MINISTRY: FINANCE

REPUBLIC OF SOUTH AFRICA

SPEECH BY MINISTER OF FINANCE MR NHLANHLA NENE

INTRODUCTORY SPEECH FOR TLAB, TALAB, NDB SPECIAL APPROPRIATION BILL

VENUE: National Assembly
DATE: 27 October 2015

Madam Speaker today, I would like to the take the opportunity to formally introduce and table the following bills in the National Assembly:

- The Taxation Laws Amendment Bill 2015;
- Tax Administration Laws Amendment Bill, 2015
- National Development Bank Special Appropriation Bill for 2015/16 Financial Year
- Finance Bill, 2015
- Financial Sector Regulation Bill, 2015; and the
- Financial Intelligence Centre Amendment Bill, 2015

(Three of these are Section 77 bills, whilst the others are Section 76 bills.)

1. Taxation Laws Amendment Bill and Tax Administration Laws Amendment Bill 2015

Honourable Speaker, the Taxation Laws Amendment Bill and Tax Administration Laws Amendment Bill, 2015 forms part of the second set of tax legislation giving effect to the tax proposals that were announced as part of the 2015 Budget. The first Bill dealt with the rates and thresholds, and this Bill contains the more complex and substantive tax amendments from the 2015 Budget Review. An extensive consultation process has been followed to allow all stakeholders to provide inputs and comments on the draft Bills. With the help and support of the Standing Committee on Finance and other role-players, this process has proved to be very productive.

After the one-year delay recommended by the Standing Committee on Finance last year during the 2014 Taxation Laws Amendment Bill process, the reform to harmonise the tax treatment of all retirement fund contributions will be implemented as scheduled from 1 March 2016. This will ensure greater equity in our tax system, by limiting the tax deduction to a maximum of R350 000 for all taxpayers.

However, whilst there is extensive support to proceed with annuitisation of provident funds in 2016 subject to a higher *de minimis* threshold, Government is aware of the need to win the full support of all labour federations in the interest of the long-term security of their members. As a result, an urgent and short consultation process has been initiated to deal with a new amendment related to the timing of the annuitisation requirement for provident funds. Government is mindful that such a delay in the requirement to annuitise will result in a lower tax deduction for provident fund members from year two onwards.

The draft Taxation Laws Amendment Bill, 2015 includes the following key amendments:

- Closing a loophole to protect the estate duty regime;
- Replacing a tax credit for withholding taxes imposed by other countries on services provided from South Africa with a tax deduction, thereby protecting the corporate income tax base, whilst at the same

time ensuring that South Africa can increase its role as the gateway for investments and business support into Africa; and

- Adjustments to the taxation of insurance companies to be in line with the new Solvency Assessment and Management regulatory initiative.

The draft Taxation Administration Laws Amendment Bill, 2015 includes the following key amendments:

- Providing a framework for gathering financial information for automatic exchange with a growing number of countries around the world. This framework will also assist in implementing the approach to country-by-country reporting by multinational groups that was agreed by the G20 earlier this year;
- Introducing a procedure to handle taxpayers' claims of legal professional privilege and any disputes that may arise if SARS does not accept them; and
- Placing SARS and a multinational group on a more level playing field if the local member of the group does not provide information the group holds offshore.

These measures assist in creating an overall tax regime for South Africa that continues to be internationally competitive and consistent, while ensuring that tax receipts are not undermined and that the tax burden is fairly distributed. We thank all taxpayers for their support and co-operation as they continue to meet their tax obligations.

2. New Development Bank Special Appropriation Bill for 2015/16 Fin Year

Honourable members, the 6th BRICS Summit – held in Fortaleza, Brazil – marked the signing of the "the Agreement establishing the New Development Bank". The legislatures of every BRICS country ratified this agreement and it came into force on 3 July 2015. The Bank aims to mobilise resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, complementing the existing efforts of multilateral and regional financial institutions for global growth and development.

The New Development Bank (NDB) shall have an authorized capital of US$ 100 billion and subscribed capital of US$ 50 billion. The founding members shall each have an equal share in the Bank; with the result that each BRICS country will contribute US$10 billion. The subscribed capital shall have a paid-in and callable component. The callable component shall be 80 per cent of subscribed capital (amounting to US$ 8 billion), and the paid-in component shall be 20 per cent of the subscribed capital (amounting to US$ 2 billion).

Ideally the request for capital contribution for the first instalment should have been made during last year's budget process. However, ratification of the agreement – and thus its approval – had not been concluded. The agreement therefore had no legal standing to form part of the budget process, at the time of the 2013/14 MTEC process.

This Special Appropriation Bill allows us to honour the first payment on time for the operationalisation of the NDB. Future instalments shall be subjected to normal budgetary processes.

Sub-Saharan Africa is one of the world's fastest growing economic regions; however developmental bottlenecks make it increasingly difficult for the region to achieve its growth potential. Addressing these challenges is a priority for the region. To fulfil its mandate, the Bank shall:

- Support both public and private sector infrastructure and sustainable development projects;
- Support regional projects, i.e. projects supporting more than one country
- Provide technical assistance for the preparation and implementation of these projects
- Establish the Africa Regional Centre to be based in Johannesburg, strategically located to enable access by other African countries to the New Development Bank.

3. Finance Bill, 2015

This Bill is aimed at implementing the recommendations recorded in the first, second, third and fourth reports of the National Assembly's Committee on Public Accounts, dated 3 February 2015, that Parliament authorises the unauthorised expenditure and approve a funding mechanism. The recommendations were adopted by the National Assembly on 23 June 2015.

The Bill provides for the authorisation of unauthorised expenditure in the amount of R110 215 118.57, of which:

- The total amount of R46 667 900.42 referred to in Schedule 1 to the Bill, is classified as unauthorised expenditure in terms of section 34(1)*(a)* of the PFMA due to the overspending of the vote of:

    - **The Presidency** (R14 510 746.35 and R28 428 306.73) during the 2008/09 and 2010/11 financial years; and
    - **Women, Children and People with Disabilities** (R3 728 847.34) during the 2010/11 financial year.

The Bill proposes a direct charge against the National Revenue Fund, of R46 667 900.42, as an additional amount to be allocated to votes that previously overspent their annual appropriations.

- The amount of R63 547 218.15 referred to in Schedule 2 to the Bill, is unauthorised in terms of section 34(1)*(b)* of the PFMA due to an overspending of main divisions (programmes) in the vote of Trade and Industry (R37 379 505.54) and the vote of Social Development (R26 167 712.61), during the 2004/05 and 2007/08 financial years, respectively. These funds have been kept in a suspense account pending authorised.

4. The Financial Sector Regulation Bill – *Twin Peaks Bill*

The financial services sector touches the life of each and every South African. It enables economic growth, job creation, the building of vital infrastructure and sustainable development for South Africa and her people. It is, therefore, crucial that the sector is well-regulated and stable. South Africa can be proud of our financial regulation system. In the recent World Economic Forum's competitiveness report, South Africa scored particularly well for its financial system, and we host the continent's most efficient financial market, placing us 12th internationally in this category.

We were fortunate to have weathered the 2007/8 global financial crisis well. The recent curatorship of African Bank also showed that we have a robust system that is resilient to shocks.

But we cannot be complacent.

We need to take proactive steps to keep our financial regulation system up to date and advanced. We need to keep our advantage in this area. We need to do more about ensuring that consumers are treated fairly and sold appropriate products.

For this reason, in 2011 Minister Pravin Gordhan proposed a shift to a “Twin Peaks” system of financial regulation. Two new supervisory authorities will be created – a Financial Sector Conduct Authority that cares about customers of financial services; and a Prudential Authority that cares about the financial health of institutions. Additional powers will be given to the South African Reserve Bank to ensure that they can manage systemic risks and ensure financial stability.

Finally, the Bill also lays the basis for South Africa to meet with the higher regulatory standards expected of the financial sector, and to address the gaps identified in the Financial Sector Assessment Programme (FSAP) conducted on South Africa last year. This will allow our financial institutions to compete better globally. –The twin peaks system will also create more efficient and dedicated regulators, and lead to less fragmentation and greater efficiency in the funding of such regulators.

I look forward to Parliament considering this Bill, so that our financial sector can me made even safer and made to treat customers better, and compete more effectively in the world.

5. Financial Intelligence Centre Amendment Bill, 2015

Madame Speaker, the Financial Intelligence Centre Amendment Bill, 2015, is an important bill, to ensure that South Africa continues to meet with international standards related to the combating of financial crimes like fraud, money laundering, terrorist financing and corruption.

Combatting these crimes is one of the global priorities for countries and multilateral institutions. Financial crime, if not combatted, can severely undermine the integrity of financial systems, economies and societies.

South Africa, to its credit, has been and remains committed to being a responsible global citizen by combating financial crime. This is evidenced by the enacting of the Financial Intelligence Centre Act in 2001; being a member of the Financial Action Task Force ("FATF") since 2003; ratifying the UN Convention Against Corruption in 2004; and lastly, Cabinet reaffirming financial integrity as a policy priority in 2011.

The Bill will, therefore, enhance South Africa's ability to combat financial crimes by:

- Addressing regulatory gaps identified by the 2009 FATF Mutual Evaluation and the 2014 FSAP, thereby enabling compliance with best practice;
- Strengthening the customer due diligence measures to make the financial system more transparent through the introduction of measures such as beneficial ownership and persons in prominent positions;
- Introducing a flexible risk-based approach to identifying and verifying customers, thereby facilitating cost effectiveness and financial inclusion; and
- Enhancing sharing of information with other designated entities, thereby improving coordination and crime fighting capabilities

Thank you