
ANNEXURE C: SUMMARY OF TAX PROPOSALS

SUMMARY OF TAX PROPOSALS

1. Income tax on individuals

Rates of tax

A single scale of rates for all individuals is proposed, reaching a maximum marginal rate of 45 per cent at a taxable income of R120 000. A primary rebate of R3 515 is granted to all individuals, with an additional rebate of R2 660 for individuals aged 65 years or older. The rates of tax in respect of individuals for the 1997/98 tax year and the proposed rates for the 1998/99 tax year appear in the tables below. The effect of these adjustments on the tax payable by individuals under and over 65 years of age is reflected in Tables 5 and 6.

Table 1: Tax rates for individuals (natural persons): 1997/98 tax year

Taxable income	Rands	Rate of tax
0 – 30 000		19% of each R1
30 001 – 35 000		R5 700 + 30% of the amount above R30 000
35 001 – 45 000		R7 200 + 32% of the amount above R35 000
45 001 – 60 000		R10 400 + 41% of the amount above R45 000
60 001 – 70 000		R16 550 + 43% of the amount above R60 000
70 001 – 100 000		R20 850 + 44% of the amount above R70 000
100 001 and above		R34 050 + 45% of the amount above R100 000
<i>REBATES OF TAX:</i>		
<i>Primary</i>		<i>R 3 215</i>
<i>Age 65 and over (additional to primary rebate)</i>		<i>R 2 500</i>
<i>TAX THRESHOLD:</i>		
<i>Below age 65</i>		<i>R16 921</i>
<i>Age 65 and over</i>		<i>R30 050</i>

Table 2: Tax rates for individuals: 1998/99 tax year

Taxable income Rand	Rate of tax
0 – 31 000	19% of each R1
31 001 – 46 000	R5 890 + 30% of the amount above R31 000
46 001 – 60 000	R10 390 + 39% of the amount above R46 000
60 001 – 70 000	R15 850 + 43% of the amount above R60 000
70 001 – 120 000	R20 150 + 44% of the amount above R70 000
120 001 and above	R42 150 + 45% of the amount above R120 000
REBATES OF TAX:	
Primary	3 515
Age 65 and over (additional to primary rebate)	2 660
TAX THRESHOLD:	
Below age 65	18 500
Age 65 and over	31 950

2. Fringe benefits

Residential accommodation

It is proposed that where residential accommodation is provided by an employer to an employee as a fringe benefit and such accommodation is not owned by the employer or an associated institution in relation to the employer, the value of the accommodation for tax purposes shall be the greater of the value determined in accordance with the prescribed formula, or an amount equal to the cost to the employer (i.e. rental paid and other expenses defrayed in order to provide such accommodation).

The valuation based on the cost to the employer will, not apply where:

- ◆ it is customary for an employer in the industry concerned to provide free or subsidised accommodation to its employees;
- ◆ it is necessary for the particular employer to provide free or subsidised accommodation:
 - (i) for the proper performance by the employees of their duties; and
 - (ii) as a result of the frequent movement of employees or lack of existing accommodation; and
- ◆ the benefit is provided at arm's length and for *bona fide* purposes.

It is proposed that the percentages, applied in the prescribed formula to determine the taxable value of the housing benefit be increased by one percentage point from 16, 17 and 18 per cent to 17, 18 and 19 per cent, respectively.

It is proposed that these changes should take effect on 1 March 1999.

Travelling allowance

The portion of the travelling allowance to be included in the taxpayer's remuneration for purposes of determining PAYE was increased from 35 per

cent to 40 per cent from 1 July 1997. It is proposed that this be increased to 50 per cent with effect from 1 April 1998.

- Benefit funds** It is proposed that paragraph (c) of the definition of “benefit fund” be deleted from the Income Tax Act with effect from 1 January 2000. No further funds will be approved by the Commissioner under paragraph (c) with immediate effect.
- Friendly societies** It is proposed that employer contributions to friendly societies should no longer be tax deductible with effect from 1 March 1999.
- Medical contributions** It is proposed that the amount of the contribution made by an employer to a medical aid scheme on behalf of an employee which exceeds two-thirds of the total contributions to such fund in respect of such employee during the year of assessment, shall be a taxable benefit in the hands of the employee with effect from 1 April 1998.

3. Other income tax matters

Taxation of trusts

As initial steps in reforming the taxation of trusts it is proposed that:

- ◆ Losses of the trust may for tax purposes not be allowed to flow through to the beneficiaries, but that it be retained in the trust, to be carried forward to the following tax year and set off against the income of the trust of the following year, in respect of all:
 - (i) new trusts created from 11 March 1998; and
 - (ii) existing trusts with effect from years of assessment commencing on or after 1 January 1999.
- ◆ Income vesting in the trust as a taxpayer (but not the income vesting in any beneficiary of the trust) be taxed at the rate of 35 per cent on taxable income up to R100 000 and at a rate of 45 per cent on the amount of taxable income in excess of R100 000, with the exception of a trust created solely for the benefit of a person who suffers from:
 - ◆ a “mental illness” as defined in section 1 of the Mental Health Act, 1973; or
 - ◆ a serious physical disability,

where such illness or disability incapacitates the beneficiary from earning sufficient income to maintain himself/herself.

This proposal comes into effect from years of assessment commencing on or after 1 March 1998.

Source of interest

It is proposed that rules relating to the primary source of interest be introduced into the Income Tax Act, 1962, to provide that the source of interest shall be the location where the credit or funds are being applied by the entity paying the interest. Legislation giving effect to this proposal will come into operation with effect from its date of promulgation and shall apply in respect of all interest received or accrued on or after that date.

Exempt institutions It is proposed that the exemption of The South African Gas Distribution Corporation Ltd (Gascor), granted under section 10(1)(t)(iii) of the Income Tax Act, 1962, be withdrawn with effect from its year of assessment commencing on 26 June 1998.

Marketable securities tax and stamp duty It is proposed that an Act, to be known as the Uncertificated Securities Tax (UST) Act, be introduced to deal with the taxation of transactions in uncertificated securities. Consequential amendments will also be effected to the Marketable Securities Tax Act and the Stamp Duties Act.

4. Value-added tax

Exports to neighbouring countries It is proposed that liquor and tobacco products be excluded from the Export incentive scheme as published in *Government Gazette* No. 13 949 of 27 April 1992, with immediate effect.

5. Tax on retirement funds

It is proposed that the rate applicable to the tax on retirement funds be increased from 17 per cent to 25 per cent with effect from 1 March 1998.

6. Domestic taxes on goods and services

Specific excise duties It is proposed that the excise and customs duties in Section A of Part 2 of Schedule No.1 to the Customs and Excise Act, 1964, on the goods described below and classified under the tariff items or sub-items set forth below, be amended with immediate effect (11 March 1998) to the extent shown in Table 3.

Table 3: Specific Excise Duties

TARIFF ITEM	TARIFF HEADING	DESCRIPTION	PRESENT RATE OF DUTY		PROPOSED RATE OF DUTY	
			EXCISE	CUSTOMS	EXCISE	CUSTOMS
104.00		PREPARED FOODSTUFFS; BEVERAGES, SPIRITS AND VINEGAR; TOBACCO				
104.01	19.01	MALT EXTRACT; FOOD PREPARATIONS OF FLOUR, MEAL, STARCH OR MALT EXTRACT, NOT CONTAINING COCOA POWDER OR CONTAINING COCOA POWDER IN A PROPORTION, BY MASS, OF LESS THAN 50 PER CENT, NOT ELSEWHERE SPECIFIED OR INCLUDED; FOOD PREPARATIONS OF GOODS OF HEADINGS NOS. 04.01 TO 04.04, NOT CONTAINING COCOA POWDER OR CONTAINING COCOA POWDER IN A PROPORTION, BY MASS, OF LESS THAN 10 PER CENT, NOT ELSEWHERE SPECIFIED OR INCLUDED:				
.10		Preparations, based on sorghum flour, put up for making beverages	33c/kg	33c/kg	33c/kg	33c/kg
104.05	22.01	WATERS, INCLUDING NATURAL OR ARTIFICIAL MINERAL WATERS AND AERATED WATERS, NOT CONTAINING ADDED SUGAR OR OTHER SWEETENING MATTER NOR FLAVOURED; ICE AND SNOW				
	22.02	WATERS, INCLUDING MINERAL WATERS AND AERATED WATERS, CONTAINING ADDED SUGAR OR OTHER SWEETENING MATTER OR FLAVOURED, AND OTHER NON-ALCOHOLIC BEVERAGES (EXCLUDING FRUIT OR VEGETABLE JUICES OF HEADING NO. 20.09):				
.10		Mineral waters, including spa waters and aerated waters, put up in closed bottles or other closed containers ready for drinking without dilution (excluding beverages packed in plastic tubes or similar containers and which are normally consumed in a frozen state)	14,83c/l	15,98c/l	14,83c/l	15,98c/l
.20		Lemonade and flavoured mineral waters, including flavoured spa and aerated waters, put up in closed bottles or other closed containers ready for drinking without dilution (excluding beverages packed in plastic tubes or similar containers and which are normally consumed in a frozen state)	14,83c/l	15,98c/l	14,83c/l	15,98c/l
.30		Non-alcoholic beverages not elsewhere specified or included in this tariff item, put up in closed bottles or other closed containers ready for drinking without dilution (excluding beverages packed in plastic tubes or similar containers and which are normally consumed in a frozen state)	14,83c/l	15,98c/l	14,83c/l	15,98c/l
104.10	22.03	BEER MADE FROM MALT WITH AN ALCOHOL CONTENT BY VOLUME:				
.10		Exceeding 0,5% but not exceeding 1,5%	7 249c/100l	7 249c/100l	7 597c/100l	7 597c/100l
.20		Exceeding 1,5% but not exceeding 2,5%	7 903c/100l	7 903c/100l	8 282/100l	8 282/100l
.30		Exceeding 2,5% but not exceeding 3,5%	8 557c/100l	8 557c/100l	8 968c/100l	8 968c/100l
.40		Exceeding 3,5% but not exceeding 4,5%	9 211c/100l	9 211c/100l	9 653c/100l	9 653c/100l
.50		Exceeding 4,5% but not exceeding 5,5%	9 865c/100l	9 865c/100l	10 339c/100l	10 339c/100l
.60		Exceeding 5,5% but not exceeding 6,5%	10 519c/100l	10 519c/100l	11 024c/100l	11 024c/100l
.70		Exceeding 6,5% but not exceeding 7,5%	11 173c/100l	11 173c/100l	11 709c/100l	11 709c/100l
.80		Exceeding 7,5%	11 827c/100l	11 827c/100l	12 395c/100l	12 395c/100l

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TARIFF ITEM	TARIFF HEADING	DESCRIPTION	PRESENT RATE OF DUTY		PROPOSED RATE OF DUTY	
			EXCISE	CUSTOMS	EXCISE	CUSTOMS
104.15	22.04	WINE OF FRESH GRAPES, INCLUDING FORTIFIED WINES; GRAPE MUST, OTHER THAN THAT OF HEADING NO. 20.09				
	22.05	VERMOUTHS AND OTHER WINE OF FRESH GRAPES FLAVOURED WITH PLANTS OR AROMATIC SUBSTANCES				
	22.06	OTHER FERMENTED BEVERAGES (FOR EXAMPLE, CIDER, PERRY AND MEAD):				
.05		Sorghum beer (excluding beer made from preparations based on sorghum flour)	745c/100l	745c/100l	745c/100l	745c/100l
.10		Unfortified still wine	5 315c/100l	5 315c/100l	6 100c/100l	6 100c/100l
.40		Fortified still wine	11 500c/100l	11 500c/100l	13 800c/100l	13 800c/100l
.50		Other still fermented beverages, unfortified	7 350c/100l	7 350c/100l	10 000c/100l	10 000c/100l
.60		Other still fermented beverages, fortified	13 353c/100l	13 353c/100l	18 160c/100l	18 160c/100l
.70		Sparkling wine	14 750c/100l	14 750c/100l	16 900c/100l	16 900c/100l
.80		Other fermented beverages (excluding sorghum beer)	15 906c/100l	15 906c/100l	21 600c/100l	21 600c/100l
104.20	22.07	UNDENATURED ETHYL ALCOHOL OF AN ALCOHOLIC STRENGTH BY VOLUME OF 80 PER CENT VOLUME OR HIGHER; ETHYL ALCOHOL AND OTHER SPIRITS, DENATURED, OF ANY STRENGTH				
	22.08	UNDENATURED ETHYL ALCOHOL OF AN ALCOHOLIC STRENGTH BY VOLUME OF LESS THAN 80 PER CENT VOLUME; SPIRITS, LIQUEURS AND OTHER SPIRITUOUS BEVERAGES:				
.10		Wine spirits, manufactured in the Republic by the distillation of wine	237 687c/100l of absolute alcohol	-	270 000c/100l of absolute alcohol	-
.15		Spirits, manufactured in the Republic by the distillation of any sugar cane product	249 633c/100l of absolute alcohol	-	270 000c/100l of absolute alcohol	-
.25		Spirits, manufactured in the Republic by the distillation of any grain product	255 037c/100l of absolute alcohol	-	270 000c/100l of absolute alcohol	-
.29		Other spirits, manufactured in the Republic	243 008c/100l of absolute alcohol	-	270 000c/100l of absolute alcohol	-
.60		Imported spirits of any nature, including spirits in imported spirituous beverages (excluding liqueurs, cordials and similar spirituous beverages containing added sugar) and in compound alcoholic preparations of an alcoholic strength exceeding 1,713 per cent alcohol by volume	-	228 074c/100l of absolute alcohol or 98 072c/100l	-	260 387c/100l of absolute alcohol or 111 966c/100l
.70		Spirits of any nature in imported liqueurs, cordials and similar spirituous beverages containing added sugar, with or without flavouring substances	-	228 074c/100l of absolute alcohol	-	260 387c/100l of absolute alcohol

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TARIFF ITEM	TARIFF HEADING	DESCRIPTION	PRESENT RATE OF DUTY		PROPOSED RATE OF DUTY	
			EXCISE	CUSTOMS	EXCISE	CUSTOMS
104.30	24.02	CIGARS, CHERROOTS, CIGARILLOS AND CIGARETTES, OF TOBACCO OR OF TOBACCO SUBSTITUTES				
	24.03	OTHER MANUFACTURED TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES, "HOMOGENISED" OR "RECONSTITUTED" TOBACCO EXTRACTS AND ESSENCES:				
.10		Cigars	672,5c/kg net	706,0c/kg net	868,0c/kg net	911,0c/kg net
.20		Cigarettes	79c/10 cigarettes	79c/10 cigarettes	102c/10 cigarettes	102c/10 cigarettes
		Plus, in respect of cigarettes the mass of the tobacco content of which exceeds 1,5kg/1 000 cigarettes	2 944c/kg tobacco content	2 944c/kg tobacco content	3 798c/kg tobacco content	3 798c/kg tobacco content
.30		Cigarette tobacco	99c/50g or fraction thereof plus 382c/kg tobacco	99c/50g or fraction thereof plus 382c/kg tobacco	128c/50g or fraction thereof plus 493c/kg tobacco	128c/50g or fraction thereof plus 493c/kg tobacco
		Plus a suspended duty of:				
		(i) In operation	Nil	Nil	Nil	Nil
		(ii) Maximum rate	131c/kg tobacco	131c/kg tobacco	169c/kg tobacco	169c/kg tobacco
.40		Pipe tobacco in immediate packings of a content of less than 5 kg	727c/kg net	727c/kg net	938c/kg net	938c/kg net
.50		Pipe tobacco in immediate packings of a content of not less than 5 kg	699c/kg net	699c/kg net	902c/kg net	902c/kg net

It is proposed that the rates of duty be applicable to the goods concerned which have not been entered for home consumption at the time these taxation proposals are tabled.

Ad valorem excises

It is proposed that the new and adjusted *ad valorem* duties, set out in the Table 4 below, should take effect immediately.

Table 4: Schedule 1. Part 2B Items affected by proposed *ad valorem* excise tax changes

Description of goods	Proposed rate of duty
Essential oils	10%
Perfumes and toilet waters	10%
Beauty make-up preparations	10%
Preparations for the use on the hair	10%
Shaving or bath preparations	10%
Photographic plates and film	10%
Articles of apparel and fur skin	10%
Microphones and stands	10%
Turntables, record-players and cassette-players	10%
Magnetic tape recorders	10%
Video recording or reproducing apparatus	10%
Prepared unrecorded media for sound	10%
Records, tapes and other recorded media	10%
Reception apparatus for radio-telephony	10%
Motorcycles (capacity less than 800cm ³)	5%
Motorcycles (capacity equal to or exceeding 800cm ³)	10%
Lenses, prisma, mirrors and other optical elements	10%
Spectacles, goggles and the like	10%
Binoculars, monoculars, etc.	10%
Photographic cameras	10%
Cinematographic cameras and projectors	10%
Image projectors	10%
Wrist watches, pocket watches and other watches	10%
Computers, printers, modems and other office machines	5%
Air conditioners, wall/ window types, self contained	10%
Cordless telephone sets	10%
Cell phones	10%
Video cameras for non-commercial application	10%
Caravans	10%
Yachts, boats, sailboats, motorboats, jetskis	10%
Alloy wheels	10%
Dishwashers, domestic	10%

Fuel levy

It is proposed that the fuel levy on both leaded and unleaded petrol as well as diesel be increased by 10 cents per litre with effect from 1 April 1998.

Table 5: Income tax payable 1998/99: individuals younger than 65

TAXABLE INCOME	1998 RATES	1999 RATES	TAX REDUCTION
17 000	15	0	15
18 000	205	0	205
19 000	395	95	300
20 000	585	285	300
21 000	775	475	300
22 000	965	665	300
23 000	1 155	855	300
24 000	1 345	1 045	300
25 000	1 535	1 235	300
26 000	1 725	1 425	300
27 000	1 915	1 615	300
28 000	2 105	1 805	300
29 000	2 295	1 995	300
30 000	2 485	2 185	300
35 000	3 985	3 575	410
40 000	5 585	5 075	510
45 000	7 185	6 575	610
50 000	9 235	8 435	800
55 000	11 285	10 385	900
60 000	13 335	12 335	1 000
65 000	15 485	14 485	1 000
70 000	17 635	16 635	1 000
80 000	22 035	21 035	1 000
90 000	26 435	25 435	1 000
100 000	30 835	29 835	1 000
120 000	39 835	38 635	1 200
150 000	53 335	52 135	1 200
200 000	75 835	74 635	1 200
300 000	120 835	119 635	1 200
400 000	165 835	164 635	1 200
500 000	210 835	209 635	1 200

Table 6: Income tax payable 1998/99: individuals 65 and over

TAXABLE INCOME	1998 RATES	1999 RATES	TAX REDUCTION
30 000	0	0	0
31 000	285	0	285
32 000	585	15	570
33 000	885	315	570
34 000	1 185	615	570
35 000	1 485	915	570
40 000	3 085	2 415	670
45 000	4 685	3 915	770
50 000	6 735	5 775	960
55 000	8 785	7 725	1 060
60 000	10 835	9 675	1 160
65 000	12 985	11 825	1 160
70 000	15 135	13 975	1 160
80 000	19 535	18 375	1 160
90 000	23 935	22 775	1 160
100 000	28 335	27 175	1 160
120 000	37 335	35 975	1 360
150 000	50 835	49 475	1 360
200 000	73 335	71 975	1 360
300 000	118 335	116 975	1 360
400 000	163 335	161 975	1 360
500 000	208 335	206 975	1 360

Proposed amendments to tax laws

The South African Revenue Service is giving consideration to various amendments to the Income Tax Act, Customs and Excise Act, Value-Added Tax Act and other taxation laws during the course of this year. The following are some of the amendments being considered.

Income Tax Act

1. **Section 1**
Amendment of certain definitions.
2. **Section 4**
Provision for submissions of certain information to the Central Statistical Service.
3. **Section 8(1)**
Address an anomaly existing in paragraph (b)(ii)(cc).
4. **Sections 9C and 9D**
Address certain practical problems encountered by the application of the provisions.
5. **Section 10(1)(f)**
Provide that only South African activities be taken into account to determine whether an entity is an exempt institution.
6. **Section 10(1)(t)(iii)**
Withdraw the exemption of the South African Gas Distribution Corporation Ltd.
7. **Section 11(l):**
Prohibit the deduction of contributions to Friendly Societies.
8. **Section 16A**
Deletion
9. **Section 24I:**
Amendment in respect of the treatment of foreign currency option contracts.
10. **Section 25B:**
Provide that losses incurred in a trust not be allowed to flow through to the beneficiaries, but be retained in the trust to be set off against the income of the trust in future years.
11. **Section 31**
Consider certain amendments to this section.
12. **Section 64C**
Application of the 'official rate' as contemplated in the Seventh Schedule for the purposes of subsection (4)(c).
13. **Second Schedule**
Amendment of formula "C" to resolve certain practical problems encountered as a result of its application.

14. **Fourth Schedule**
Amend the definition of remuneration.
15. **Seventh Schedule**
 - 15.1 Amendment of the valuation rules in respect of the fringe benefit applicable to residential accommodation in certain circumstances.
 - 15.2 Provide that the amount of an employer's contribution to a medical aid fund on behalf of an employee, which exceeds two-thirds of the total contributions in respect of such employee, shall be a taxable benefit in the hands of the employee.
16. **Source of interest**
Provide that the source of interest shall be the location where the credit or funds are applied by the entity paying the interest.

Stamp Duty Act

1. **Section 1**
Amendment of the definition of "fixed deposit".
2. **Section 5**
Amendment to allow a maximum amount of revenue stamps per instrument.
3. **Item 15 of Schedule 1**
Exemption of the National Housing Finance Corporation.

Uncertificated Securities Tax Bill

Introduction of new Bill to deal with the taxation of any change in beneficial ownership of uncertificated securities.

Transfer Duty Act

1. **Section 6**
Amendment to subsection (1).
2. **Section 9**
Exemption in respect of the Commission for Conciliation, Mediation and Arbitration.

Tax on Retirement Funds Act

1. **Rate**
Increase in the rate from 17 per cent to 25 per cent.

Value-Added tax

1. **Section 2**
Amendment of the definition of “financial services” to deem merchants' discounts not to be a financial service.
2. **Section 11**
Amend section 11(2)(l) to limit further the application of the zero-rate.
3. **Section 15**
Limit the option to account for VAT on the payments basis to natural persons, local authorities and bodies of persons consisting entirely of natural persons.
4. **Section 17**
Amendment to require vendors to obtain the permission of the Commissioner to change the basis of apportionment of input tax.
5. **Section 22**
Shorten the period referred to in the section from 36 to 12 months.
6. **Section 43**
An amendment to require security for tax where any partner or person in control of or managing a juristic person has previously been convicted of an offence under the Act or has repeatedly failed to carry out his obligations under the Act.

Customs and Excise Act

1. **Section 1:**
Amend the definition of “agricultural distiller”.
2. **Refunds:**
Introduction of a limitation period in respect of refunds.
3. **Section 92:**
Delete that part of the provision providing for the payment of awards in so far as customs officials are concerned.
4. **Section 20:**
This amendment is consequential upon the promulgation of the Constitution of the Republic of South Africa, 1996.
5. **Section 34:**
This amendment is consequential upon the promulgation of the Constitution of the Republic of South Africa, 1996.
6. **Section 47(9)(c):**
This amendment brings section 47(9)(c) in line with section 47(9)(f).
7. **Section 64B(1):**
Extend the scope to all entries or deliveries of a bill entry.

8. **Section 80(1)(h):**
Extend the scope to include the manufacturer of a blank invoice.
9. **Section 113(1)(g):**
This prohibition is superfluous because the Copyright Act already prohibits unlawful reproductions.
10. **Section 113(2):**
This subsection became obsolete.
11. **Section 120:**
This amendment is consequential upon the promulgation of the Constitution of the Republic of South Africa.

General

1. **Publication of names:**
Provide for the publication of names of persons convicted of an offence under the various tax laws.
2. **Set-off of tax credits**
Introduction of provisions to provide for the set-off of tax credits against taxes due in terms of any other tax Act.
3. **General:**
Other amendments to prevent fraud, tax avoidance and tax evasion.