B

2024 BUDGET REVIEW

TAX EXPENDITURE STATEMENT

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

INTRODUCTION

The primary aim of the tax system is to raise sufficient revenue for government spending. It can also promote socioeconomic objectives through targeted tax exemptions, deductions or credits. Tax expenditures are estimates of the total revenue foregone due to this preferential tax treatment. This annexure presents government's latest estimates of the fiscal cost of tax expenditures, as well as the methodology used to produce these estimates.

Tax expenditure documents promote transparency and accountability. They help government and the public assess the costs, benefits and overall effectiveness of this expenditure. The National Treasury has enhanced its tax expenditure reporting and evaluation in recent years by adding several new expenditure estimates based on tax administrative data. Since the 2022 Budget, selected corporate tax expenditures are presented on a sectoral basis. In 2021/22 – the latest year for which data is available – tax expenditures were estimated at R263.0 billion or 4.2 per cent of GDP.

TAX EXPENDITURE ESTIMATES

The estimates presented in tables B.1 and B.2 are calculated using the "revenue foregone" method. This entails comparing actual revenue collections with the revenue that would have been collected without the incentive in place.

The revenue foregone approach assumes that taxpayers do not change their behaviour in response to a tax expenditure being withdrawn. In reality, behaviour is likely to change if an incentive is withdrawn, so the additional revenue collected may be less than estimated.

Most of the personal income tax and corporate income tax estimates are calculated using administrative data from the South African Revenue Service (SARS), which allows expenditure estimates to be accounted for on an accrual basis.

Changes to estimation methods since the 2023 Budget

There are three revisions to the personal income tax expenditure estimates. First, the estimates for retirement fund contributions were all revised downward due to an improvement in the use of the assessed taxpayer database, in addition to the data available from the employee tax database. The deduction previously included all amounts that would be deductible in future years through rollover provisions. It now only includes amounts deducted in the current year.

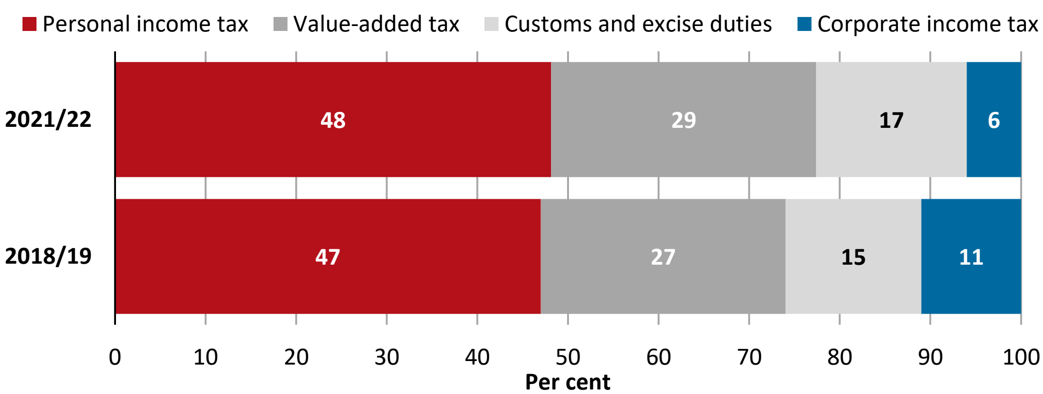
Second, the donations estimate does not include donations made under the special provisions for donations to the Solidarity Fund during 2020/21 that were only available for that year. The associated tax expenditure amounted to R47 million.

Third, this annexure incorporates the estimated revenue forgone due to the foreign remuneration exemption for the first time. It is capped at R1.25 million per taxpayer per year for remuneration from foreign sources for tax residents that are outside the country for more than 183 days per year.

Trends in tax expenditure: 2018/19 – 2021/22

This section uses historical data to analyse trends in tax expenditure at an aggregate level between 2018/19 and 2021/22. The numbers presented for the latest fiscal year reported in each tax expenditure statement are generally lower than previous fiscal years because the number of taxpayers that SARS has assessed is not close to 100 per cent. Tax expenditures remained relatively constant as a share of nominal GDP over the period, reducing from 4.7 per cent in 2018/19 to 4.3 per cent in 2020/21. The 2021/22 share will be more accurate in the 2025 *Budget Review* once levels of assessment are higher.

Figure B.1 Share of total tax expenditure per tax type



Source: National Treasury

Sectoral trends in tax expenditure: 2018/19 – 2021/22

The SARS tax administrative data is aligned with the Standard Industrial Classification, rather than SARS sector codes, for the sectoral analysis.

Table B.1 Selected corporate tax expenditure estimates by sector

R million	2018/19	2019/20	2020/21	2021/22
Research and development	**257**	**212**	**268**	**161**
Manufacturing	131	86	93	44
Financial intermediation, insurance, real estate and business services	40	54	109	65
Agriculture, hunting, forestry and fishing	25	19	23	7
Community, social and personal services	19	17	14	11
Mining and quarrying	27	18	9	19
Other	14	18	21	15
Participation exemption	**16 390**	**12 640**	**10 775**	**5 974**
Financial intermediation, insurance, real estate and business services	12 006	8 244	5 296	3 926
Mining and quarrying	1 354	1 765	2 472	127
Transport, storage and communication	1 557	1 554	1 604	12
Community, social and personal services	175	375	420	56
Manufacturing	516	323	318	872
Other	783	378	666	981

Source: National Treasury

Research and development (R&D) tax incentive (section 11D of the Income Tax Act, 1962)

The R&D tax incentive aims to encourage more private-sector companies to invest in R&D by providing a 150 per cent deduction for expenditure on eligible scientific or technological R&D carried out in South Africa. This incentive was reviewed as it was set to expire on 31 December 2023. It has been extended to 31 December 2033, with several refinements intended to simplify its implementation.

Table B.1 shows the five sectors that have benefited the most from this tax incentive over the reporting period. The list remains unchanged from that reported in previous years. More than 60 per cent of the tax expenditure has supported the manufacturing sector and the financial intermediation, insurance, real estate and business services sector. The agricultural sector has also benefited, highlighting that this incentive encourages R&D in sectors that are important for job creation.

Participation exemption in terms of foreign dividends and share sales (section 10B(2) of the Income Tax Act)

To qualify for the participation exemption, a resident company (or group of companies) must hold 10 per cent or more of the total equity shares and voting rights of a company declaring a foreign dividend. The exemption aims to encourage resident companies to repatriate dividends and prevent economic double taxation (if dividend withholding tax is due in the foreign country, for example). Qualifying companies are also exempt from capital gains tax on the sale of shares.

Table B.1 shows the five sectors that benefited the most between 2018/19 and 2021/22. The reported numbers relate solely to the exempt foreign dividend element, as there is insufficient information to publish the tax expenditure associated with the capital gains tax element.

The financial intermediation, insurance, real estate and business services sector benefits the most – both in respect of the number of taxpayers and the monetary value of the exemption. On average, 1 715 taxpayers benefit from the participation exemption (limited to dividends) annually.

Table B.2 Tax expenditure estimates

R million	2018/19	2019/20	2020/21	2021/22
Personal income tax				
Retirement fund contributions[1]	71 771	78 235	75 645	78 052
Pension contributions – employees	*16 828*	*20 048*	*20 621*	*18 557*
Pension contributions – employers	*27 656*	*29 260*	*27 930*	*30 081*
Provident contributions – employees	*3 915*	*4 960*	*4 907*	*4 781*
Provident contributions – employers	*11 817*	*12 344*	*11 306*	*12 387*
Retirement annuity	*11 555*	*11 623*	*10 882*	*12 246*
Medical	38 246	35 378	35 762	36 596
Medical tax credits on contributions	*30 801*	*27 093*	*27 653*	*28 594*
Medical tax credits on out-of-pocket expenditure	*7 445*	*8 285*	*8 108*	*8 002*
Interest exemptions	3 701	3 877	3 204	3 209
Secondary rebate (65 years and older)	3 583	3 789	4 040	4 171
Tertiary rebate (75 years and older)	247	262	304	294
Donations	429	491	484	480
Capital gains tax (annual exclusion)	574	628	502	603
Venture capital companies	880	852	989	1 247
Foreign remuneration exemption	515	524	1 754	1 987
Total personal income tax	**119 946**	**124 037**	**122 684**	**126 638**
Corporate income tax				
Small business corporation tax savings	3 366	3 328	3 085	2 904
Reduced headline rate	*3 299*	*3 255*	*3 030*	*2 870*
Section 12E depreciation allowance	*67*	*74*	*56*	*35*
Research and development	257	212	268	161
Learnership allowances	588	502	400	261
Strategic industrial projects (12I)	337	16	2	–
Film incentive[2]	–	19	1	3
Urban development zones	209	257	159	152
Employment tax incentive	4 512	4 754	7 165	6 167
Energy-efficiency savings	1 934	161	113	172
Participation exemption[3]	16 390	12 640	10 775	5 974
Total corporate income tax	**27 594**	**21 889**	**21 970**	**15 795**

Table B.2 Tax expenditure estimates *(continued)*

R million	2018/19	2019/20	2020/21	2021/22
Value-added tax				
Zero-rated supplies	65 255	71 752	61 665	75 195
22 basic items[4]	*29 390*	*31 834*	*27 960*	*31 494*
Petrol[5]	*20 259*	*20 003*	*14 730*	*20 705*
Diesel[5]	*8 089*	*8 212*	*6 592*	*9 321*
Paraffin[5]	*931*	*838*	*740*	*1 741*
Municipal property rates	*6 252*	*10 528*	*11 316*	*11 518*
Reduced inclusion rate for commercial accommodation	*334*	*336*	*328*	*416*
Exempt supplies (public transport and education)	1 603	1 687	1 525	1 717
Total value-added tax	**66 857**	**73 439**	**63 190**	**76 913**
Customs duties and excise				
Motor vehicles (MIDP/APDP, including IRCCs)[6]	31 250	34 107	26 189	34 165
Textile and clothing (duty credits – DCCs)[6]	734	725	709	869
Furniture and fixtures	178	168	138	144
Other customs[7]	600	625	1 409	1 147
Diesel refund[8]	5 846	8 767	7 090	7 347
Total customs and exercise	**38 608**	**44 393**	**35 534**	**43 672**
Total tax expenditure	**253 006**	**263 758**	**243 377**	**263 018**
Tax expenditure as % of total gross tax revenue	**19.6%**	**19.5%**	**19.5%**	**16.8%**
Total gross tax revenue	**1 287 690**	**1 355 766**	**1 249 711**	**1 563 754**
Tax expenditure as % of GDP	**4.7%**	**4.6%**	**4.3%**	**4.2%**

1. Retirement benefits are taxable once they are paid out, therefore a portion of the revenue is deferred rather than foregone, unlike most other tax expenditures. Some of the revenue foregone is also recouped through taxes on lump sum withdrawals before or on retirement

2. Tax expenditure for all years is attributable to allowances under section 24F and exemptions under section 12O

3. Tax expenditure only attributable to foreign dividends. Capital gains tax on shares sales not included

4. VAT relief in respect of basic food items based on 2010/11 Income and Expenditure Survey data, and two food items and sanitary towels (pads) added from 1 April 2019

5. Based on fuel volumes and average retail selling prices

6. Motor Industry Development Programme (MIDP), replaced in 2013 by the Automative Production Development Programme (APDP); import rebate credit certificate (IRCC); duty credit certificate (DCC)

7. Goods manufactured exclusively for exports, television monitors and agricultural goods exempted

8. Diesel refund previously offset against domestic VAT has been added

Source: National Treasury

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