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INTRODUCTORY SPEECH BY THE MINISTER OF FINANCE

TAXATION LAWS AMENDMENT BILLS, 2008

19 March 2008

I. Introduction

Madame Speaker, before us today is the first installment of my annual tax package, formally known as the "Taxation Laws Amendment Bills, 2008." .

The 2008 Budget made a number of reductions in tax rates as well as changes in thresholds. The main objective of these Bill is to give effect to these new rates and thresholds. Though a second set of annual Bills will follow later in the year dealing with more complex issues, the Bills tabled today address pension issues, administrative measures to assist the coming filing season as well as the closing of certain loopholes.

II. Rates and thresholds

The 2008 Budget proposed several adjustments to tax rates and thresholds, including the reduction of the corporate rate from 29% to 28%. This 1 per cent drop represents a long trend of gradual company rate reductions in line with global trends. It is hoped that this rate reduction will assist companies during these turbulent times so as promote employment rather as a means of excess profit-taking through executive bonuses.

These Bills also fulfill our ongoing commitment to protect individuals from the indirect tax effects of inflation by adjusting personal marginal brackets and thresholds for all income groups. For instance, at the low-end, income up to R46 000 will now be exempt instead of the previous R43 000. At the top end, the 40 per cent rate now comes into effect for taxable incomes above R490 000 instead of the previous R450 000.

With the rise of global inflationary pressures, this year's tax changes represent a gradual shift toward a supply-side approach. Personal savings continues to be a priority. The tax-free interest (and dividend) thresholds are increased as well as the tax-free capital gains threshold.

III. Cumulative impact

Before returning to the details of the Bills introduced today, it would do well to remember the positive changes that have occurred over the years in terms of overall taxes. Corporate and individual rates have been significantly reduced. The headline corporate income tax rate has decreased from a high 40 per cent to 28 per cent, and the top marginal personal income tax rate has dropped from 45 per cent to 40 per cent. The income level at which this top marginal rate becomes effective increased from R120 000 in 1999/00 to R490 000 in 2008/09. At the bottom end, the marginal personal income rate decreased from 19 per cent to 18 per cent. All of these changes have lessened the tax burden on salaried workers and business operations.

However, given our success in broadening the base, these rate reductions have been achieved without undermining the revenues. Our tax-to-GDP has risen from 22,8 per cent in 1994/95 to a projected 28 per cent in 2007/08. Over 80 per cent of our revenue comes from three tax instruments: personal income tax (PIT), corporate income tax (CIT) and Value-added Tax (VAT). What has changed over time is the proportion contributed by each of the three instruments with a shift away from individuals bearing most of the burden. SARS repeatedly collects more revenue than originally budgeted, thereby giving scope for further fiscal reforms.

IV. Pension streamlining

The Bills contain further changes in the area of private pension reform in order to maintain our momentum in this vitally important area. Over the years, a number of administrative practices have emerged in order to accommodate the modernisation of pension savings.

The purpose of these Bills is to codify all of these administrative practices as a matter of transparency and to address these concerns. These changes (though technical) should facilitate the transfer of funds between various pension vehicles. All these technical changes are being undertaken in order to set the stage for further pension tax reforms later in the year, especially in terms of pre-retirement withdrawals and allowable deductible contributions.

V. Further administrative modernisation

In terms of administration, the Bills seek to build on the successful modernisation efforts achieved by SARS last year. The Bills eliminate burdensome administration that inhibit e-filing, such as the requirement to attach paper versions of supporting documents. The Bills also seek to ensure the proper operation of the PAYE system so that employees can receive their assessments in a timely fashion with minimal complication.

Another important but related matter is the issue of administrative penalties. The Bills set the process in motion for a more transparent set of penalties that can be evenly applied to all taxpayers. Transparent penalty criteria will give taxpayers comfort that they can come forward if they err – all the while facing a certain, yet reasonable response.

VI. Closure of anti-avoidance schemes

Although the first set of annual tax bills is generally designed solely for rates, thresholds and other straight-forward matters, urgent closure of tax avoidance schemes remains an unfortunate but necessary priority. This closure is important if we are to maintain the necessary ingredient of a broad base to facilitate low rates.

The most notable target of concern was the misuse of the corporate intra-group rollover regime. Although this regime was intended solely as a mechanism for deferring taxable gains when a group of companies passes assets from one group member to another, certain manipulated schemes achieved a whole lot more. In these schemes, deferral became outright exemption, thereby allowing group companies to be sold to independent parties wholly free from tax. It is worth noting that some private equity stakeholders played a central (but by no means exclusive) role in this arena.

At the end of the day, our approach has been to be “tough but fair.” After fully taking into account all comments received, we chose a course that fully closed the loopholes of concern without undermining legitimate commercial transactions.

One final note worth mentioning is another avoidance scheme uncovered during the informal hearings process. In these schemes, legitimate and important commercial transactions such as BEE are used to generate artificial deductions through excessive financing. Whilst we do not wish to hinder transactions necessary for our economy, we again cannot sit idle while legitimate transactions are used as a masquerade for tax avoidance. In order to remedy this newly uncovered concern, a media statement will shortly be released in this regard.

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I would like to thank Chairman Nhlanhla Nene and the members of the Portfolio Committees for their valuable role in the process. The Committee’s intervention helped bring some very important facts to light. On that note, Madame Speaker, I hereby table the “Taxation Laws Amendment Bills, 2008.”