 355 766</b>	<b>-3 168</b>	<b>1 425 418</b>	<b>1 212 206</b>	<b>-213 212</b>	<b>-10.6%</b>
Non-tax revenue <sup>6</sup>	36 142	40 384	4 242	35 973	51 975	16 002	28.7%
<i>of which:</i>							
Mineral and petroleum royalties	11 952	11 830	- 122	12 697	14 343	1 647	21.2%
Less: SACU <sup>7</sup> payments	-50 280	-50 280	-	-63 395	-63 395	-	26.1%
<b>Main budget revenue</b>	<b>1 344 796</b>	<b>1 345 870</b>	<b>1 074</b>	<b>1 397 996</b>	<b>1 200 786</b>	<b>-197 210</b>	<b>-10.8%</b>
Provinces, social security funds and selected public entities	172 192	184 615	12 423	185 910	161 883	-24 026	-12.3%
<b>Consolidated budget revenue</b>	<b>1 516 988</b>	<b>1 530 485</b>	<b>13 497</b>	<b>1 583 905</b>	<b>1 362 669</b>	<b>-221 236</b>	<b>-11.0%</b>

1. A more disaggregated view is presented in Tables 2 and 3 of the statistical annexure

2. 2020 Budget Review estimates

3. Percentage change between outcome in 2019/20 and revised estimate in 2020/21

4. Includes interest on overdue income tax, interest withholding tax and small business tax amnesty

5. Includes turnover tax for micro businesses, air departure tax, plastic bag levy, electricity levy, CO<sub>2</sub> tax on motor vehicle emissions, incandescent light bulb levy, Universal Service Fund, tyre levy, carbon tax 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

Since October 2020, there has been a stronger-than-expected rebound in domestic value-added tax (VAT) and customs duties flowing from the rise in consumption once lockdown restrictions eased. Monthly domestic VAT collections since August were higher than the corresponding months in 2019, and fuel levy collections have also improved.



A surge in provisional corporate tax payments in December exceeded expectations. This was primarily driven by the mining sector, with companies benefiting from high commodity prices and a favourable

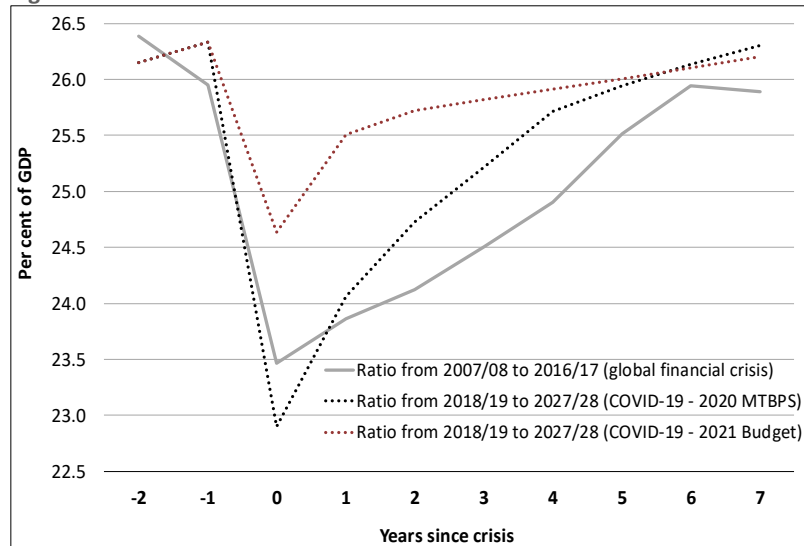
exchange rate. Personal income tax collections remain under pressure due to the elevated levels of unemployment flowing from the pandemic.

### Performance of COVID-19 tax measures

The take-up of tax deferral measures for provisional tax and specific excise duties, and those granted on a case-by-case basis, were higher than expected for these categories, providing cash flow relief of over R28 billion. Some corporate, individual and trust provisional tax deferrals may still be claimed. There was lower take-up of the PAYE tax deferral: companies used only R1.9 billion of the projected R19 billion. An additional R4 billion in tax deferral relief has been provided to the alcohol industry in the past month through case-by-case applications. These deferrals will flow through to the next fiscal year.

For the direct tax relief measures, the exemption from the skills development levy provided relief of about R5.9 billion, in line with estimates. Companies could choose to benefit from either the Temporary Employer/Employee Relief Scheme (TERS) or the expanded employment tax incentive, and claimed R57.3 billion from the TERS against only R1.4 billion from the employment tax incentive. By mid-February 2021, of the total R70 billion in estimated tax relief from the COVID-19 measures, R40 billion had been taken up.

Figure 4.2 Tax-to-GDP ratio after a crisis



Source: National Treasury and SARS

A gradual recovery in revenue is expected over the medium term. Personal income tax will respond to employment growth, which is expected to be slow; and the pace of corporate income tax growth will be affected by assessed losses likely to have occurred in 2020. However, the upward revisions to revenue estimates in 2020/21 flow through to higher medium-term revenue projections in almost all tax categories.

The tax-to-GDP ratio now stands at 24.6 per cent. A strong and sustained economic rebound is required for this ratio to return to pre-COVID-19 levels of 26.3 per cent of GDP. Given the uncertain economic outlook, there is a risk that revenue may underperform estimates.

**Table 4.2 Budget revenue<sup>1</sup>**

R million	2017/18	2018/19 Outcome	2019/20	2020/21 Revised	2021/22	2022/23	2023/24
					Medium-term estimates		
Taxes on income and profits <sup>2</sup>	711 703	738 741	772 685	700 050	761 978	810 850	861 047
<i>of which:</i>							
Personal income tax	460 953	492 083	527 633	482 143	515 957	551 393	587 800
Corporate income tax	217 412	212 046	211 522	188 801	213 114	224 899	236 826
Skills development levy	16 012	17 439	18 486	10 175	17 813	19 230	20 763
Taxes on property	16 585	15 252	15 980	15 480	16 837	17 685	18 714
Domestic taxes on goods and services	422 248	460 545	492 283	440 888	514 530	552 448	587 079
<i>of which:</i>							
VAT	297 998	324 766	346 761	324 554	370 177	399 577	425 422
Taxes on international trade and transactions	49 939	55 723	56 322	45 613	53 967	57 440	60 910
<b>Gross tax revenue</b>	<b>1 216 464</b>	<b>1 287 690</b>	<b>1 355 766</b>	<b>1 212 206</b>	<b>1 365 124</b>	<b>1 457 653</b>	<b>1 548 512</b>
Non-tax revenue <sup>3</sup>	35 849	35 869	40 384	51 975	32 514	29 380	31 497
<i>of which:</i>							
Mineral and petroleum royalties	7 617	8 612	11 830	14 343	15 937	16 819	17 710
Less: SACU <sup>4</sup> payments	-55 951	-48 289	-50 280	-63 395	-45 966	-33 363	-57 974
<b>Main budget revenue</b>	<b>1 196 362</b>	<b>1 275 271</b>	<b>1 345 870</b>	<b>1 200 786</b>	<b>1 351 672</b>	<b>1 453 669</b>	<b>1 522 035</b>
Provinces, social security funds and selected public entities	153 931	172 560	184 615	161 883	168 695	181 739	195 199
<b>Consolidated budget revenue</b>	<b>1 350 293</b>	<b>1 447 830</b>	<b>1 530 485</b>	<b>1 362 669</b>	<b>1 520 367</b>	<b>1 635 408</b>	<b>1 717 234</b>
<b>As percentage of GDP</b>							
Tax revenue	25.9%	26.2%	26.3%	24.6%	25.5%	25.7%	25.8%
Main budget revenue	25.5%	25.9%	26.1%	24.4%	25.3%	25.7%	25.4%
GDP (R billion)	4 698.7	4 924.0	5 148.9	4 921.0	5 352.2	5 666.3	5 997.2
Tax buoyancy	1.00	1.22	1.16	2.39	1.44	1.15	1.07

1. A more disaggregated view is presented in Tables 2 and 3 of the statistical annexure

2. Includes secondary tax on companies/dividends tax, interest withholding tax and interest on overdue income tax

3. Includes mineral and petroleum royalties, mining leases, departmental revenue and sales of capital assets

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

Source: National Treasury and SARS

### Rebuilding the South African Revenue Service

The Commission of Inquiry into Tax Administration and Governance by SARS (the Nugent Commission) made 27 recommendations to address governance failures at the institution. To date, the Commissioner for SARS has implemented 14 of these recommendations, including re-establishing the Large Business Centre, and units focusing on litigation, compliance and integrity. The performance of the previous executive committee was reviewed, and operational policies related to VAT refunds, settlements and debt collection contracts are being amended.



This year, SARS has started legal processes to recover unwarranted expenditure and handed over case files on persons identified in the Nugent report. The inter-agency working group on criminal and illicit economic activities completed 117 investigations, yielding revenue of R2.7 billion. Customs and excise operations are reducing the illicit movement of goods across borders, assisted by specialised cargo scanners, resulting in 3 393 seizures valued at R1.5 billion for the fiscal year to January 2021.



Following the recommendations of the Davis Tax Committee, SARS will focus on consolidating wealth data for taxpayers through third-party information. This will assist in broadening the tax base, improving tax compliance and assessing the feasibility of a wealth tax.

As noted in the 2020 *Budget Review*, the Minister of Finance is responsible for implementing Nugent Commission policy recommendations. A National Treasury discussion document proposing legislative amendments to SARS governance, delayed by COVID-19, will soon be published. The document outlines processes to appoint and remove a commissioner, and the establishment of at least two deputy commissioners and an executive committee. It also considers measures to improve governance and integrity oversight processes, including the feasibility of a governance board, an inspector-general and mechanisms to account to the Minister of Finance.

An additional spending allocation of R3 billion will be provided to SARS to modernise its technology infrastructure and systems, expand and improve the use of data analytics and artificial intelligence capabilities, and participate meaningfully in global tax compliance initiatives. A digitalised SARS is intended to lower costs of compliance, simplify tax administration and improve collections.

## Tax policy



The tax system raises revenue to fund government expenditure. Tax rates are influenced by projections of government spending and borrowing, and the nation's debt stock. Within this framework, tax policy must also consider the effect of taxes on economic growth, the behavioural response of taxpayers, inequality and fairness, and revenue administration capacity. Short-term tax policy changes factor in the state of the economy.

Over the medium term, tax policy changes seek to create an environment that is conducive to broad-based economic growth, and that avoids complicated incentives for specific sectors or groups of taxpayers. Progressivity will be enhanced by restricting deductions for the wealthy and increasing overall collections through improved administration.

Tax policy also needs to consider the tax regime in potential competitor and neighbouring countries. South African income tax rates are relatively high compared to peer countries, while the VAT rate is relatively low. Lowering South Africa's tax rates will increase its competitiveness.

Recent research by Southern Africa – Towards Inclusive Economic Development (Kemp, 2020) shows that tax increases have a larger negative effect on growth than spending reductions, and these effects are more pronounced during a downturn. Given the smaller revenue shortfall compared with October 2020 estimates, the previously announced tax increases of R40 billion have been withdrawn to support the economy.

### Corporate income tax and tax incentive reforms

Government is reducing the number of tax incentives, expenditure deductions and assessed loss offsets, with the aim of lowering the corporate income tax rate over the medium term. These changes are expected to enhance efficiency, transparency and fairness in the business tax system, while facilitating economic growth through improved investment and competitiveness.



Although corporate income tax is paid by the business, the burden of this tax is ultimately borne by three parties – the owners of capital, labour (through wages) and consumers (through prices). By implication, reducing the rate can have a positive effect on wages and employment, while promoting additional investment.

As discussed in the 2020 *Budget Review*, South Africa has a relatively high corporate tax rate in comparison with similar countries and trading partners. High tax rates reduce competitiveness and create an incentive for profit shifting to lower-tax jurisdictions.

Tax incentives are public subsidies to the private sector. They illustrate a persistent trade-off in tax policy: the narrower the tax base, the higher the tax rate required to raise a given level of revenue. For example, many African countries have corporate income tax rates similar to or higher than South Africa, but raise lower levels of revenue because their tax bases are often narrower due to generous incentives, exemptions and tax holidays. Tax incentives often undermine the principles of a good tax system, which should be simple, efficient, equitable and easy to administer.

Reducing the extent of tax incentives for individuals and companies will provide the fiscal room to lower the corporate tax rate, which is aimed at benefiting all businesses, employees and consumers. Tax incentives and some expenditure deductions provide favourable tax treatment to certain taxpayers or groups of taxpayers, and inevitably result in the creation of vested interests and lobby groups. The 2021 Budget proposes to either limit or let lapse those tax incentives that erode the equity of the tax system or do not meet their intended objectives.

### Personal income tax

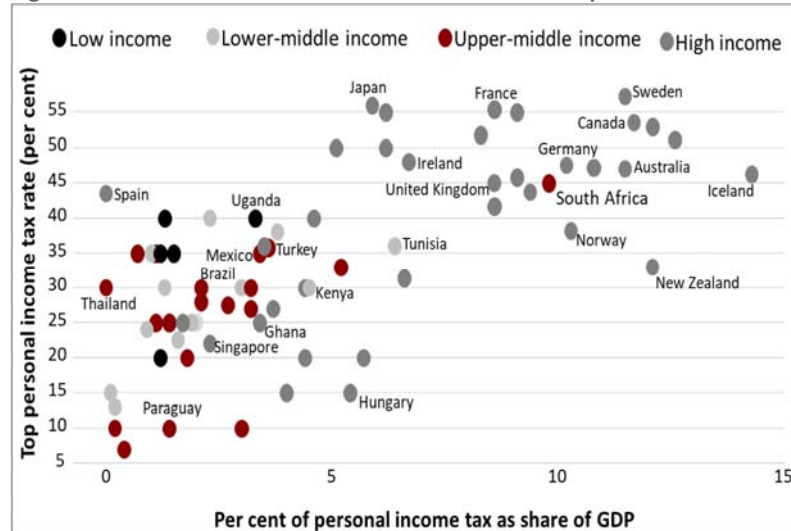
Personal income tax accounts for about 40 per cent of total tax revenue. In response to extreme levels of inequality, South Africa's rate structure is highly progressive and covers tax residents' worldwide income.

South Africa has the highest personal income tax share among upper-middle-income countries, alongside one of the highest top personal income tax rates, as shown in Figure 4.3.

Personal income tax rate increases are often advocated when higher revenues are needed. Over the past six years, these taxes have been adjusted upwards five times to raise more revenue. Recent increases include the introduction of a new top rate of 45 per cent in 2017, and below-inflation adjustments in the brackets and rebates for a number of years. Further increases in personal income taxes would put additional pressure on households that have been negatively affected by the pandemic and undermine the chance of a stronger economic recovery. There is no compelling case for increasing these rates at this time.

Instead, government aims to reduce the rate over time by increasing the tax base through greater economic growth, employment and enforcement.

Figure 4.3 Personal income tax as a share of GDP and top rates



Source: OECD, IMF

**Base erosion, profit shifting and digital services taxation**



For any tax system to be effective, it needs to take into account the globalised nature of trade, investment and technological change. South Africa is party to many multinational tax processes and agreements, including international negotiations to finalise a treaty on base erosion and profit shifting. This initiative aims to reduce tax avoidance by multinational companies, and ensure that national tax bases are not eroded. As of January 2021, 92 countries, including 13 African states, had signed the relevant agreement. South Africa has signed but not ratified its participation, which requires parliamentary approval. In addition, government proposes to renegotiate some existing bilateral tax treaties with those countries that are not signatories to the agreement.

South Africa is a member of the Steering Group of the Inclusive Framework, which is examining income tax challenges associated with digitalisation of the economy. In June 2019, the Group of 20 endorsed a work programme with the commitment to deliver a consensus-based solution by the end of 2020. However, the pandemic has delayed this process. Work continues towards developing a consensus by mid-2021. Should these efforts fail, South Africa will consider the appropriateness of a unilateral approach.

**Tax proposals**



To support the economic recovery, government will not raise any additional tax revenue in this Budget (Table 4.3). Substantial tax increases in previous years have raised less revenue than anticipated due to their impact on taxpayer behaviour and growth. Tax increases initially proposed in the June 2020 special adjustments budget are withdrawn. Given the better-than-expected revenue performance in the second half



of 2020/21, there is no longer a need to implement these measures and their withdrawal will not widen the budget deficit.

The 2021 Budget includes a higher-than-inflation adjustment to the personal income tax brackets. The expected revenue loss will be offset by an increase in excise duties on tobacco and alcohol.

**Table 4.3 Impact of tax proposals on 2021/22 revenue<sup>1</sup>**

R million	Effect on tax proposals
<b>Gross tax revenue (before tax proposals)</b>	<b>1 365 124</b>
<b>Budget 2021/22 proposals</b>	<b>-</b>
<b>Direct taxes</b>	<b>-2 200</b>
<b>Personal income tax</b>	
Increasing brackets by more than inflation	-2 200
Revenue if no adjustment is made	11 200
Higher-than-inflation increase in brackets and rebates	-13 400
<b>Indirect taxes</b>	<b>2 200</b>
<b>Taxes on international trade and transactions</b>	
Introduction of export tax on scrap metal	400
<b>Specific excise duties</b>	
Increase in excise duties on alcohol	1 100
Increase in excise duties on tobacco	700
<b>Gross tax revenue (after tax proposals)</b>	<b>1 365 124</b>

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

Source: National Treasury

### Corporate income tax

The 2020 *Budget Review* stated that government intends to restructure the corporate income tax system in a revenue-neutral manner. This requires broadening the tax base through limiting assessed losses and interest expense deductions to ensure the proposals are affordable. Since February 2020, many businesses have either closed down or are in financial distress as a result of pandemic-related restrictions on economic activity. Government has therefore postponed the introduction of these two measures until 2022.

In February 2020, a discussion document on limiting excessive interest deductions was released for public comment, followed by public consultation. After assessing the comments, government proposes to expand the scope of the current interest limitation rules to include some similar interest items; to adjust the fixed-ratio limitation for net interest expense to 30 per cent of earnings; and to restrict only connected-party interest rather than total interest.



### Personal income tax and medical tax credits

The personal income tax brackets and rebates will increase by 5 per cent, providing relief to households by ensuring that inflation does not automatically increase the individual tax burden. This adjustment will reduce tax revenue by R2.2 billion. Most of the relief benefits lower- and middle-income households (Table 4.5). If the tax tables were not adjusted, this would have raised R11.2 billion. An inflationary adjustment will apply to the value of medical tax credits, which will increase from R319 to R332 for the first two members, and from R215 to R224 for all

subsequent members. The minimum value for paid-up retirement annuities has not been adjusted since 2007/08. This value will increase from R7 000 to R15 000 from 1 March 2021.

**Table 4.4 Personal income tax rates and bracket adjustments**

2020/21		2021/22	
Taxable income (R)	Rates of tax	Taxable income (R)	Rates of tax
R0 - R205 900	18% of each R1	R0 - R216 200	18% of each R1
R205 901 - R321 600	R37 062 + 26% of the amount above R205 900	R216 201 - R337 800	R38 916 + 26% of the amount above R216 200
R321 601 - R445 100	R67 144 + 31% of the amount above R321 600	R337 801 - R467 500	R70 532 + 31% of the amount above R337 800
R445 101 - R584 200	R105 429 + 36% of the amount above R445 100	R467 501 - R613 600	R110 739 + 36% of the amount above R467 500
R584 201 - R744 800	R155 505 + 39% of the amount above R584 200	R613 601 - R782 200	R163 335 + 39% of the amount above R613 600
R744 801 - R1 577 300	R218 139 + 41% of the amount above R744 800	R782 201 - R1 656 600	R229 089 + 41% of the amount above R782 200
R1 577 300 and above	R559 464 + 45% of the amount above R1 577 300	R1 656 600 and above	R587 593 + 45% of the amount above R1 656 600
<b>Rebates</b>		<b>Rebates</b>	
Primary	R14 958	Primary	R15 714
Secondary	R8 199	Secondary	R8 613
Tertiary	R2 736	Tertiary	R2 871
<b>Tax threshold</b>		<b>Tax threshold</b>	
Below age 65	R83 100	Below age 65	R87 300
Age 65 and over	R128 650	Age 65 and over	R135 150
Age 75 and over	R143 850	Age 75 and over	R151 100

Source: National Treasury

**Table 4.5 Estimates of individuals and taxable income, 2021/22**

Taxable bracket	Registered individuals		Taxable income		Income tax payable before relief		Income tax relief after proposals		Income tax payable after proposals	
	R thousand	Number	R billion	%	R billion	%	R billion	%	R billion	%
R0 - R80 <sup>1</sup>	7 183 913	–	256.2	–	–	–	–	–	–	–
R80 - R150	1 855 292	26.7	211.1	8.6	15.7	3.0	-1.3	9.4	14.5	2.8
R150 - R250	1 691 889	24.3	329.3	13.4	29.5	5.6	-1.8	13.4	27.7	5.4
R250 - R350	1 283 954	18.4	378.4	15.4	54.5	10.3	-2.3	16.8	52.2	10.1
R350 - R500	981 993	14.1	409.1	16.6	76.6	14.5	-2.6	19.5	74.0	14.3
R500 - R750	612 177	8.8	369.1	15.0	88.4	16.7	-2.4	18.1	86.0	16.7
R750 - R1 000	262 643	3.8	226.2	9.2	65.1	12.3	-1.3	10.0	63.8	12.4
R1 000 - R1 500	159 127	2.3	191.1	7.8	61.9	11.7	-0.8	6.1	61.0	11.8
R1 500 +	113 192	1.6	346.3	14.1	137.7	26.0	-0.9	6.6	136.8	26.5
<b>Total</b>	<b>6 960 267</b>	<b>100.0</b>	<b>2 460.7</b>	<b>100.0</b>	<b>529.4</b>	<b>100.0</b>	<b>-13.4</b>	<b>100.0</b>	<b>516.0</b>	<b>100.0</b>
<b>Grand total</b>	<b>14 144 180</b>		<b>2 716.8</b>		<b>529.4</b>		<b>-13.4</b>		<b>516.0</b>	

1. Registered individuals with taxable income below the income-tax threshold

Source: National Treasury

### Tax incentives

The sunset date for the venture capital company (VCC) incentive, which was initiated in 2009 to encourage retail investments in smaller businesses, will not be extended beyond 30 June 2021. A National Treasury assessment determined that the incentive did not sufficiently

achieve its objectives of developing small businesses, generating economic activity and creating jobs. Instead, it provided a significant tax deduction to wealthy taxpayers. The majority of investments supported by the incentive seem to be in low-risk or guaranteed return ventures that would have attracted funding without the incentive.

#### Assessing the venture capital company incentive

Over the past year, the National Treasury solicited information from 100 VCCs and 360 qualifying companies on the performance of the VCC incentive.

The results showed that R11.5 billion had been invested at VCC level (on which a 100 per cent tax deduction was applicable), with R4.2 billion invested at qualifying company level. The total tax contribution from qualifying companies was R207 million for 2019/20, half of which was VAT. Qualifying companies employed 8 239 people, of which 4 035 people were in direct employment. In total, only 37 per cent of qualifying companies added new jobs after receiving VCC funding. Over 50 per cent of the investments appeared to be in low-risk moveable asset rental structures, low-risk income-producing investments and guaranteed-return real estate investments.

The National Treasury findings broadly correspond with the 12J Association's own survey, but differ from modelled predictions on job creation and tax estimates, with the association's estimates more optimistic than the actual responses.

Since 2015/16, total tax revenue foregone due to the incentive was R1.8 billion, of which R1.7 billion went to individuals who had a taxable income and VCC investment above R1.5 million per year. Revenue foregone in 2018/19 was R745 million before the deduction cap of R2.5 million was introduced. Based on this information, the incentive seems to give a significant tax deduction to high net-worth taxpayers that cannot be justified given its limited economic impact.

As announced in the 2020 Budget, a sunset date of 28 February 2022 has been introduced for tax incentives dealing with airport and port assets, rolling stock, and loans for residential units. Together with the incentive providing exemptions for films, these incentives will lapse once they reach their respective sunset dates. The National Treasury is accepting detailed submissions from affected stakeholders who wish to retain these provisions in the tax code. The submission deadline is 31 March 2021. The urban development zones and learnership tax incentives will be extended for two years while their reviews are completed.

#### Fuel levies

Government proposes an inflation-related increase of 15c/litre in the general fuel levy and a higher-than-inflation increase of 11c/litre in the Road Accident Fund levy, with effect from 7 April 2021.

**Table 4.6 Total combined fuel taxes on petrol and diesel**

Rands/litre	2019/20		2020/21		2021/22	
	93 octane petrol	Diesel	93 octane petrol	Diesel	93 octane petrol	Diesel
General fuel levy	3.54	3.39	3.70	3.55	3.85	3.70
Road Accident Fund levy	1.98	1.98	2.07	2.07	2.18	2.18
Customs and excise levy	0.04	0.04	0.04	0.04	0.04	0.04
Carbon tax <sup>1</sup>	0.07	0.08	0.07	0.08	0.08	0.09
<b>Total</b>	<b>5.63</b>	<b>5.49</b>	<b>5.88</b>	<b>5.74</b>	<b>6.15</b>	<b>6.01</b>
Pump price <sup>2</sup>	15.88	14.64	14.06	12.47	15.50	13.58
<i>Taxes as percentage of pump price</i>	<i>35.5%</i>	<i>37.5%</i>	<i>41.8%</i>	<i>46.0%</i>	<i>39.7%</i>	<i>44.3%</i>

1. The carbon tax on fuel became effective from 5 June 2019

2. Average Gauteng pump price for the 2019/20 and 2020/21 years. The 2021/22 figure is the Gauteng pump price in February 2021. Diesel (0.05% sulphur) wholesale price (retail price not regulated)

Source: National Treasury



### Carbon tax

The carbon tax rate increased by 5.2 per cent, from R127 to R134 per tonne of carbon dioxide equivalent, from 1 January 2021. The levy for 2021 will increase by 1c to 8c/litre for petrol and 9c/litre for diesel from 7 April 2021. To support South Africa's climate change commitments under the Paris Agreement, the Department of Environment, Forestry and Fisheries is considering enhancing the carbon budgeting system to regulate greenhouse gas emissions by imposing caps on companies for a five-year period. Once legislation on carbon budgets is enacted, government will phase out the carbon budget allowance of 5 per cent provided under the carbon tax.

### Excise duties on alcohol and tobacco

Taxes on alcohol and tobacco are guided by a policy framework that targets the excise duty burden. The current targeted excise duties for wine, beer and spirits are set at 11, 23 and 36 per cent respectively. Excise duties have been increasing above inflation in most recent years, resulting in a higher tax incidence. Government will increase excise duties on alcohol by 8 per cent for 2021/22. The excise incidence will move further above the policy guidelines for each category. Tobacco product excise duties will also increase by 8 per cent in 2021/22. The policy framework for both alcohol and tobacco will be reviewed during 2021/22.

#### Tax and public health

The purpose of excise taxes on alcoholic beverages is to reflect the harmful external costs related to excessive consumption and raise tax revenue. The World Health Organization (WHO) recognises these measures as one of the most cost-effective policy approaches to reducing overall alcohol consumption and improving population health.

Harmful use of alcohol is a leading global health risk and directly affects many health-related targets of the Sustainable Development Goals, including those for maternal and child health, infectious and non-communicable diseases, and mental health. Each year, harmful consumption of alcohol, such as heavy and binge drinking, causes about 3 million deaths worldwide (WHO, 2020). In South Africa, recent studies have shown the harm generated by alcohol in society (Barron *et al*, 2020) and the effect on public health (Matzopoulos *et al*, 2020) when alcohol sales were restricted.

The WHO also endorses excise taxes on tobacco products to reduce consumption and improve public health. It recommends an excise incidence of at least 70 per cent in final consumer price of tobacco products. South Africa's targeted incidence, last revised in 2015, is set at 40 per cent of the retail selling price of the most popular brand in each category. Although excise rates have increased by more than inflation over the last couple of years, the relative affordability of tobacco products has not been taken into consideration. The 2019 WHO report on the global tobacco epidemic says that, on a per person basis, South Africa's cigarettes were more affordable in 2018 than in 2008.

In the 2020 Budget, an excise duty was introduced for heated tobacco products. To more appropriately tax these products, excise duties will be differentiated by product type. Products comparable to cigarettes that are normally sold in packs of 10 or 20 sticks will be taxed accordingly, while other products will be taxed by weight. The rate (75 per cent of the rate applied to a pack of cigarettes) is unchanged from the 2020 Budget. The National Treasury will soon publish a discussion paper on proposals to tax electronic nicotine and non-nicotine delivery systems. An excise duty will be introduced later this year, following public consultations.

**Table 4.7 Changes in specific excise duties, 2021/22**

Product	Current excise duty rate	Proposed excise duty rate	Percentage change	
			Nominal	Real
Malt beer	R106.56 / litre of absolute alcohol (181,15c / average 340ml can)	R115.08 / litre of absolute alcohol (195,64c / average 340ml can)	8.0	3.8
Traditional African beer	7,82c / litre	7,82c / litre	–	-4.2
Traditional African beer powder	34,70c / kg	34,70c / kg	–	-4.2
Unfortified wine	R4.39 / litre	R4.74 / litre	8.0	3.8
Fortified wine	R7.34 / litre	R7.92 / litre	8.0	3.8
Sparkling wine	R14.36 / litre	R15.51 / litre	8.0	3.8
Ciders and alcoholic fruit beverages	R106.56 / litre of absolute alcohol (181,15c / average 340ml can)	R115.08 / litre of absolute alcohol (195,64c / average 340ml can)	8.0	3.8
Spirits	R213.13 / litre of absolute alcohol (R68.73 / 750ml bottle)	R230.18 / litre of absolute alcohol (R74.23 / 750ml bottle)	8.0	3.8
Cigarettes	R17.40 / 20 cigarettes	R18.79 / 20 cigarettes	8.0	3.8
HTPs sticks		R14.09 / 20 sticks	8.0	3.8
Cigarette tobacco	R19.55 / 50g	R21.12 / 50g	8.0	3.8
Pipe tobacco	R5.79 / 25g	R6.26 / 25g	8.0	3.8
Cigars	R96.45 / 23g	R104.16 / 23g	8.0	3.8

Source: National Treasury

### Clarifying the taxation of bio-based plastic bags

Following the 2020 Budget announcement of the tax treatment of compostable bags, the National Treasury reviewed the treatment of alternative bio-based plastic bags. These bags, made from renewable feedstocks such as sugarcane and food residue, emit less greenhouse gas but still contribute to littering and marine pollution. To support the shift to a greener economy, government will differentiate levies on fossil-based and bio-based plastic bags. Plastic bags are currently taxed at 25c/bag. A reduced levy of 12.5c/bag will apply to bio-based plastic bags. The implementation date and technical specifications will be included in the Taxation Laws Amendment Bill.

### UIF contribution ceiling

The ceiling for contributions to the Unemployment Insurance Fund (UIF) has not been increased in the last four years, despite the increase in the benefit ceiling. The UIF's benefit provision in the last year has assisted 13.9 million workers. In these circumstances, the continued relief for employees who retain jobs and higher salaries is no longer appropriate. The contribution ceiling will therefore return to be in line with the benefit ceiling and set at R17 711.58 per month from 1 March 2021.



### Financial sector levies

With the implementation of the Twin Peaks regulatory system since 1 April 2018, regulated companies in the financial sector will be expected to pay a levy towards the regulatory costs. A bill to impose levies on the financial sector is expected to be tabled in early 2021, and the resulting revenue will fund the Prudential Authority, the Financial Sector Conduct Authority and other entities and activities outlined in the Financial Sector Regulation Act (2017).

## Tax research and reviews

### **Reviewing the tax regime for the upstream petroleum industry**

Two large gas finds near Mossel Bay underline the potential for additional exploration, development and production of South African petroleum resources. To move towards a fairer and more certain fiscal and regulatory regime, the National Treasury and the Department of Mineral Resources and Energy will publish a discussion paper on potential tax reforms.

### **Reviewing the research and development tax incentive**

The research and development tax incentive has evolved since it was introduced in 2006, and expires on 1 October 2022. The National Treasury and the Department of Science and Innovation will in 2021 publish a discussion paper inviting public comment on the future of the incentive.

### **Reviewing tax provisions for travel and working from home**

In light of the large-scale migration to working at home over the past year, the National Treasury will review current travel and home office allowances to investigate their efficacy, equity in application, simplicity of use, certainty for taxpayers and compatibility with environmental objectives. In recognition of the potential effect on salary structuring, this will be a multi-year project, starting with consultations during 2021/22.

## Conclusion

Tax policy design will complement efforts to roll out economic reforms that boost growth. No new tax measures are introduced in the 2021 Budget, and previously announced increases are withdrawn.