4

Revenue trends and tax proposals

In brief

- Tax revenue strengthened significantly in recent months and is expected to reach R1.55 trillion for 2021/22, well above projections.
- Given the revenue improvement, government proposes R5.2 billion in tax relief to help support the economic recovery, provide some respite from fuel tax increases and boost incentives for youth employment.
- Most of the relief is provided through an adjustment in personal income tax brackets and rebates. In addition, there will be no increase in either the general fuel levy or the Road Accident Fund levy.
- Progress continues to be made in rebuilding the South African Revenue Service.
- Over the past two years, tax policy has focused on broadening the tax base, improving administration and lowering tax rates. Government intends to continue with this approach by avoiding tax rate increases to the degree possible, subject to major expenditure decisions.

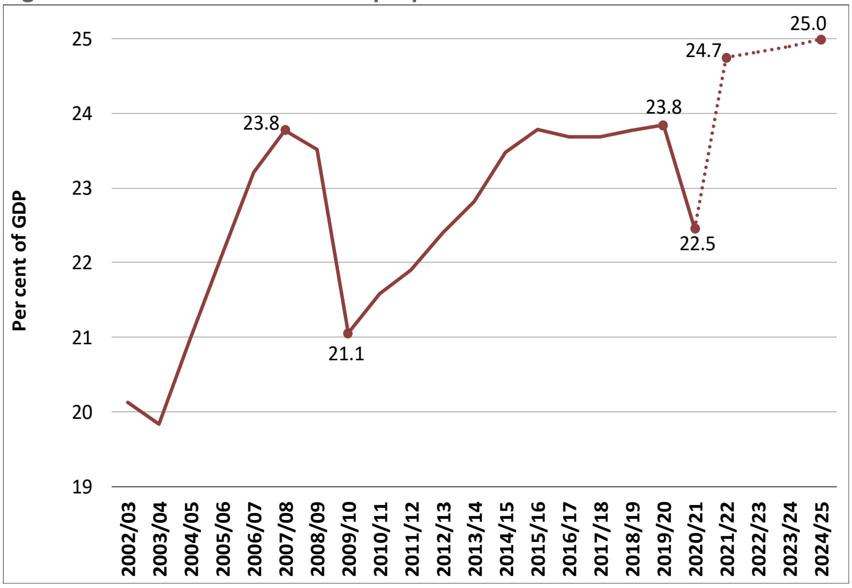
Overview

Despite the slowdown in the economic recovery in the third quarter of 2021, tax collections since the publication of the 2021 *Medium Term Budget Policy Statement* (MTBPS) have strengthened. Tax revenue for 2021/22 is expected to reach R1.55 trillion, surpassing pre-pandemic forecasts. This substantial improvement is projected to result in the tax-to-GDP ratio reaching 24.7 per cent in 2021/22. Understood in the context of South Africa's rebased GDP, this exceeds previous highs reached in 2007/08 and 2019/20. Revenue estimates have also been revised higher in 2022/23 and 2023/24.

The characteristics of the economic recovery from the pandemic have been markedly different to previous negative shocks. After the global financial crisis, it was several years before major tax category collections recovered to pre-crisis levels as a proportion of income and consumption. Tax resiliency in this recovery has been far stronger, potentially due to the artificial nature of the downturn through lockdowns and enforced restrictions on activity, rather than damage inflicted by a recession.

The revenue performance is largely attributable to elevated commodity prices. Additionally, corporate income and profits have been more resilient than anticipated, with tax collections benefiting from strong but temporary increases in the prices of exports relative to imports. Personal income tax collection has been buoyed by a recovery in earnings. Domestic value-added tax (VAT) collections grew significantly as household consumption was supported by stronger earnings and low interest rates.

Figure 4.1 Gross tax revenue as a proportion of GDP



Source: National Treasury and SARS

Tax-revenue growth is reasonably broad-based: while corporate income tax receipts from mining account for most of the change, personal income tax collections and VAT have also performed above expectations. However, the prices of several key commodities produced by South Africa are expected to decline over the next two years, reducing expected revenue from mining. Other major tax bases are expected to remain broadly similar to the levels projected in the 2021 MTBPS. Given the revenue improvement, government proposes R5.2 billion in tax relief to help support the economic recovery, provide some respite from fuel tax increases and boost incentives for youth employment.

The main tax proposals for 2022/23 are:

- Inflationary relief through a 4.5 per cent adjustment in the personal income tax brackets and rebates.
- An expansion of the employment tax incentive, through a 50 per cent increase in the maximum monthly value, to R1 500.
- No change to the general fuel levy or the Road Accident Fund (RAF) levy.
- Increases of between 4.5 per cent and 6.5 per cent in excise duties on alcohol and tobacco.

As announced in the 2021 Budget Speech, the corporate income tax rate will be reduced from 28 per cent to 27 per cent. Base-broadening measures will be implemented to ensure that there is no effect on revenue.

Revenue collection and outlook

The easing of pandemic-related restrictions supported a return to economic growth in 2021. Commodities traded at elevated levels and, despite a slowdown in the second half of the year, drove a significantly improved in-year revenue performance. Tax revenue collections for 2021/22 are expected to exceed the 2021 Budget estimate by R181.9 billion and the 2021 MTBPS estimate by R61.7 billion.

Table 4.1 Budget estimates and revenue outcomes[1]

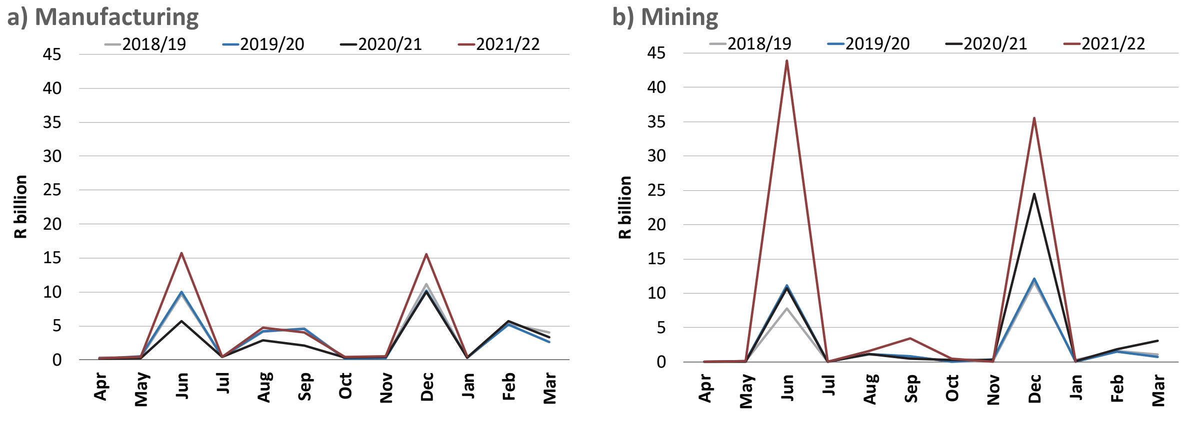
	2020/21			2021/22			
R million	**Budget[2]**	**Outcome**	**Deviation**	**Budget[2]**	**Revised**	**Deviation**	**Percentage change[3]**
Taxes on income and profits	**700 050**	**718 180**	**18 131**	**761 978**	**910 107**	**148 129**	**26.7%**
Personal income tax	482 143	487 011	4 868	515 957	553 529	37 572	13.7%
Corporate income tax	188 801	202 123	13 323	213 114	318 380	105 266	57.5%
Dividends tax	22 980	24 845	1 865	26 172	32 182	6 010	29.5%
Other taxes on income and profits[4]	6 126	4 201	-1 925	6 734	6 015	-719	43.2%
Skills development levy	**10 175**	**12 250**	**2 076**	**17 813**	**18 933**	**1 120**	**54.6%**
Taxes on property	**15 480**	**15 947**	**466**	**16 837**	**19 693**	**2 856**	**23.5%**
Domestic taxes on goods and services	**440 888**	**455 867**	**14 979**	**514 530**	**541 296**	**26 767**	**18.7%**
Value-added tax	324 554	331 197	6 643	370 177	383 724	13 547	15.9%
Specific excise duties	24 694	32 273	7 579	43 734	48 212	4 478	49.4%
Health promotion levy	1 952	2 046	94	2 150	2 211	61	8.0%
Ad valorem excise duties	3 252	3 386	134	3 536	4 276	740	26.3%
Fuel levy	75 236	75 503	267	83 148	89 884	6 736	19.0%
Other domestic taxes on goods and services[5]	11 201	11 462	262	11 784	12 990	1 206	13.3%
Taxes on international trade and transactions	**45 613**	**47 455**	**1 842**	**53 967**	**57 042**	**3 075**	**20.2%**
Customs duties	45 218	47 290	2 072	53 142	55 821	2 679	18.0%
Health promotion levy on imports	56	67	11	65	78	13	16.0%
Diamond export levy	54	51	-3	60	92	32	80.6%
Export tax	–	–	–	400	302	-98	
Miscellaneous customs and excise receipts	285	47	-238	300	748	448	1506.3%
Gross tax revenue	**1 212 206**	**1 249 711**	**37 505**	**1 365 124**	**1 547 071**	**181 946**	**23.8%**
Non-tax revenue[6]	51 975	52 053	78	32 514	47 964	15 450	-7.9%
of which:							
Mineral and petroleum royalties	*14 343*	*14 228*	-116	*15 937*	*27 979*	12 041	*96.6%*
Less: SACU[7] payments	-63 395	-63 395	–	-45 966	-45 966	–	-27.5%
Main budget revenue	**1 200 786**	**1 238 369**	**37 584**	**1 351 672**	**1 549 068**	**197 396**	**25.1%**
Provinces, social security funds and selected public entities	161 883	167 634	5 750	168 695	172 235	3 540	2.7%
Consolidated budget revenue	**1 362 669**	**1 406 003**	**43 334**	**1 520 367**	**1 721 303**	**200 936**	**22.4%**

1. A more disaggregated view is presented in Tables 2 and 3 of the statistical annexure
2. 2021 Budget Review estimates
3. Percentage change between outcome in 2020/21 and revised estimate in 2021/22
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_2 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

Tax collections for 2021/22 are slightly higher compared to those projected in the 2020 Budget, before COVID-19, albeit in a context of higher-than-projected spending, especially on health, compensation, social grants and debt-service costs.

Commodity prices have declined since November 2021 but remain above pre-pandemic levels. At the same time, provisional corporate income tax collections from the mining, finance and manufacturing sectors have accelerated. The positive performance of finance and manufacturing, which historically accounted for close to 60 per cent of total provisional corporate income tax collections, indicates a wider revenue recovery.

Figure 4.2 Provisional corporate income tax collections by sector



Source: National Treasury and SARS

With the exception of customs duties, other major tax categories have also grown above 2019/20 levels. Collections of excise duties are recovering from the trade restrictions imposed due to the COVID-19 ban on sales, especially on alcohol, with companies now paying duties deferred during the pandemic. Similarly, the easing of restrictions has contributed to strong growth in fuel levy collections.

Growth in personal income tax collections is expected to be constrained by a weaker employment outlook compared with the 2021 MTBPS projections, and the strong gains in export prices since the 2021 Budget are expected to partially reverse beyond 2021/22. Nonetheless, the outlook for several major tax bases is revised marginally higher relative to the 2021 Budget. Commodity-driven revenues have exceeded expectations in recent months and, despite some reversal expected over the medium term, are expected to add significant additional revenue over the next three years.

Faster progress in implementing structural reforms will contribute to a more durable economic recovery and improved revenue collection.

Progress at the South African Revenue Service

The rebuilding of SARS is evident in improved revenue collection and compliance trends. Over the past year, SARS has recruited an additional 490 staff across various levels and skills areas, and has invested R430 million in refreshing and modernising its ICT infrastructure. The dedicated new unit focused on high-wealth individuals is taking shape.

The multi-year customs modernisation programme is under way, with an initial focus on improving Beitbridge border operations through data-driven risk profiling and number plate recognition. SARS will expand the modernisation programme to other ports of entry over the medium term.

Table 4.2 Budget revenue[1]

R million	2018/19	2019/20 Outcome	2020/21	2021/22 Revised	2022/23	2023/24 Medium-term estimates	2024/25
Taxes on income and profits[2]	738 741	772 685	718 180	910 107	894 300	940 469	1 003 972
of which:							
Personal income tax	*492 083*	*527 633*	*487 011*	*553 529*	*587 907*	*628 220*	*678 296*
Corporate income tax	*212 046*	*211 522*	*202 123*	*318 380*	*269 931*	*274 375*	*286 097*
Skills development levy	17 439	18 486	12 250	18 933	20 619	22 329	24 099
Taxes on property	15 252	15 980	15 947	19 693	20 291	21 438	22 787
Domestic taxes on goods and services	460 545	492 283	455 867	541 296	600 732	643 211	685 483
of which:							
VAT	*324 766*	*346 761*	*331 197*	*383 724*	*439 681*	*473 092*	*505 007*
Taxes on international trade and transactions	55 723	56 322	47 455	57 042	62 505	66 812	71 272
Gross tax revenue	**1 287 690**	**1 355 766**	**1 249 711**	**1 547 071**	**1 598 447**	**1 694 259**	**1 807 614**
Non-tax revenue[3]	35 869	40 384	52 053	47 964	33 280	32 505	32 013
of which:							
Mineral and petroleum royalties	*8 612*	*11 830*	*14 228*	*27 979*	*18 554*	*14 899*	*15 535*
Less: SACU[4] payments	-48 289	-50 280	-63 395	-45 966	-43 683	-66 542	-65 453
Main budget revenue	**1 275 271**	**1 345 870**	**1 238 369**	**1 549 068**	**1 588 044**	**1 660 223**	**1 774 174**
Provinces, social security funds and selected public entities	172 382	173 412	167 634	172 235	182 601	192 983	203 457
Consolidated budget revenue	**1 447 653**	**1 519 281**	**1 406 003**	**1 721 303**	**1 770 645**	**1 853 206**	**1 977 632**
As percentage of GDP							
Tax revenue	*23.8%*	*23.8%*	*22.5%*	*24.7%*	*24.8%*	*24.9%*	*25.0%*
Main budget revenue	*23.5%*	*23.7%*	*22.2%*	*24.8%*	*24.7%*	*24.4%*	*24.5%*
GDP (R billion)	*5 418.3*	*5 686.7*	*5 566.2*	*6 251.5*	*6 441.3*	*6 805.3*	*7 233.7*
Tax buoyancy	*1.07*	*1.07*	*3.69*	*1.93*	*1.09*	*1.06*	*1.06*

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

SARS has intensified its work to counter criminal and illicit activity. Over R5 billion has been collected through enforcement activities, yet more can be done in this area. SARS has initiated a review of all businesses that received payments from national and provincial government over the past five years. The ongoing review has revealed a number of cases of non-compliance – and enabled SARS to register businesses that were not previously in the tax base, while boosting revenues.

SARS has implemented the majority of the Nugent Commission recommendations and is now aligning the outstanding recommendations with those of the State Capture Commission. A National Treasury discussion document regarding the broader governance and oversight reforms outlined in the recommendations from both commissions will soon be published for public comment. Concurrently, legislative amendments will be proposed.

Tax policy

Government aims to raise revenue in an equitable, efficient and sustainable manner to support South Africa's development objectives. Over the past two years, tax policy has focused on broadening the tax base, improving administration and lowering rather than raising tax rates. Government intends to continue with this approach by avoiding tax rate increases to the degree possible, subject to major expenditure decisions.

Corporate income tax

As discussed in the 2020 *Budget Review*, government is restructuring the corporate income tax system in a manner that has no effect on net revenue collections. Effective for tax years ending on or after 31 March 2023, the corporate income tax rate is reduced by 1 percentage point to 27 per cent. Changes to corporate income tax have the largest impact on investor behaviour – influencing jobs, wages and prices – and can support economic growth. Government's role is to find a balance between a reasonable tax burden that minimises the negative effect on investment and reduces incentives for base erosion and profit shifting, while ensuring that companies and their stakeholders contribute fairly to tax revenues.

South Africa's corporate income tax rate exceeds the Organisation for Economic Co-operation and Development average of 23 per cent. Many countries have reduced their rates over the past 15 years. In contrast, South Africa's statutory rate has remained at 28 per cent. Given that many countries with strong investment and trading ties to South Africa have significantly lower rates, this provides a strong incentive for tax avoidance.

Tax incentives

Tax incentives create complexity and preferential treatment for certain taxpayers. In line with the recommendations of the Katz Commission and the Davis Tax Committee, expiring incentives that have not widened social or economic benefits will not be renewed. Government continues to assess existing incentives to enhance transparency and efficiency. Those found to be effective and which create the intended benefits will be retained and, where necessary, redesigned to improve performance.

Economic growth, spending pressures and tax rates

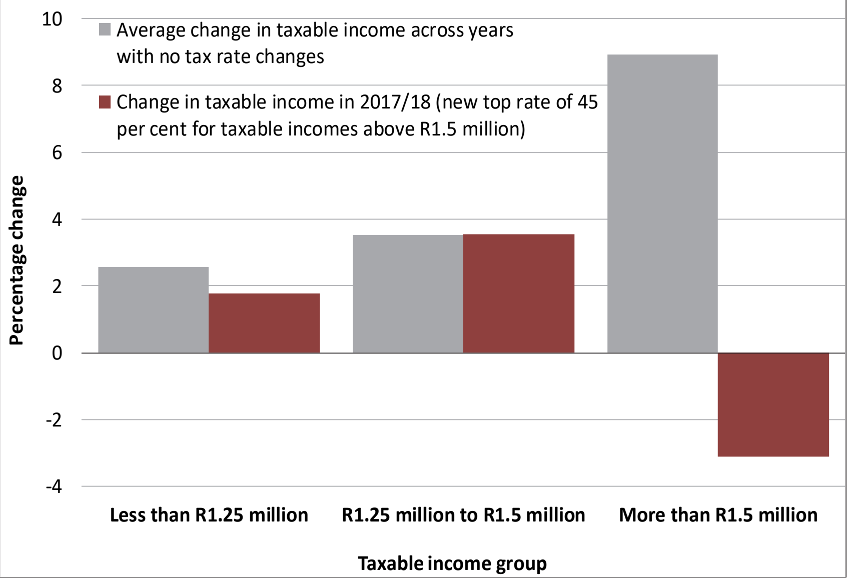
A broader tax base – ideally as more businesses register and grow, or more people earn income from stable jobs – would allow for lower headline tax rates to improve competitiveness and growth. There are, however, limits to the extent that base broadening can bolster tax revenue.

The main mechanisms to raise significant resources relatively rapidly are through rate increases in personal income tax or VAT, or from substantial reductions in personal income tax expenditures. For example, an increase in annual expenditure of about R50 billion would require either a 2 percentage point increase in all the marginal personal income tax rates, which would decrease the tax-free threshold, or a 2 percentage point increase in VAT.

Recent experience suggests caution in projecting revenue gains from tax rate hikes. Between 2015/16 and 2018/19, a number of tax increases were implemented that failed to generate the revenue expected. The reasons for this included recessionary conditions and the damage inflicted on SARS as a result of state capture. Most importantly, however, as tax increases multiply, they dampen economic growth, reduce investment, slow employment growth and negatively affect revenue-raising from other tax instruments by narrowing the tax base. Taxes inevitably distort economic activity as taxpayers change their behaviour.

The two increases that appear to have generated the most revenue in recent years were the 1 percentage point increase in the personal income tax rate for most tax brackets in 2015/16 – accompanied by below-inflation adjustments to brackets and rebates – and a 1 percentage point VAT increase in 2018/19. These measures generated about R10 billion and R20 billion in additional revenue, respectively, in their first year.

Figure 4.3 Change in real taxable income



Source: National Treasury and SARS

In contrast, increasing the top tax rate from 41 to 45 per cent for taxable incomes above R1.5 million in 2017/18 appears to have generated significantly less than the projected R4.4 billion per year. Total real taxable income for those affected by the amendment declined in the year of the adjustment as taxpayers changed their behaviour, while taxable incomes between R1.25 million and R1.5 million increased by close to 4 per cent.

In the absence of higher economic growth that supports long-term improvements in revenue collection, any proposals to fund permanent additions to public expenditure require careful scrutiny.

Tax proposals

The 2022 Budget provides R5.2 billion in tax relief to support households and the economy by not adjusting the general fuel levy and the Road Accident Fund levy, while fully adjusting the personal income tax brackets and rebates for inflation. The employment tax incentive is expanded to encourage businesses to increase youth employment.

Table 4.3 Impact of tax proposals on 2022/23 revenue[1]

R million		Effect on tax proposals
Gross tax revenue (before tax proposals)		**1 603 647**
Budget 2022/23 proposals		**-5 200**
Direct taxes		**-2 200**
Personal income tax		
Increasing brackets by inflation	–	
Revenue if no adjustment is made	*13 500*	
Increase in brackets and rebates by inflation	*-13 500*	
Expansion of the employment tax incentive	-2 200	
Corporate income tax		
Reform package	–	
Reduction in corporate income tax rate to 27 per cent	*-2 600*	
Restriction of assessed losses	*1 100*	
Additional interest limitation	*1 500*	
Indirect taxes		**-3 000**
Fuel levy		
Not adjusting the general fuel levy	-3 500	
Specific excise duties		
Increase in excise duties on alcohol	400	
Increase in excise duties on tobacco	100	
Gross tax revenue (after tax proposals)		**1 598 447**

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

Personal income tax and medical tax credits

Personal income tax brackets will be adjusted in line with the expected inflation rate of 4.5 per cent for the financial year.

Table 4.4 Personal income tax rates and bracket adjustments

	2021/22		2022/23
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 - R216 200	18% of each R1	R0 - R226 000	18% of each R1
R216 201 - R337 800	R38 916 + 26% of the amount above R216 200	R226 001 - R353 100	R40 680 + 26% of the amount above R226 000
R337 801 - R467 500	R70 532 + 31% of the amount above R337 800	R353 101 - R488 700	R73 726 + 31% of the amount above R353 100
R467 501 - R613 600	R110 739 + 36% of the amount above R467 500	R488 701 - R641 400	R115 762 + 36% of the amount above R488 700
R613 601 - R782 200	R163 335 + 39% of the amount above R613 600	R641 401 - R817 600	R170 734 + 39% of the amount above R641 400
R782 201 - R1 656 600	R229 089 + 41% of the amount above R782 200	R817 601 - R1 731 600	R239 452 + 41% of the amount above R817 600
R1 656 601 and above	R587 593 + 45% of the amount above R1 656 600	R1 731 601 and above	R614 192 + 45% of the amount above R1 731 600
Rebates		**Rebates**	
Primary	R15 714	Primary	R16 425
Secondary	R8 613	Secondary	R9 000
Tertiary	R2 871	Tertiary	R2 997
Tax threshold		**Tax threshold**	
Below age 65	R87 300	Below age 65	R91 250
Age 65 and over	R135 150	Age 65 and over	R141 250
Age 75 and over	R151 100	Age 75 and over	R157 900

Source: National Treasury

As a result, the annual tax-free threshold for a person under the age of 65 will increase to R91 250. Medical tax credits will increase from R332 to R347 per month for the first two members, and from R224 to R234 per month for additional members.

If the personal income tax brackets were not adjusted, revenue would have increased by R13.5 billion. This relief is mainly targeted for individuals in the middle-income group.

Table 4.5 Estimates of individuals and taxable income, 2022/23

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 - R91[1]	7 700 135	–	272.9	–						
R91 - R150	1 973 185	26.5	227.5	8.2	15.8	2.6	-1.2	8.7	14.6	2.5
R150 - R250	1 717 760	23.1	338.6	12.2	28.4	4.7	-1.6	12.0	26.8	4.6
R250 - R350	1 231 672	16.5	363.6	13.1	50.2	8.3	-1.9	14.2	48.3	8.2
R350 - R500	1 158 117	15.6	478.2	17.3	86.4	14.4	-2.8	20.5	83.6	14.2
R500 - R750	756 629	10.2	456.7	16.5	107.4	17.9	-2.8	20.5	104.6	17.8
R750 - R1 000	274 963	3.7	237.7	8.6	67.6	11.2	-1.3	9.7	66.3	11.3
R1 000 - R1 500	199 837	2.7	238.1	8.6	76.3	12.7	-1.0	7.3	75.3	12.8
R1 500 +	133 230	1.8	425.0	15.4	169.4	28.2	-1.0	7.1	168.4	28.7
Total	**7 445 393**	**100.0**	**2 765.3**	**100.0**	**601.4**	**100.0**	**-13.5**	**100.0**	**587.9**	**100.0**
Grand total	**15 145 528**		**3 038.2**		**601.4**		**-13.5**		**587.9**	

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

Cross-border tax treatment of retirement funds

Consultation on last year's proposal regarding the tax treatment of retirement interest when changing tax residence showed that multiple tax treaties need to be revised to ensure South Africa retains taxing rights on payments from local retirement funds. Government intends to initiate these negotiations this year.

Two-pot retirement system

The discussion paper entitled *Encouraging South African Households to Save More for Retirement* was published in December 2021. It outlines a set of reforms to enable pre-retirement access to a portion of one's retirement assets – while ensuring that the remainder is preserved for retirement. Public comments on the tax treatment of contributions to the two pots are being reviewed in preparation for public workshops, to be followed by legislative amendments.

Disclosure of wealth

Provisional taxpayers with business interests are required to declare their assets (based on their cost) and liabilities in their tax returns each year. To assist with the detection of non-compliance or fraud through the existence of unexplained wealth, it is proposed that all provisional taxpayers with assets above R50 million be required to declare specified assets and liabilities at market values in their 2023 tax returns. The additional information will also help in determining the levels and structure of wealth holdings as recommended by the Davis Tax Committee.

Employment tax incentive

Youth unemployment remains stubbornly high at 56.2 per cent for 20- to 29-year-olds in the third quarter of 2021. To encourage businesses to employ young people, government proposes an increase of 50 per cent in the value of the employment tax incentive, effective from 1 March 2022. The incentive will increase from a maximum of R1 000 to a maximum of R1 500 per month in the first 12 months and from R500 to a maximum of R750 in the second 12 months of eligibility. Improved targeting of the incentive will be considered to support jobs for long-term unemployed work seekers, alongside an expansion of the eligibility criteria for qualifying employees to improve the incentive for small businesses.

Restructuring corporate income tax

The 2020 Budget announced government's intention to restructure the corporate income tax system by reducing avoidance opportunities and expanding the tax base, while lowering the headline tax rate. South Africa's interest limitation rules also need to be better aligned with OECD/G20 recommendations on base erosion and profit shifting.

Government proposed restricting the use of assessed losses. The offsetting of the balance of assessed losses brought forward will be limited to 80 per cent of taxable income. This means that companies with an assessed loss balance that matches or exceeds their current-year taxable income will need to pay tax on 20 per cent of their taxable income. The proposal does not increase companies' tax liability, but ensures tax payments from companies are smoothed over time. Smaller companies more likely to struggle with cash flow will be exempt from the proposed changes.

Restructuring the corporate income tax system is estimated to have no effect on corporate tax revenue over the medium term. While the reduction in the rate will result in a revenue loss, it will be offset by the additional revenue from the base protection and broadening measures, as shown in Table 4.3. Due to the timing of companies' provisional tax payments, only about 25 per cent of the full effect of each measure will be felt in 2022/23.

It is proposed that these measures take effect for years of assessment ending on or after 31 March 2023.

Base erosion, profit shifting and digital services taxation

South Africa is a member of the Steering Group of the OECD/G20 Inclusive Framework tasked with finding consensus-based solutions to tax challenges associated with digitalisation of the economy. In October 2021, the Inclusive Framework agreed on a two-pillar solution, and will work on an implementation framework to take effect by 2023. South Africa will propose legislative amendments to implement these rules once the framework has been finalised and translated into a local context.

Tax incentives

Research and development tax incentive to be extended

A discussion document and an online survey reviewing the R&D tax incentive were published for public comment on 15 December 2021. A workshop will be held with interested parties during 2022. To allow for certainty and planning, the incentive will be extended in its current form until 31 December 2023. The extension and potential amendments will be included in the 2022 Taxation Laws Amendment Bill.

Expiry of corporate tax incentives

Following reviews in 2021, including engagement with affected stakeholders, several corporate tax incentives in the Income Tax Act (1962) will not be renewed when they reach their sunset date. These include:

- Section 12DA (rolling stock) on 28 February 2022
- Section 12F (airport and port assets) on 28 February 2022
- Section 12O (films), which lapsed on 31 December 2021
- Section 13*sept* (sale of low-cost residential units through an interest-free loan) on 28 February 2022.

Upstream petroleum tax regime

A review of the tax regime for the upstream petroleum industry was published at the end of 2021. It proposed replacing the variable royalty rate with a flat-rate royalty of 5 per cent. Public comments have been received, including some expressing concerns about this approach. A workshop will be held to engage on the various issues so that a proposal can be included in the 2022 Taxation Laws Amendment Bill.

Fuel levies

For the first time, fuel prices in South Africa exceeded R20/l for inland unleaded petrol in December 2021 due to higher crude oil prices and exchange rate depreciation. To support consumers and the economic recovery, no increases will be made to the general fuel levy on petrol and diesel for 2022/23, providing tax relief of R3.5 billion. There will also be no increase in the RAF levy.

In combination, these changes will ensure that fuel taxes as a percentage of the price of fuel are below 40 per cent. The last time that the fuel price was not increased due to a change in either the general fuel levy or the RAF levy was in 1990. In 2021/22, taxes accounted for on average 34 per cent of the price of petrol and 38 per cent of the price of diesel – a ratio that is below that of India and Mexico, and far lower than the 60 per cent common in Europe.

Carbon tax rates

The carbon tax rate increased from R134 to R144 per tonne of carbon dioxide equivalent, effective from 1 January 2022. The carbon fuel levy for 2022 will increase by 1c to 9c/l for petrol and 10c/l for diesel from 6 April 2022, as required by legislation. It is proposed that the carbon tax cost recovery quantum for the liquid fuels refinery sector increases from 0.56c/l to 0.63c/l from 1 January 2022.

Table 4.6 Total combined fuel taxes on petrol and diesel

	2020/21		2021/22		2022/23	
Rands/litre	**93 octane petrol**	**Diesel**	**93 octane petrol**	**Diesel**	**93 octane petrol**	**Diesel**
General fuel levy	3.70	3.55	3.85	3.70	3.85	3.70
Road Accident Fund levy	2.07	2.07	2.18	2.18	2.18	2.18
Customs and excise levy	0.04	0.04	0.04	0.04	0.04	0.04
Carbon tax[1]	0.07	0.08	0.08	0.09	0.09	0.10
Total	**5.88**	**5.74**	**6.15**	**6.01**	**6.16**	**6.02**
Pump price[2]	14.44	12.75	18.29	16.02	19.89	18.05
Taxes as percentage of pump price	*40.7%*	*45.0%*	*33.6%*	*37.5%*	*31.0%*	*33.4%*

1. The carbon tax on fuel became effective from 5 June 2019
2. Average Gauteng pump price for the 2020/21 and 2021/22 years. The 2022/23 figure is the Gauteng pump price in February 2022. Diesel (0.05% sulphur) wholesale price (retail price not regulated)
Source: National Treasury

Extension of first phase of the carbon tax

The first phase of the carbon tax will be extended by three years for the period 1 January 2023 to 31 December 2025. The transitional support measures afforded to companies in the first phase, such as significant tax-free allowances and revenue-recycling measures, will continue over this period, alongside adjustments outlined below. The main proposals include:

- Extending the energy-efficiency-savings tax incentive from 1 January 2023 to 31 December 2025.
- Extending the electricity price neutrality commitment until 31 December 2025. The electricity-related deduction will be limited to the carbon tax liability of fuel combustion emissions of electricity generators, and will not be offset against the total carbon tax liability.
- Adjusting the threshold for the maximum trade exposure allowance from 30 per cent to 50 per cent from 1 January 2023. Updated sectors and allowances will be published for public consultation.
- Penalising emissions exceeding mandatory carbon budgets. The mandatory carbon budgeting system comes into effect on 1 January 2023, at which time the carbon budget allowance of 5 per cent will fall away. To address concerns about double penalties for companies under the carbon tax and carbon budgets, it is proposed that a higher carbon tax rate of R640 per tonne of carbon dioxide equivalent will apply to greenhouse gas emissions exceeding the carbon budget. These amendments will be legislated once the Climate Change Bill is enacted.

Climate change response and carbon tax price path

South Africa's climate commitments are set out in the Cabinet-approved nationally determined contributions, which were submitted to the United Nations Framework Convention on Climate Change at the 2021 UN Climate Change Conference. To meet these commitments, the country's greenhouse gas emissions must peak by 2025 and then quickly decline to between 350 million and 420 million tonnes by 2030, and approach net-zero emissions by 2050.

The carbon tax is integral to lowering emissions. In addition, the country will need to enact legislation and implement carbon budgets and sector emission targets to reduce emissions. Simultaneously, South Africa's exports of carbon-intensive goods such as iron and steel are likely to face carbon taxes in Europe, which will reduce their competitiveness.

To prepare South Africa for the structural transition to a climate-resilient economy, government proposes to progressively increase the carbon price every year by at least US$1 to reach US$20 per tonne of carbon dioxide equivalent by 2026. For the second phase, government intends to increase the carbon price more rapidly every year, to at least US$30 by 2030, accelerating to higher levels by 2035, 2040 and up to US$120 beyond 2050.

The basic tax-free allowances will also be gradually reduced to strengthen the price signals under the carbon tax from 1 January 2026 to 31 December 2030. To encourage investments in carbon offset projects, government intends to increase the carbon offset allowance by 5 per cent from 1 January 2026. These and other proposals will form part of a review for the second phase, to inform future budget announcements.

This approach aligns with global institutions. The World Bank's High-Level Commission on Carbon Prices recommends carbon prices of US$40 to US$80 per tonne by 2025 and US$50 to US$100 by 2030. The International Monetary Fund recommends lower minimum carbon prices for developing countries of US$25 to US$50 by 2030 to achieve the Paris climate goals.

Plastic bag levy

To further discourage consumers from buying plastic bags, and to support reuse and recycling, it is proposed that the plastic bag levy be increased from 25c/bag to 28c/bag, in line with inflation, from 1 April 2022. Government aims to reduce single-use plastics. An upstream plastic tax and a tax on single-use plastics will be investigated.

Motor vehicle emissions and incandescent globe taxes

Government proposes to increase the vehicle emissions tax rate on passenger cars from R120 to R132/gCO_2/km and increase the tax on double cabs from R160 to R176/gCO_2/km from 1 April 2022. The incandescent light bulb levy will be increased from R10 to R15 per light bulb from 1 April 2022.

Excise duties on alcoholic beverages and tobacco products

The targeted excise tax burdens for wine, beer and spirits are 11 per cent, 23 per cent and 36 per cent of the weighted average retail price, respectively. Excise duties have increased more than inflation in recent years, resulting in a higher tax incidence. Government proposes to increase excise duties on alcohol by between 4.5 and 6.5 per cent for 2022/23.

The targeted excise tax burden as a percentage of the retail selling price of the most popular brand within each tobacco product category is currently 40 per cent. The consumption of cigars has moved towards more expensive brands, requiring a higher-than-inflation increase to maintain the targeted tax burden. Government proposes to increase the excise duty rate by between 5.5 and 6.5 per cent. Review papers on the alcohol and tobacco excise duties policy framework will be released shortly for comment.

Beer powders

The current excise duty regime applies a flat excise rate for traditional African beer powder of 34.7c/kg. There are similar products in the market. In the interest of equity, these products will be included in the tax net with an excise equivalent to the powder rate from 1 October 2022.

Vaping

Following public consultation, government proposes to apply a flat excise duty rate of at least R2.90/ml to both nicotine and non-nicotine solutions. The proposal will be included in the 2022 Taxation Laws Amendment Bill for further consultation before being introduced from 1 January 2023.

Table 4.7 Changes in specific excise duties, 2022/23

Product	Current excise duty rate	Proposed excise duty rate	Percentage change Nominal	Real
Malt beer	R115.08 / litre of absolute alcohol (195,64c / average 340ml can)	R121.41 / litre of absolute alcohol (206,40c / average 340ml can)	5.5	1.0
Traditional African beer	7,82c / litre	7,82c / litre	–	-4.5
Traditional African beer	34,70c / kg	34,70c / kg	–	-4.5
Unfortified wine	R4.74 / litre	R4.96 / litre	4.5	–
Fortified wine	R7.92 / litre	R8.36 / litre	5.5	1.0
Sparkling wine	R15.51 / litre	R16.52 / litre	6.5	2.0
Ciders and alcoholic fruit beverages	R115.08 / litre of absolute alcohol (195,64c / average 340ml can)	R121.41 / litre of absolute alcohol (206,40c / average 340ml can)	5.5	1.0
Spirits	R230.18 / litre of absolute alcohol (R74.23 / 750ml bottle)	R245.15 / litre of absolute alcohol (R79.06 / 750ml bottle)	6.5	2.0
Cigarettes	R18.79 / 20 cigarettes	R19.82 / 20 cigarettes	5.5	1.0
HTPs sticks	R14.09 / 20 sticks	R14.87 / 20 sticks	5.5	1.0
Cigarette tobacco	R21.12 / 50g	R22.28 / 50g	5.5	1.0
Pipe tobacco	R6.26 / 25g	R6.63 / 25g	6.0	1.5
Cigars	R104.16 / 23g	R110.93 / 23g	6.5	2.0

Source: National Treasury

Increase in health promotion levy

The health promotion levy for beverages with more than 4g of sugar content per 100ml will be increased from 2.21c/g to 2.31c/g from 1 April 2022. Consultations will also be initiated to consider lowering the 4g threshold and extending the levy to fruit juices.

Tax research and reviews

- A discussion document will be published in 2022 on a personal income tax regime for remote work.
- A review of the exemption of foreign retirement benefits in domestic tax legislation will be conducted.
- A review of depreciation and investment allowances will take place during 2022/23, followed by the release of a discussion document.
- Government will review the approach to adjusting thresholds for inflation.

Conclusion

Estimates of revenue collection have risen significantly relative to the 2021 MTBPS, due to high commodity prices, and a broad recovery in tax bases. Government will continue to adjust the design of the tax system to ensure that it is efficient, fair and flexible.