4

Revenue trends and tax proposals

Overview

The 2012 tax proposals support a sustainable fiscal framework over the medium term, while facilitating economic growth and a more competitive economy. Reforms will improve the fairness of the tax system, ensuring that income from capital is taxed more appropriately. Measures are proposed to encourage household savings. Financing options for national health insurance as part of a strengthened public health system will be explored.

Tax proposals support a sustainable fiscal framework

Meeting South Africa's development challenges requires sufficient revenue to fund key expenditure priorities, while ensuring that public debt and debt-service costs are contained, and avoiding overburdening taxpayers. Government is taking steps to improve the efficiency of public expenditure and to root out corruption.

The revised estimated tax revenue for 2011/12 is R738.7 billion, R10.1 billion higher than the estimate at the time of the 2011 *Medium Term Budget Policy Statement*. This increase is mainly the result of higher corporate income tax collections. The estimated gross tax revenue for the fiscal year 2012/13 is R826.4 billion, a nominal increase of 11.9 per cent.

Higher estimated revenue for 2011/12 is mainly the result of improved corporate income tax collection

The main tax proposals for 2012 include:

- Personal income tax relief of R9.5 billion
- Relief for micro and small businesses
- Implementing the dividend withholding tax at 15 per cent
- An increase in effective capital gains tax rates
- Reforms to the tax treatment of contributions to retirement savings
- Further reforms of the tax treatment of medical scheme contributions
- Higher taxes on alcohol and tobacco products.

Budget revenue – revised estimates

Table 4.1 highlights budget estimates and revenue outcomes of the major tax instruments for 2010/11, and revised projected revenue outcomes for 2011/12. Tables 2 and 3 in Annexure B set out these trends in more detail.

Table 4.1 Budget estimates and revenue outcome, 2010/11 and 2011/12

R million	2010/11 Budget	2010/11 Outcome	2010/11 Deviation	2011/12 Budget	2011/12 Revised	2011/12 Deviation	2010/11 - 2011/12 % change[1]
Taxes on income and profits	**377 716**	**379 941**	**2 225**	**418 345**	**423 805**	**5 460**	**11.5%**
Persons and individuals	224 676	226 925	2 249	252 750	249 700	-3 050	10.0%
Companies	133 650	132 902	- 748	144 165	152 000	7 835	14.4%
Secondary tax on companies	16 500	17 178	678	18 100	19 500	1 400	13.5%
Tax on retirement funds	–	3	3	–	–	–	–
Other taxes on income and profits[2]	2 890	2 934	44	3 330	2 605	- 725	-11.2%
Taxes on payroll and workforce	**8 424**	**8 652**	**228**	**9 150**	**10 100**	**950**	**16.7%**
Taxes on property	**9 960**	**9 102**	**- 858**	**9 590**	**7 870**	**-1 720**	**-13.5%**
Domestic taxes on goods and services	**230 880**	**249 490**	**18 610**	**274 210**	**264 650**	**-9 560**	**6.1%**
Value-added tax	164 000	183 571	19 571	200 880	190 815	-10 065	3.9%
Specific excise duties	24 250	22 968	-1 282	25 085	25 880	795	12.7%
Ad valorem excise duties	1 200	1 596	396	2 230	1 815	- 415	13.7%
General fuel levy	34 600	34 418	- 182	36 900	37 180	280	8.0%
Other domestic taxes on goods and services[3]	6 830	6 938	108	9 115	8 960	- 155	29.2%
Taxes on international trade and transactions	**20 850**	**26 994**	**6 144**	**30 325**	**32 310**	**1 985**	**19.7%**
Customs duties	20 500	26 637	6 137	29 860	32 260	2 400	21.1%
Miscellaneous customs and excise receipts	300	286	- 14	410	5	- 405	-98.3%
Diamond export levy	50	70	20	56	45	- 11	
Stamp duties and fees	**20**	**3**	**- 17**	**–**	**–**	**–**	–
Total tax revenue	**647 850**	**674 183**	**26 333**	**741 620**	**738 735**	**-2 885**	**9.6%**
Non-tax revenue[4]	10 380	13 460	3 080	10 001	17 579	7 579	30.6%
of which:							
Mineral royalties	*3 540*	*3 555*	*15*	*4 890*	*5 500*	*610*	*54.7%*
Mining leases and ownership	–	*860*	*860*	–	–	–	–
Less: SACU payments	-14 991	-14 991	–	-21 763	-21 763	–	45.2%
Other adjustment[5]		-2 914	-2 914	–	–	–	–
National budget revenue	**643 239**	**669 738**	**26 499**	**729 858**	**734 551**	**4 693**	**9.7%**
Provinces, social security funds and selected public entities	95 165	87 776	-7 389	94 609	95 659	1 050	9.0%
Budget revenue	**738 404**	**757 513**	**19 109**	**824 467**	**830 210**	**5 744**	**9.6%**

1. Percentage change 2010/11 outcome versus 2011/12 revised estimate

2. Includes interest on overdue income tax, turnover tax for small businesses and small business tax amnesty levy

3. Includes air departure tax, plastic bags levy, electricity levy, CO_2 tax on motor vehicle emissions, incandescent light bulb levy and Universal Service Fund

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

5. Payments to Southern African Customs Union (SACU) partners for a previous error in calculation

2010/11 outcome, 2011/12 revised estimates and 2012/13 estimates

Audited results show that tax revenue for 2010/11 of R674.2 billion was R75.5 billion or 12.6 per cent higher than actual tax revenue collected in 2009/10. Higher customs duties (36.1 per cent higher than in 2009/10), value-added tax (VAT) (24.1 per cent) and personal income tax (10.6 per cent) accounted for this increase. Table 4.2 sets out the estimates of revenues before consideration of the tax proposals for 2012/13.

2010/11 revenue was R75.5 billion higher than the previous year

Table 4.2 Estimates of revenue before tax proposals, 2012/13

R million	2011/12 Revised	2012/13 Before tax proposals	2011/12–2012/13 % change
Taxes on income and profits	**423 805**	**486 379**	**14.8%**
Persons and individuals	249 700	295 770	18.5%
Companies	152 000	166 739	9.7%
Secondary tax on companies	19 500	21 000	7.7%
Other taxes on income and profits[1]	2 605	2 871	10.2%
Taxes on payroll and workforce	**10 100**	**11 131**	**10.2%**
Taxes on property	**7 870**	**8 627**	**9.6%**
Domestic taxes on goods and services	**264 650**	**286 212**	**8.1%**
Value-added tax	190 815	209 675	9.9%
Specific excise duties	25 880	26 933	4.1%
Ad valorem excise duties	1 815	2 000	*10.2%*
General fuel levy	37 180	38 258	2.9%
Electricity levy	6 430	6 616	2.9%
Other domestic taxes on goods and services[2]	2 530	2 730	7.9%
Taxes on international trade and transactions	**32 310**	**36 360**	**12.5%**
Customs duties	32 260	36 160	12.1%
Miscellaneous customs and excise receipts	5	150	–
Diamond export levy	45	50	–
Total tax revenue	**738 735**	**828 709**	**12.2%**
Non-tax revenue[3]	17 579	15 091	-14.2%
of which			
Mineral royalties	*5 500*	*6 510*	*18.4%*
Less: SACU payments	-21 763	-42 151	93.7%
National budget revenue	**734 551**	**801 649**	**9.1%**
Provinces, social security funds and selected public entities	95 659	105 489	10.3%
Budget revenue	**830 210**	**907 138**	**9.3%**

1. Includes interest on overdue income tax and small business tax amnesty levy

2. Includes air departure tax, plastic bags levy, electricity levy, Universal Service Fund, CO_2 tax on motor vehicle emissions and other domestic taxes on goods and services

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

The revised tax revenue estimate for 2011/12 of R738.7 billion is R64.6 billion or 9.6 per cent higher than in 2010/11. This is the result of strong collections of customs duties (21.1 per cent), corporate income tax (14.4 per cent), and personal income tax (10 per cent).

Actual revenue collections and medium-term estimates

Revenue expected to increase in line with economic growth

Table 4.3 sets out actual revenue collections for 2008/09 to 2010/11, the revised estimate for 2011/12 and estimates for 2012/13 to 2014/15.

After taking into account tax proposals discussed in the next section, tax revenue as a percentage of GDP is expected to increase from 24.7 per cent in 2011/12 to 25.5 per cent in 2014/15.

Table 4.3 Budget revenue, 2008/09 – 2014/15

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
R million		**Outcome**		**Revised**		**Medium-term estimates**	
Taxes on income and profits[1]	383 483	359 045	379 941	423 805	475 729	535 650	606 456
of which:							
Personal income tax	*195 115*	*205 145*	*226 925*	*249 700*	*285 970*	*328 380*	*377 650*
Corporate income tax	*165 378*	*134 883*	*132 902*	*152 000*	*167 839*	*183 220*	*202 220*
Taxes on payroll and workforce	7 327	7 805	8 652	10 100	11 131	12 211	13 479
Taxes on property	9 477	8 826	9 102	7 870	8 627	9 500	10 500
Domestic taxes on goods and services	201 416	203 667	249 490	264 650	294 554	318 980	346 110
of which:							
Value-added tax	*154 343*	*147 941*	*183 571*	*190 815*	*209 675*	*231 740*	*255 990*
Taxes on international trade and transactions	22 852	19 319	26 977	32 310	36 359	37 269	43 075
Stamp duties and fees	572	49	3	–	–	–	–
State miscellaneous revenue[2]	- 27	- 6	17	–	–	–	–
Tax revenue	**625 100**	**598 705**	**674 183**	**738 735**	**826 401**	**913 610**	**1019 620**
Non-tax revenue[3]	12 616	8 889	13 460	17 579	15 091	17 929	19 016
of which:							
Mineral and petroleum royalties	–	–	*3 555*	*5 500*	*6 510*	*7 490*	*8 620*
Less: SACU payments[4]	-28 921	-27 915	-17 906	-21 763	-42 151	-37 245	-41 416
National budget revenue	**608 796**	**579 679**	**669 738**	**734 551**	**799 341**	**894 293**	**997 220**
Provinces, social security funds and selected public entities	74 673	84 058	87 776	95 659	105 489	113 098	122 393
Repayment of Gautrain loan	–	–	–	–	–	-1 521	-1 430
Budget revenue	**683 469**	**663 737**	**757 513**	**830 210**	**904 830**	**1005 871**	**1118 183**
Tax revenue as a percentage of GDP	*27.1%*	*24.5%*	*24.5%*	*24.7%*	*25.0%*	*25.2%*	*25.5%*
Budget revenue as a percentage of GDP	*29.7%*	*27.2%*	*27.5%*	*27.7%*	*27.4%*	*27.8%*	*28.0%*
GDP (R billion)	*2 304*	*2 440*	*2 754*	*2 996*	*3 301*	*3 622*	*3 997*
Tax/GDP multiplier	*0.83*	*-0.71*	*0.98*	*1.09*	*1.16*	*1.09*	*1.12*

1. Also includes secondary tax on companies and interest on overdue income tax and small business tax amnesty levy

2. Revenue received by SARS which could not be allocated to a specific tax instrument

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

4. 2010/11 Southern African Customs Union (SACU) includes adjustment for a previous error in calculation

Overview of tax proposals

Table 4.4 shows the expected impact of tax proposals on revenue collection in 2012/13, the net effect of which decreases the estimated total tax revenue by R2.3 billion.

Net effect of 2012/13 tax proposals reduce total tax revenue by R2.3 billion

Table 4.4 Impact of tax proposals on 2012/13 revenue

R million	Effect of tax proposals	
Tax revenue (before tax proposals)		**828 709**
Non-tax revenue		15 091
Less: SACU payments		-42 151
National budget revenue		**801 649**
Provinces, social security funds and selected public entities		105 489
Budget revenue (before tax proposals)		**907 138**
Budget 2012/13 proposals:		**-2 308**
Taxes on individuals and companies	**-10 650**	
Personal income tax	-4 300	
Adjustment in personal tax rate structure	*-9 500*	
Adjustment in monetary thresholds	*-1 100*	
Capital gains - individuals	*800*	
Dividend withholding tax	*5 500*	
Business taxes	-6 350	
Capital gains - companies	*1 200*	
Small business relief	*- 100*	
Abolition of STC	*-7 450*	
Indirect taxes	**8 342**	
Increase in general fuel levy	4 517	
Increase in excise duties on tobacco products and alcoholic beverages	1 840	
Increase in electricity levy	1 985	
Tax revenue (after tax proposals)		**826 401**
Budget revenue (after tax proposals)		**904 830**

As part of its commitment to transparent budgeting, government publishes a tax expenditure statement (see Annexure C). The statement is a summary of tax revenues foregone as a result of various incentives to help achieve social and economic policy objectives.

Personal income tax relief

To ensure that the direct personal income tax burden on individuals remains reasonable, personal income tax brackets and rebates are adjusted to take account of inflation or "bracket creep", as well as provide limited real tax relief. The 2012 Budget proposes direct personal income tax relief to individuals amounting to R9.5 billion. Table 4.6 provides a summary of the 2012/13 income tax brackets, rates and rebates for individuals.

Personal income tax relief of R9.5 billion

Personal income tax provides the foundation for an equitable and progressive tax system. Table 4.5 shows the distribution of taxpayers and their relative contributions to the income tax base.

Table 4.5 Estimates of individual taxpayers and taxable income, 2012/13

	Taxpayers		Taxable income		Income tax payable		Personal income tax relief	
Taxable bracket	**Number**	**%**	**R million**	**%**	**R million**	**%**	**R million**	**%**
Below R60 000	4 864 000		99 957					
R60 001 to R160 000	1 792 100	29.0%	187 031	12.1%	12 630	4.3%	-1 333	14.1%
R160 001 to R260 000	2 711 200	43.9%	563 174	36.3%	78 387	26.5%	-3 784	39.9%
R260 001 to R600 000	1 396 200	22.6%	471 950	30.4%	94 582	32.0%	-3 018	31.8%
R600 001 to R1 000 000	175 500	2.8%	130 603	8.4%	38 355	13.0%	- 730	7.7%
> R1 000 001	102 050	1.7%	198 826	12.8%	71 782	24.3%	- 618	6.5%
Total	**6 177 050**	**100.0%**	**1 551 584**	**100.0%**	**295 735**	**100%**	**-9 483**	**100.0%**

Table 4.6 Personal income tax rate and bracket adjustments, 2011/12 – 2012/13

2011/12		2012/13	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 - R150 000	18% of each R1	R0 - R160 000	18% of each R1
R150 001 - R235 000	R27 000 + 25% of the amount above R150 000	R160 001 - R250 000	R28 800 + 25% of the amount above R160 000
R235 001 - R325 000	R48 250 + 30% of the amount above R235 000	R250 001 - R346 000	R51 300 + 30% of the amount above R250 000
R325 001 - R455 000	R75 250 + 35% of the amount above R325 000	R346 001 - R484 000	R80 100 + 35% of the amount above R346 000
R455 001 - R580 000	R120 750 + 38% of the amount above R455 000	R484 001 - R617 000	R128 400 + 38% of the amount above R484 000
R580 001	R168 250 + 40% of the amount above R580 000	R617 001	R178 940 + 40% of the amount above R617 000
Rebates		**Rebates**	
Primary	R10 755	Primary	R11 440
Secondary	R6 012	Secondary	R6 390
Tertiary	R2 000	Tertiary	R2 130
Tax threshold		**Tax threshold**	
Below age 65	R59 750	Below age 65	R63 556
Age 65 and over	R93 150	Age 65 and over	R99 056
Age 75 and over	R104 261	Age 75 and over	R110 889

Implementation of dividend withholding tax

Dividend withholding tax replaces secondary tax on companies on 1 April 2012

As announced previously, the dividend withholding tax will come into effect on 1 April 2012, bringing an end to the secondary tax on companies. Pension funds that are exempt from income tax will receive their dividends tax free. For equity reasons it is proposed that the dividend withholding tax come into effect at 15 per cent – five percentage points higher than the previous secondary tax on companies rate. Income from capital can be derived as interest income, dividends or capital gains, all of which should be taxed equitably.

High-income individuals tend to receive a larger portion of their income in the form of dividends and capital gains. The higher rate will also help to mitigate some of the revenue losses when switching from the secondary tax on companies to the new tax. The estimated net loss as a result of these changes will be R1.9 billion.

Increase in effective capital gains tax rates

Increased capital gains tax rates

Capital gains tax was introduced in 2001 at relatively modest rates and has remained unchanged for the past 10 years. This reform has helped to ensure the integrity and progressive nature of the tax system. To enhance equity, effective capital gains tax rates will be increased. The inclusion rate for individuals and special trusts will increase to 33.3 per cent, shifting their maximum effective capital gains tax rate to 13.3 per cent. The inclusion rate for other entities (companies and other trusts) will increase to 66.6 per cent, raising the effective rate for companies to 18.6 per cent and for other trusts to 26.7 per cent. These changes will come into effect for the disposal of assets from 1 March 2012.

Proposals limit impact of capital gains tax on middle-income earners

To limit the impact of capital gains taxation on middle-income households, the exemption thresholds for individual capital gains and for primary residences will be adjusted significantly. The following exemptions for individual capital gains are increased from 1 March 2012:

- The annual exclusion from R20 000 to R30 000
- The exclusion amount on death from R200 000 to R300 000
- The primary residence exclusion from R1.5 million to R2 million
- The exclusion amount on the disposal of a small business when a person is over age 55 from R900 000 to R1.8 million
- The maximum market value of assets allowed for a small business disposal for business owners over 55 years increases from R5 million to R10 million.

Medical deductions converted to medical tax credits

Monthly medical scheme contribution tax credits contribute to equity

Medical tax credits are a more equitable form of relief than medical deductions because the relative value of the relief does not increase with higher income levels. As announced in the 2011 Budget, income tax deductions for medical scheme contributions for taxpayers below 65 years will be converted into such credits. Monthly tax credits will be increased from R216 to R230 for the first two beneficiaries and from R144 to R154 for each additional beneficiary with effect from 1 March 2012. From that date onwards (apart from those with disabilities), where medical scheme contributions in excess of four times the total allowable tax credits plus out-of-pocket medical expenses combined exceed 7.5 per cent of taxable income, they can be claimed as a deduction against taxable income.

Additional medical expenses converted to tax credits

To ensure improved equity of the tax system and to help curb increases in health costs, additional medical deductions will be converted into tax credits at a rate of 25 per cent for taxpayers aged below 65 years with effect from 1 March 2014. Also with effect from the same date, employer contributions to medical schemes on behalf of ex-employees will be deemed a taxable fringe benefit and such ex-employees will be able to claim the appropriate tax credits.

Taxpayers 65 years and older, and those with disabilities or with disabled dependants, can currently claim all medical scheme contributions and out-of-pocket medical expenses as a deduction against their taxable income.

The tax credits will, as from 1 March 2014, apply to all taxpayers. However, taxpayers 65 years and older and those with disabilities or disabled dependants will be able to convert all medical scheme contributions in excess of three times the total allowable tax credits plus out-of-pocket medical expenses into a tax credit of 33.3 per cent. Note that the 7.5 per cent threshold will not apply in the case of taxpayers 65 years and older and those with disabilities or with disabled dependants.

Funding options for national health insurance

A range of funding options for national health insurance will be considered

National health insurance is to be phased in over a 14-year period beginning in 2012/13. The new system will provide equitable health coverage for all South Africans. Plans to begin the first phase of national health insurance, and initial funding requirements, are discussed in some detail in Chapter 6. Over time, the new system will require funding over and above current budget allocations to public health. Funding options include an increase in the VAT rate, a payroll tax on employers, a surcharge on the taxable income of individuals, or some combination of the above.

Achieving an appropriate balance in the funding of national health insurance is necessary to ensure that the tax structure remains supportive of economic growth, job creation and savings. The role and implications of co-payments or user charges under certain circumstances (for example, to limit overuse and risky behaviours) will also be explored. A discussion paper will be published by end-April 2012.

Encouraging household savings

To encourage greater savings, tax-preferred savings and investment accounts are proposed

To encourage greater savings among South Africans, tax-preferred savings and investment accounts are proposed as alternatives to the current tax-free interest-income caps. This will encourage a new generation of savings products. Returns generated within these savings and investment vehicles (including interest, capital gains and dividends) and withdrawals will be tax exempt. Aggregate annual contributions could be limited to R30 000 per year per taxpayer, with a lifetime limit of R500 000, to ensure that high net-worth individuals do not benefit disproportionately. The design and costs (banking and other fees) of these savings and investment vehicles may be regulated to help lower-income earners to participate.

Government proposes to introduce tax-preferred savings and investment vehicles by April 2014. A discussion document will be published by May 2012 to facilitate consultation and refine these proposals.

Retirement reforms

Changes to the tax treatment of pension and provident funds

To encourage South Africans to save for retirement, contributions by employees and employers to pension, provident and retirement funds will be tax deductible by individual employees.

Individual taxpayer deductions will be set at 22.5 and 27.5 per cent, for those below 45 years and 45 and above respectively, of the higher of employment or taxable income. Annual deductions will be limited to R250 000 and R300 000 for taxpayers below 45 years and above 45 years respectively. A minimum monetary threshold of R20 000 will apply to allow low-income earners to contribute in excess of the prescribed percentages. Non-deductible contributions (in excess of the thresholds) will be exempt from income tax if, on retirement, they are taken as either part of the lump sum or as annuity income. Measures to address some of the complexities of defined benefit pension schemes will be considered. These amendments will come into effect on 1 March 2014.

Rollover dispensation similar to retirement annuity contributions will be adopted

A rollover dispensation similar to the current retirement annuity contributions will be adopted to allow flexibility in contributions for those with fluctuating incomes. Contributions towards risk benefits and administration costs within retirement savings will be included in the maximum percentage allowable deduction.

Lump sum withdrawals upon retirement from pension and retirement annuity funds are restricted to a maximum of one-third of accumulated savings. Consultations will be held with interested parties on a uniform approach to retirement fund withdrawals, taking into account vested rights and appropriate transitional arrangements.

Business taxes

In addition to the dividend withholding tax and adjustments to capital gains tax discussed earlier, several business tax measures are proposed.

Turnover tax for micro businesses

Cutting red tape and improving cash flow for micro businesses

Several reforms of the turnover tax for micro businesses (with annual turnover below R1 million) were announced in 2011. Building on these reforms, micro businesses will be given the option of making payments for turnover tax, VAT and employees' tax at twice-yearly intervals from 1 March 2012. It is further envisaged that a single combined return will be filed on a twice-yearly basis from 1 March 2013. The number of returns required for these taxes will fall from about 18 per year to only two a year in 2013. The build-up of tax liability will require such taxpayers to ensure that funds are available when payment is due.

Small business corporations

Relief for small business corporations

To encourage the growth of small incorporated businesses, government proposes to increase the tax-free threshold for such firms from R59 750 to R63 556. Taxable income up to R300 000 is taxed at 10 per cent; this threshold is now increased to R350 000 and the applicable rate reduced to 7 per cent. For taxable income above R350 000, the normal corporate tax rate of 28 per cent applies. These amendments will come into effect for years of assessment ending on or after 1 April 2012.

Limiting excessive debt in businesses

A need to improve the classification of corporate financing

Public debate on section 45 of the Income Tax Act (1962) and private equity acquisitions has highlighted the need to improve the classification of corporate financing. The main problem is the erroneous classification of certain instruments as "debt" to generate interest deductions for the debtor, when such instruments more accurately represent equity financing. Similarly, in some private equity transactions, where creditors receive exempt interest income, the deductibility of interest payments deprives the fiscus of revenue. Excessive debt can also give rise to excessively risky transactions that may represent “credit risk” for the domestic market.

To address these concerns, government will enact a revised set of reclassification rules deeming certain debt to be equivalent to shares. In 2013 government will also consider an “across-the-board” percentage ceiling on interest deductions, relative to earnings before interest and depreciation, to limit excessive debt financing.

Debt used to fund share acquisitions

Use of section 45 as an indirect share acquisition tool is accepted

Unlike most countries, South Africa does not allow for interest to be deductible when debt is used to acquire shares. Section 45 has been used as an indirect acquisition technique to facilitate the deduction of interest payments by allowing debt to be formally matched against underlying assets as opposed to shares. Given the acceptance of section 45 as an indirect share acquisition tool, it is now proposed that the use of debt to directly acquire controlling share interests of at least 70 per cent be allowed. However, the interest associated with this form of debt acquisition will be subject to the same controls applied to section 45 acquisitions.

Property loan stock companies and property unit trusts

Property unit trusts and property loan stock companies typically provide a commitment to distribute a minimum of 90 per cent of their rental income to investors. The distribution of rental income is effectively tax-neutral in the hands of the property unit trust. Property loan stock companies appear to achieve roughly the same result but without official sanction. They issue investors a dual-linked unit that consists of a debenture and a share with the distribution in the form of interest.

The dual-linked structure needs to be eliminated so that other entities do not undertake the same structure to avoid tax by relying on excessive debt. The governance of property loan stock entities will be placed on par with property unit trusts. Rental income from these entities will fall under the pass-through regime that applies to property unit trusts.

Special economic zones

Income tax exemption to attract investors

Legislation will introduce special economic zones, which will build on industrial development zone policy. The main aim is to improve governance, streamline procedures and provide more focused support to businesses operating within these zones. In support of this initiative, the following tax interventions will be explored:

- A possible reduction in the headline corporate income tax rate for businesses within selected zones (as determined by the Minister of Finance after consultation with the Minister of Trade and Industry).
- An income tax exemption for the operators of special economic zones.
- An additional deduction from taxable income for the employment of workers earning below a predetermined threshold.

Incentives for the construction of affordable housing

Consideration of an incentive for the construction of middle-income housing

There is insufficient affordable housing stock for middle-income households above the income thresholds for RDP-type housing, but who cannot afford high mortgage finance. To address this "gap market", a tax incentive for developers (and employers) to build new housing stock (at least five units in compliance with prescribed standards) for sale below R300 000 per dwelling is under consideration. Options include either a tax credit or a deduction at either a fixed rand amount per unit or as a percentage of the value of the dwelling. This proposal will be refined after public consultation. Policy alignment with existing housing incentives and attempts to unblock regulatory bottlenecks will also be considered.

Some low-income employees receive financial assistance from their employers to acquire a house. The current tax hurdles associated with such assistance will also be explored.

International

Dual-listed companies and other offshore reorganisations

Steps to prevent value-stripping from South African multinationals

In 2011, government introduced rollover rules for some offshore reorganisations. The purpose was to give South African multinationals more flexibility when restructuring offshore subsidiaries, and to curtail the use of the offshore participation exemption to avoid tax. Now that steps have been taken to bring misuse of section 45 under control, government proposes to introduce an offshore section 45 provision. It would also appear that unbundlings are used to facilitate dual-linked structures that allow for foreign operations to be shifted outside South Africa's tax jurisdiction. The participation exemption will be curtailed if the transaction indirectly strips value from a South African multinational.

Rationalisation of withholding tax on foreign payments

From 2013, some international investors will be subject to a withholding tax on interest income

International investors are subject to a final withholding tax when receiving royalties unless a tax treaty provides otherwise. They will also be subject to a final withholding tax on interest income as from 2013, subject to tax treaty exemptions. Government proposes to coordinate and streamline the procedures, rates and times for all of these withholding tax regimes, including the adoption of a uniform rate of 15 per cent.

Indirect taxes

Climate change: carbon emissions tax

Draft policy paper on carbon tax to be published during 2012

A carbon tax will contribute to the global response to mitigate climate change. A modest carbon tax will begin to price carbon dioxide emissions so that the external costs resulting from such emissions start to be incorporated into production costs and consumer prices. This will also create incentives for changes in behaviour and encourage the uptake of cleaner-energy technologies, energy-efficiency measures, and research and development of low-carbon options.

Proposed design of carbon emissions tax to help mitigate global climate change

Following public consultation, government has revised its concept design for a carbon tax, and a draft policy paper will be published for comment in 2012. The proposed design features include:

- Percentage-based rather than absolute emissions thresholds, below which the tax will not be payable.
- A higher tax-free threshold for process emission, with consideration given to the limitations of the cement, iron and steel, aluminium and glass sectors to mitigate emissions over the near term.
- Additional relief for trade-exposed sectors.
- The use of offsets by companies to reduce their carbon tax liability.
- Phased implementation.

The tax will apply to carbon dioxide equivalent (CO_2e) emissions calculated using agreed methods. A basic tax-free threshold of 60 per cent (with additional concession for process emissions and for trade-exposed sectors) and maximum offset percentages of 5 or 10 per cent until 2019/20 is proposed. Additional relief will be considered for firms that reduce their carbon intensity during this first phase. The reduction in carbon intensity will be measured with reference to a base year or industry benchmark. Tax-free thresholds will be reduced during the second phase (2020 to 2025) and may be replaced with absolute emission thresholds thereafter. Alignment with the proposed carbon budgets as per the national climate change response white paper (2011) will be important.

A carbon tax at R120 per ton of CO_2e above the suggested thresholds is proposed to take effect during 2013/14, with annual increases of 10 per cent until 2019/20. Revenues from the tax will not be earmarked, but consideration will be given to spending to address environmental concerns. Incentives such as the proposed energy-efficiency tax incentive and measures to assist low-income households will be supported. See Annexure C for further details.

Electricity levy increase

Funding for energy efficiency initiatives

The electricity levy generated from non-renewable sources will be increased by 1c/kWh to 3.5c/kWh. The additional revenue will be used to fund energy-efficiency initiatives such as the solar water heater programme. This arrangement will replace the current funding mechanism that is incorporated into Eskom's annual tariff application. It will enhance transparency and enable government to use alternative agencies to deliver on energy-efficiency initiatives. The net impact on electricity tariffs should be neutral.

Increase in general fuel levy and Road Accident Fund levy

General fuel levy and RAF levy increased by 20c/l and 8c/l respectively

Government proposes to increase the general fuel levy and Road Accident Fund (RAF) levy by 20c/l and 8c/l respectively with effect from 4 April 2012. Table 4.7 shows the fuel tax rates and estimated fuel tax burden expressed as a percentage of retail and wholesale prices.

Table 4.7 Total combined fuel taxes on petrol and diesel, 2010/11 – 2012/13

	2010/11		2011/12		2012/13	
c / litre	**93 Octane petrol**	**Diesel**	**93 Octane petrol**	**Diesel**	**93 Octane petrol**	**Diesel**
General fuel levy	167.50	152.50	177.50	162.50	197.50	182.50
Road Accident Fund levy	72.00	72.00	80.00	80.00	88.00	88.00
Customs and excise levy	4.00	4.00	4.00	4.00	4.00	4.00
Illuminating paraffin marker	0.00	0.01	0.00	0.01	0.00	0.01
Total	**243.50**	**228.51**	**261.50**	**246.51**	**289.50**	**274.51**
Pump price: Gauteng (as in February)[1]	785.00	701.85	884.00	814.05	1 077.00	1 026.69
Taxes as % of pump price	*31.0%*	*32.6%*	*29.6%*	*30.3%*	*26.9%*	*26.7%*

1. Diesel (0.05% sulphur) wholesale price (retail price not regulated)

Value-added tax (VAT)

Square Kilometre Array

VAT relief for world's largest radio telescope if South Africa wins the bid

South Africa (in cooperation with other African countries) is bidding to host the Square Kilometre Array (SKA), an international collaboration to build the world's largest radio telescope. SKA is eligible for income-tax exemption under existing public-benefit provisions. Under consideration is providing VAT relief either in the form of a refund mechanism or the zero-rating of consideration received by the project and for imported goods and services if South Africa were to win the bid.

Financial services

Government will eliminate the VAT zero-rating of interest earned on loans to non-residents to level the playing field.

Review of VAT on indirect exports and temporary imports

Government will review VAT treatment of indirect exports and temporary imports

The policy, legislation and administration of the VAT treatment of indirect exports of goods by road will be reviewed to ensure that exporters are not prejudiced and that the fiscus continues to be protected against potential abuses.

Government will review the VAT treatment of temporary imports to promote local processing and beneficiation, while protecting the fiscus.

Revised gambling tax

National tax on gross gambling revenue

The 2011 Budget proposed a withholding tax on gambling winnings above R25 000. After broader consultation, a national gambling tax based on gross gambling revenue will be introduced. This tax, effective from 1 April 2013, will take the form of an additional 1 per cent national levy on a uniform provincial gambling tax base. A similar tax base will be used to tax the national lottery.

Excise duties on tobacco and alcohol

Excise duties on tobacco products to increase by between 5 and 8.2 per cent

The excise duties on tobacco products are determined in accordance with a targeted total tax burden (excise duties plus VAT) of 52 per cent of the retail price. Increases in excise duties on tobacco products of between 5 and 8.2 per cent are proposed.

The current targeted total tax burdens (excise duties plus VAT) on alcoholic beverages are 23, 33, and 43 per cent of the weighted average retail selling price of wine, clear beer and spirits respectively. Following an announcement in Budget 2011, the appropriateness of these benchmark tax burdens was reviewed.

It is now proposed to retain the current benchmark for wine but to increase the targeted benchmark tax burdens for beer and spirits to 35 and 48 per cent respectively. These increases will be phased in over two years. The resulting increases in excise duties on alcoholic beverages for this year range between 6 and 20 per cent. The increase will complement broader efforts to reduce alcohol abuse.

Table 4.8 Changes in specific excise duties, 2012/13

Product	Current excise duty rate	Proposed excise duty rate	Percentage change Nominal	Real
Malt beer	R53.97 / litre of absolute alcohol (91.75c / average 340ml can)	R59.36 / litre of absolute alcohol (100.98c / average 340ml can)	*9.99%*	*3.82%*
Traditional African beer	7.82c / litre	7.82c / litre	*0.00%*	*-5.60%*
Traditional African beer powder	34.70c / kg	34.70c / kg	*0.00%*	*-5.60%*
Unfortified wine	R2.32 / litre	R2.50 / litre	*7.76%*	*1.72%*
Fortified wine	R4.33 / litre	R4.59 / litre	*6.00%*	*0.06%*
Sparkling wine	R6.97 / litre	R7.53 / litre	*8.03%*	*1.98%*
Ciders and alcoholic fruit beverages	R2.71 / litre (92.14c / average 340ml can)	R2.97 / litre (100.98c / average 340ml can)	*9.59%*	*3.45%*
Spirits	R93.03 / litre of absolute alcohol (R30.00 / 750ml bottle)	R111.64 / litre of absolute alcohol (R36.00 / 750ml bottle)	*20.00%*	*13.28%*
Cigarettes	R9.74/ 20 cigarettes	R10.32/ 20 cigarettes	*5.95%*	*0.02%*
Cigarette tobacco	R10.53/ 50g	R11.05/ 50g	*4.94%*	*-0.94%*
Pipe tobacco	R2.98/ 25g	R3.22/ 25g	*8.05%*	*2.00%*
Cigars	R50.52 / 23g	R53.05 / 23g	*5.01%*	*-0.88%*

Financial transaction tax reform (securities transfer tax)

Brokers to be taxed at a lower rate

South Africa has a financial transaction tax in place in the form of the securities transfer tax. This is a tax of 0.25 per cent on purchases of shares, with an exemption for brokers who acquire shares for their own benefit. It is proposed that the current blanket exemption for brokers be abolished and broker transactions, where the beneficial ownership rests with the broker, be taxed at an appropriate lower rate. This reduced rate will also cover the purchase of shares utilised in support of derivative hedging.

These amendments will come into effect on 1 April 2013. Government will also investigate the feasibility of including derivatives in the base of the securities transfer tax.

Taxation of luxury goods

More luxury goods subject to ad valorem excise duties

From 1 October 2012, government proposes to subject the following items to ad valorem tax at the indicated rates:

- Aeroplanes and helicopters with a mass exceeding 450kg but not 5 000kg at 7 per cent
- Motorboats and sailboats longer than 10m at 10 per cent.

Tax administration

SARS to focus on cross-border cooperation

During 2012/13, the South African Revenue Service (SARS) will increase its focus on cross-border cooperation. In addition, several other administrative areas will receive attention.

Tax Administration Bill

The bill has been approved by Parliament. It incorporates the common administrative elements of current tax law into one piece of legislation, and makes further improvements in this area. The bill is expected to be promulgated and most of its provisions brought into force in 2012.

Voluntary disclosure programme

R718 million collected through voluntary disclosure programme

By mid-February 2012, SARS had captured 17 938 applications for relief, concluded agreements to the value of R941 million and collected R718 million in related tax.

High net-worth individuals

There is room for improvement in the service offered to this segment and in compliance. This will be a focus area for SARS in the coming year.

Corporate income tax modernisation

Modernisation efforts now shift to corporate income tax. Over the next 12 months SARS will improve its audit capability and align declarations to International Financial Reporting Standards where possible.

Customs transformation

The transformation of SARS customs is starting to gain momentum, and additional steps will be taken over the period ahead to achieve fully integrated electronic customs capability.

Tax ombud

Dedicated tax ombud to be established during 2012

During 2012, South Africa will establish a dedicated ombud for tax matters. The office is intended to provide taxpayers with a low-cost mechanism to address administrative difficulties that cannot be resolved by SARS.

Tax policy research projects

The following tax policy research projects will be undertaken or completed during 2012/13:

- Reforms to the primary, secondary and tertiary rebates in the context of a review of the means testing for the *old age grant* and with the intention to introduce a child and/or dependant tax rebate/credit.
- Taxation of financial instruments (including derivatives).
- Long-term insurance companies – review of the taxation, accounting and regulatory practices of the four fund system.
- Taxation of income from capital (interest income, dividends, capital gains, rental) to be reviewed to ensure greater equity and minimise opportunities for tax arbitrage.
- VAT treatment of public passenger transport.
- The implementation and importance of user charges and other fees.
- Taxation of transport fuels – review to determine the equitable treatment of all transport fuels based on their environmental characteristics (for example, CO_2 emissions) and energy content.

Conclusion

Tax proposals support a sustainable fiscal framework, economic growth and a more competitive economy

The 2012 tax proposals support a sustainable fiscal framework, economic growth and a more competitive economy. Reforms will improve the fairness of the tax system, ensuring that income from capital is taxed more appropriately. A discussion document outlining the design of a proposed tax on carbon emissions will be released. Proposals are advanced to support small business, and to encourage household savings. Options to augment and streamline funding for national health insurance as part of a strengthened public health system will be explored.