4

Revenue trends and tax policy

In brief

- Economic growth is expected to remain in line with the October 2016 forecast. Tax revenue collections, however, have underperformed. Robust revenue collection depends on strong economic growth and effective tax administration.
- Tax revenues are estimated to grow by 7 per cent in 2016/17, compared with 9.8 per cent projected in the 2016 Budget.
- To maintain existing spending programmes, government proposes to raise tax rates, primarily at the upper end of the income spectrum, strengthening the progressive nature of the tax system.
- The measures will include a new top personal income tax bracket, a higher dividend withholding tax rate, and increases in fuel taxes and alcohol and tobacco excise duties.
- Government remains committed to maintaining a stable and transparent tax system.

Overview

Projected revenue shortfall of R30.4 billion for 2016/17

The 2016 Budget estimated that government would receive total tax revenue of R1.175 trillion during 2016/17. The October 2016 *Medium Term Budget Policy Statement* (MTBPS) noted that revenue collection would fall well below estimates. The MTBPS projected a revenue shortfall of R22.8 billion, which is now revised to R30.4 billion, meaning an estimated R1.144 trillion will be collected. This is the largest tax revenue shortfall relative to budgeted estimates since 2009/10.

Projections have fallen short in three of the four main tax instruments. Personal income tax, value-added tax (VAT) and customs duties are down by an estimated R15.2 billion, R11.3 billion and R6.5 billion respectively relative to the 2016 Budget estimate. Lower wage increases and bonuses reduced personal income tax collection. The decline in import VAT has been partially offset by strong domestic VAT collection, but VAT refunds have been higher than anticipated, reducing net revenue. Corporate income tax collection is expected to exceed 2016 Budget estimates.

Tax collection projections are based on economic growth forecasts, the effectiveness of the tax administration in closing the compliance gap and tax policy changes. A protracted period of low economic growth has negatively affected job creation and tax bases. Although economic growth for 2016/17 remains in line with previous estimates, decreased imports and slower wage growth have contributed to lower revenues.

Most additional amounts raised through tax increases will affect upper end of income spectrum

To ensure that the state has adequate resources to fund existing spending programmes, government proposes to raise tax rates for 2017/18. Raising taxes when the economy is struggling is undesirable, but unavoidable, given the current fiscal circumstances. Government is acutely aware of the difficult economic conditions facing the majority of South Africans, but deferring tax increases by accumulating more public debt would ultimately impose a greater burden on citizens. The main tax proposals are:

- A new top personal income tax bracket of 45 per cent for taxable incomes above R1.5 million.
- Limited relief for bracket creep.
- An increase in the dividend withholding tax rate to 20 per cent.
- A 30c/litre increase in the general fuel levy and a 9c/litre increase in the Road Accident Fund (RAF) fuel levy.

Tax policy choices

In 2016/17, for the first time since 2009/10, tax revenues have not kept pace with economic growth. There is uncertainty regarding the path of revenue collection. Risks include weaker-than-expected economic growth, and concerns about tax morality, compliance and administration. Deterioration in any of these areas can hinder tax collection.

An efficient and trustworthy tax administration is one of South Africa's institutional strengths

An efficient and trustworthy tax administration is one of South Africa's institutional strengths. The South African Revenue Service (SARS) has played an integral role in building the democratic state by ensuring that expected levels of revenue are available to fund spending programmes. SARS will continue to develop the skills and capacity needed to enforce legislation. It will strengthen its efforts to curb tax avoidance and evasion, and address transfer pricing – a component of illicit financial flows.

South Africa's democracy depends on the strength of its social compact. The payment of taxes is a legal obligation, but the effectiveness of the tax system relies to a large extent on the willingness of citizens to contribute. This cannot be taken for granted given rising public concerns about corruption, wastage of public funds and inefficiencies in service delivery. A marked decline in the culture of tax morality would have negative effects on the public finances and be exceptionally hard to reverse.

Redistribution and solidarity

Government committed to progressive, stable and transparent tax structure

Government is committed to maintaining a progressive, stable and transparent tax structure. Two foundational principles of the tax system are equity and efficiency. Equity means that all residents with the same level of income should pay the same in tax, and that residents should contribute to the fiscus in proportion to their income level. Efficiency means raising revenue in a manner that does not deter economic growth, investment and job creation. Some tax instruments are progressive and promote equity; others are regressive, but more efficient.

Although raising revenue is the primary objective of the tax system, tax is an important instrument to address inequality. Studies by the International Monetary Fund and others show that countries with lower levels of inequality experience higher, more prolonged periods of economic growth. Given that a greater portion of the gains from economic growth have accrued to those on the upper end of the income and wealth spectrums, and that levels of poverty and inequality remain extremely high, a more redistributive approach is required to consolidate the social compact. At the same time, care will be taken to ensure that the social wage grows at a rate consistent with the capacity of the economy to generate resources.

New top income tax bracket and higher dividend withholding tax reinforce progressive nature of tax system

The 2017 Budget proposals strengthen the progressive nature of the tax system. Government proposes a new top personal income tax bracket of 45 per cent for taxable incomes above R1.5 million per year. About 100 000 taxpayers will be affected by the new bracket. Increasing the top marginal rate without concurrently raising the dividend withholding tax rate would increase the arbitrage opportunity for some individuals to pay themselves with dividends rather than salaries. Government therefore proposes to increase the dividend withholding tax rate from 15 per cent to 20 per cent. To support middle-income households, the duty-free threshold for residential property transfers will be raised to R900 000.

Over the long term, higher levels of economic growth are required to bolster tax revenues and public expenditure. Government will monitor how the tax rate changes affect taxpayer behaviour, revenues collected and economic growth to ensure that government's ability to reduce poverty and inequality and promote development is not diminished.

Efficiency, equity, certainty and buoyancy in the tax system

The Davis Tax Committee's August 2016 report, *Macro Analysis of the Tax System and Inclusive Growth in South Africa*, provides a valuable evaluation of the tax system. It assesses taxation against the criteria of efficiency, equity, certainty and buoyancy. The main findings of the report are as follows:

- VAT is efficient, mildly progressive, transparent, certain and buoyant. Any increases should be accompanied by an assessment of compensating mechanisms to address negative impacts to low-income households. The single, standard VAT rate should be retained and no further zero-ratings should be considered.
- Customs duties are relatively efficient, somewhat progressive, quite transparent and buoyant.
- Excise duties internalise public costs. Ad valorem duties are progressive and specific duties are regressive. Excise duties are not responsive to the business cycle.
- Personal income tax is transparent and certain, and equity is enhanced by capital gains tax. Personal income tax is progressive by design, but expenditure measures complement the redistributive role.
- Corporate income tax is not economically efficient, particularly in the case of incentive programmes. It is unclear how the burden is shared among shareholders, institutional investors and consumers. The tax is complex and open to interpretation, and responds strongly to the business cycle.

The committee's reports on small business, estate duty and other matters can be found at www.taxcom.org.za.

In line with the committee's recommendation, the 2016 *Budget Review* proposed to discontinue the use of interest-free loans to avoid estate duty. This proposal takes effect from 1 March 2017. Government will consider the committee's other recommendations on estate duty in the 2018 Budget.

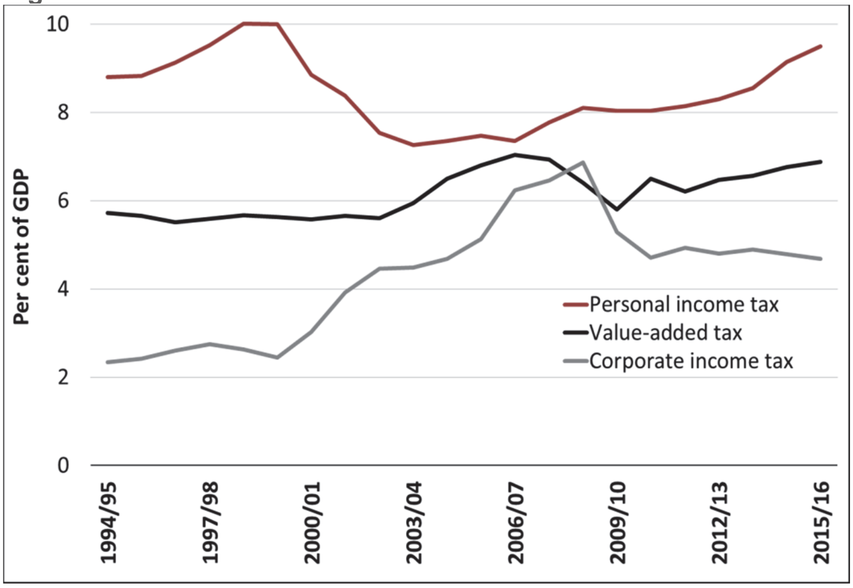
Tax policy considerations over the medium term

As Figure 4.1 shows, the personal income tax burden has been steadily increasing since 2010/11. Between 2000/01 and 2008/09 corporate income tax revenue grew strongly in line with economic growth, the commodity boom, improved compliance and measures to limit tax avoidance. The corporate tax base was broadened and the rate reduced. Personal income tax relief was provided to balance the tax burden.

Continuing to raise personal income tax burden over extended period could have negative consequences

In recent years, government has not been in a position to provide full inflationary relief and has raised the effective personal income tax rate. Continuing to raise the personal income tax burden over a long period could have negative consequences for growth and investment. If growth does not accelerate over the medium term, it may be necessary to adjust consumption taxes. The least economically damaging means of doing so would be to increase the VAT rate, which is low by global standards. However, this needs to be balanced against the potential effect on poor households, which can be mitigated through targeted public expenditure.

Figure 4.1 Main sources of tax revenue



Source: National Treasury

South Africa's corporate income tax rate is higher than OECD average

Corporate income tax revenue moves in line with the overall economy. Improving economic growth should result in a higher contribution from this tax. South Africa's corporate income tax rate of 28 per cent is higher than the Organisation for Economic Cooperation and Development (OECD) average of 25 per cent, leaving the fiscus vulnerable to base erosion and profit shifting – a term describing the channels used by multinational corporations to shift their reporting of income to low-tax countries. Corporate tax revenue can be increased by broadening the tax base. This can involve removing tax incentives, and introducing measures to curb tax avoidance through loopholes and schemes.

Reviews of tax incentives should regularly assess their effect on investment, job creation and growth

Government is re-evaluating existing items that narrow the corporate tax base, including tax incentives and deductions for excessive debt financing. Tax incentives provide favourable treatment to encourage investment, with costs borne by the public. However, a healthy business environment, and political and policy certainty, have a much greater influence on investment decisions. Reviews of tax incentives should regularly assess their effect on investment, job creation and growth. Where the costs outweigh the benefits, consideration should be given to removing these incentives.

Government reviewed the urban development zone tax incentive in 2012, and the learnership and employment tax incentives in 2016. Reports on the latter two were published on the National Treasury website:

- The learnership tax incentive supports training and skills development. It has been revised to provide more support for scarce skills, particularly for artisans, and extended until 2022.
- Between 1 January 2014 and 31 January 2017, more than 50 000 firms took up the employment tax incentive. The incentive has had modest positive effects on the growth of youth employment in participating firms, and no notable negative outcomes. The incentive has been extended until 2019 to allow for further evaluation.

The tax incentive for qualifying industrial policy projects comes to an end this year. Government will review the programme before taking a decision on its future. Annexure B contains further discussion of tax expenditures.

Over the medium term, government will continue to work on a sustainable method of funding higher education.

Could a graduate tax fund higher education?

Following student protests, government announced several adjustments to university fees, and appointed a commission to assess the feasibility of free higher education and training.

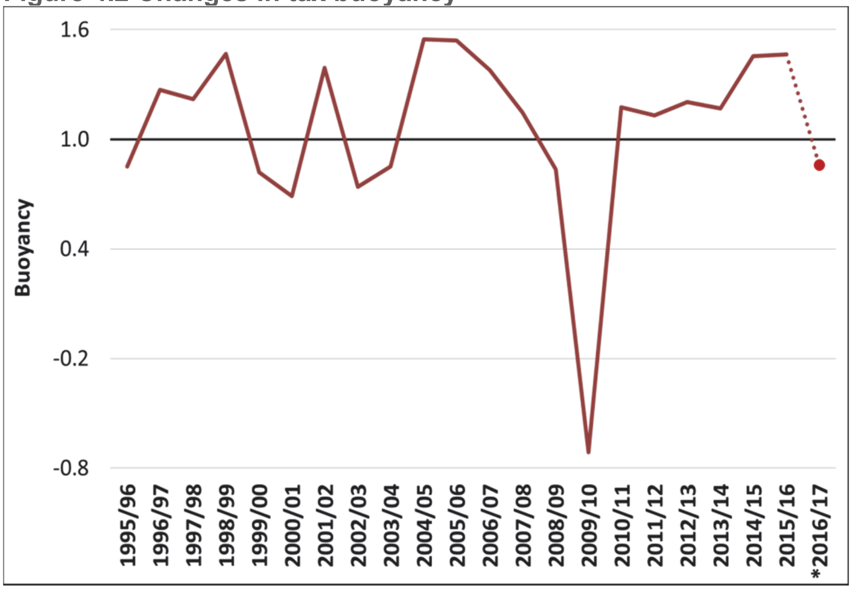
Given budget constraints, allocating more funds for post-school education would require either reprioritisation of funds away from other programmes or an increase in tax revenues. Several groups have put forward the idea of a graduate tax to be levied directly on all university graduates. The idea offers several potential advantages, including effectively targeting private returns to higher education.

Such a tax is, however, unlikely to raise the revenues needed to fund universities. In 2011, there were about 1.3 million individuals who had completed a degree, and about 80 000 individuals graduated in 2014. The National Treasury estimates that if each new graduate faced a one percentage point increase in their marginal tax rate, the tax would raise about R200 million in the first year. If the increase applied to all graduates, it could generate about R3 billion annually. The 26 public universities spent R59.8 billion to operate in 2015.

Revenue collection and outlook

In 2016/17, for the first time since 2009/10, tax revenues have not grown as fast as the economy.

Figure 4.2 Changes in tax buoyancy[1]



[1]Percentage change in gross tax revenue divided by percentage change in nominal GDP
**Estimated outcome*
Source: National Treasury and Reserve Bank

Tax buoyancy describes the relationship between gross tax revenue collections and economic growth, including the revenue effects of policy changes. A value above one means that revenues are growing faster than the economy; below one means they fall below the rate of GDP growth. Although buoyancy fell below the rate of economic growth in the 2000s, this coincided with substantial tax relief. Tax buoyancy is expected to fall below one for 2016/17, even after tax measures proposed in the 2016 Budget raised an estimated R18 billion.

Table 4.1 Budget estimates and revenue outcomes[1]

	2015/16			2016/17			%
R million	Budget	Outcome	Deviation	Budget	Revised	Deviation	change[2]
Taxes on income and profits	**608 654**	**606 821**	**-1 833**	**668 387**	**660 586**	**-7 801**	**8.9%**
Personal income tax	392 000	388 102	-3 898	441 040	425 810	-15 230	9.7%
Corporate income tax	189 000	191 152	2 152	198 293	205 090	6 797	7.3%
Dividend witholding tax	23 650	23 934	284	25 031	25 710	679	7.4%
Interest witholding tax	216	219	2	218	450	232	105.9%
Other taxes on income and profits[3]	3 787	3 414	- 374	3 804	3 526	- 278	3.3%
Skills development levy	**15 800**	**15 220**	**- 580**	**17 640**	**15 462**	**-2 177**	**1.6%**
Taxes on property	**14 762**	**15 044**	**282**	**15 455**	**16 043**	**588**	**6.6%**
Domestic taxes on goods	**383 995**	**385 956**	**1 961**	**418 771**	**403 909**	**-14 862**	**4.7%**
Value-added tax	278 060	281 111	3 051	301 260	290 000	-11 260	3.2%
Specific excise duties	35 100	35 077	- 23	38 000	35 700	-2 300	1.8%
Ad valorem excise duties	3 037	3 014	- 23	3 276	3 385	109	12.3%
General fuel levy	56 700	55 607	-1 093	64 495	62 970	-1 525	13.2%
Other domestic taxes on goods and services[4]	11 098	11 146	49	11 739	11 854	114	6.3%
Taxes on international trade and transactions	**46 490**	**46 942**	**453**	**54 536**	**48 384**	**-6 152**	**3.1%**
Customs duties	46 000	46 250	250	54 043	47 500	-6 543	2.7%
Diamond export levy	120	127	7	122	142	20	12.2%
Miscellaneous customs and excise receipts	369	565	196	371	741	370	31.1%
Gross tax revenue	**1 069 700**	**1 069 983**	**283**	**1 174 788**	**1 144 382**	**-30 406**	**7.0%**
Non-tax revenue[5]	55 841	57 274	1 929	26 657	31 957	5 300	-44.2%
of which:							
Mineral royalties	*3 460*	*3 708*	247	*4 430*	*6 272*	*1 842*	*69.2%*
Less: SACU[6] payments	-51 022	-51 022	-	-39 448	-39 448	-	-22.7%
Main budget revenue	**1 074 519**	**1 076 234**	**2 212**	**1 161 996**	**1 136 891**	**-25 105**	**5.6%**
Provinces, social security funds and selected public entities	148 545	145 731	-2 814	162 343	160 404	-1 939	10.1%
Consolidated budget revenue	**1 223 064**	**1 221 965**	**- 602**	**1 324 339**	**1 297 295**	**-27 044**	**6.2%**

1. A more disaggregated view is presented in Tables 2 and 3 of the statistical annexure
2. Percentage change between outcome in 2015/16 and revised estimate in 2016/17
3. Includes interest on overdue income tax and small business tax amnesty levy
4. Includes turnover tax for small businesses, air departure tax, plastic bags levy, electricity levy, CO_2 tax on motor vehicle emissions, incandescent light bulb levy and Universal Service Fund. Revised 2016/17 also includes tyre levy and international oil pollution compensation fund
5. Includes mineral royalties, mining leases, departmental revenue and sales of capital assets. 2016/17 revised includes proceeds from the sale of Vodacom shares
6. Southern African Customs Union. Amounts made up of payments and other adjustments
Source: National Treasury

The 2016 Budget estimate for gross tax revenue in 2016/17 was R1.175 trillion. The revenue shortfall is estimated to be R30.4 billion. The underperformance in tax revenues is largely due to weakening wage income and imports, both of which form a substantial part of the overall tax base. Personal income taxes, customs duties and import VAT are all expected to show large shortfalls, with smaller shortfalls forecast for the fuel levy and specific excise duties. Corporate income tax receipts are expected to marginally outperform projections as a result of higher commodity prices and labour stability in the mining sector, along with strong performance in the financial sector.

Table 4.2 Budget revenue[1]

R million	2013/14	2014/15 Outcome	2015/16	2016/17 Revised	2017/18	2018/19 Medium-term estimates	2019/20
Taxes on income and profits[2]	507 759	561 790	606 821	660 586	739 153	801 337	877 846
of which:							
Personal income tax	*309 834*	*352 950*	*388 102*	*425 810*	*482 086*	*527 299*	*581 934*
Corporate income tax	*177 324*	*184 925*	*191 152*	*205 090*	*218 692*	*233 023*	*251 660*
Skills development levy	12 476	14 032	15 220	15 462	16 641	17 968	19 454
Taxes on property	10 487	12 472	15 044	16 043	16 509	17 909	19 344
Domestic taxes on goods and services	324 548	356 554	385 956	403 909	439 539	473 152	509 487
of which:							
VAT	*237 667*	*261 295*	*281 111*	*290 000*	*312 750*	*337 714*	*364 671*
Taxes on international trade and transactions	44 732	41 463	46 942	48 384	53 647	59 034	65 090
Revenue measures - 2018 Budget	-	-	-	-	-	15 000	16 331
Gross tax revenue	**900 015**	**986 295**	**1 069 983**	**1 144 382**	**1 265 488**	**1 384 399**	**1 507 553**
Non-tax revenue[3]	30 726	30 900	57 274	31 957	32 880	29 053	28 489
of which:							
Mineral and petroleum	*6 439*	*5 422*	*3 708*	*6 272*	*6 688*	*7 127*	*7 697*
Less: SACU[4] payments	-43 374	-51 738	-51 022	-39 448	-55 951	-62 421	-64 527
Main budget revenue	**887 366**	**965 457**	**1 076 234**	**1 136 891**	**1 242 417**	**1 351 031**	**1 471 514**
Provinces, social security funds and selected public entities	120 685	133 409	145 731	160 404	171 684	184 198	197 016
Consolidated budget revenue	**1 008 051**	**1 098 866**	**1 221 965**	**1 297 295**	**1 414 101**	**1 535 229**	**1 668 531**
As percentage of GDP							
Tax revenue	*24.8%*	*25.5%*	*26.2%*	*26.0%*	*26.7%*	*27.0%*	*27.2%*
Main budget revenue	*24.5%*	*25.0%*	*26.3%*	*25.8%*	*26.2%*	*26.3%*	*26.5%*
GDP (R billion)	*3 624.3*	*3 863.1*	*4 086.8*	*4 409.8*	*4 741.2*	*5 129.2*	*5 545.5*
Tax buoyancy	*1.17*	*1.46*	*1.47*	*0.88*	*1.41*	*1.15*	*1.10*

1. A more disaggregated view is presented in Tables 2 and 3 of the statistical annexure
2. Includes secondary tax on companies/dividend and interest withholding tax, interest on overdue income tax and small business tax amnesty levy
3. Includes mineral royalties, mining leases, departmental revenue and sales of capital assets
4. Southern African Customs Union. Amounts made up of payments and other adjustments. 2017/18 figures are preliminary
Source: National Treasury and SARS

Tax proposals

The 2017 tax proposals are projected to raise R28 billion, and increase the tax burden from 26 per cent of GDP in 2016/17 to 26.7 per cent in 2017/18. The new top marginal income tax bracket for individuals combined with partial relief for bracket creep is expected to contribute R16.5 billion, with R6.8 billion coming from the increased dividend withholding tax rate.

Proposals will increase tax burden to 26.7 per cent of GDP

Bracket creep occurs when personal income tax tables are not fully adjusted for inflation, so that inflationary salary adjustments increase the effective tax rate, reducing real income. If no adjustments were made to the personal income tax tables in 2017/18, this would amount to an estimated R14.6 billion in additional revenue. The bracket creep adjustment for 2017/18 amounts to R2.5 billion in relief, leaving R12.1 billion as additional revenue.

2018 Budget will outline proposals to increase revenue by R15 billion in 2018/19

Table 4.3 presents the impact of tax proposals on 2017/18 revenue. This illustrates the revenue contribution of tax policy changes to the overall increase of R28 billion. The proposed means of increasing revenue by R15 billion in 2018/19 will be outlined in the 2018 Budget.

Table 4.3 Impact of tax proposals on 2017/18 revenue[1]

R million	Effect of tax proposals	
Gross tax revenue (before tax proposals)		**1 237 464**
Budget 2017/18 proposals		**28 024**
Taxes on individuals and companies		
Personal income tax	**16 516**	
Revenue from not fully adjusting for inflation	12 148	
Revenue if no adjustment is made	*14 628*	
Bracket creep adjustment	*-2 480*	
New top marginal income tax bracket	4 369	
Dividend withholding tax	**6 822**	
Increase in dividend withholding tax rate	6 822	
Taxes on property	**-448**	
Transfer duty decrease	-448	
Indirect taxes	**5 133**	
Increase in general fuel levy	3 197	
Increase in excise duties on tobacco products	656	
Increase in excise duties on alcoholic beverages	1 280	
Gross tax revenue (after tax proposals)		**1 265 488**

1. In previous budget documentation, estimated revenue changes resulting from personal income tax, fuel levy and excise duty proposals were compared with no adjustment for inflation. These changes are now compared with full adjustment
Source: National Treasury

Personal income tax

New top personal income tax bracket of 45 per cent is proposed

Government proposes a new top personal income tax bracket of 45 per cent for taxable incomes above R1.5 million per year. The previous top bracket of 41 per cent was set at R701 301. The primary, secondary and tertiary rebates, and the levels of all the taxable income brackets, will be increased by 1 per cent from 1 March 2017. The tax-free threshold will increase from R75 000 to R75 750. However, since the increase is below the expected level of inflation, taxpayers will face a real increase in the effective personal income tax rate in 2017/18. This also requires a four percentage point increase in the tax rate for trusts.

In combination, amendments to the personal income tax tables are expected to provide additional revenues of R16.5 billion. Table 4.5 shows how much tax is expected to be paid by individuals at different levels of taxable income for 2017/18. This is contrasted with what would have been paid had no adjustments been made to the personal income tax tables. The budget proposals increase the proportion of tax paid by those earning R1.5 million and above from 25.5 per cent to 26.3 per cent, strengthening the progressivity of the personal income tax system.

Table 4.4 Personal income tax rates and bracket adjustments

Taxable income (R)	2016/17 Rates of tax	Taxable income (R)	2017/18 Rates of tax
R0 - R188 000	18% of each R1	R0 - R189 880	18% of each R1
R188 001 - R293 600	R33 840 + 26% of the amount above R188 000	R189 881 - R296 540	R34 178 + 26% of the amount above R189 880
R293 601 - R406 400	R61 296 + 31% of the amount above R293 600	R296 541 - R410 460	R61 910 + 31% of the amount above R296 540
R406 401 - R550 100	R96 264 + 36% of the amount above R406 400	R410 461 - R555 600	R97 225 + 36% of the amount above R410 460
R550 101 - R701 300	R147 996 + 39% of the amount above R550 100	R555 601 - R708 310	R149 475 + 39% of the amount above R555 600
R701 301 and above	R206 964 + 41% of the amount above R701 300	R708 311 - R1 500 000	R209 032 + 41% of the amount above R708 310
		R1 500 001 and above	R533 625 + 45% of the amount above R1 500 000
Rebates		**Rebates**	
Primary	R13 500	Primary	R13 635
Secondary	R7 407	Secondary	R7 479
Tertiary	R2 466	Tertiary	R2 493
Tax threshold		**Tax threshold**	
Below age 65	R75 000	Below age 65	R75 750
Age 65 and over	R116 150	Age 65 and over	R117 300
Age 75 and over	R129 850	Age 75 and over	R131 150

Source: National Treasury

To counter the effect of inflation, the medical tax credit will be increased for the first two beneficiaries from R286 to R303 per month, and for the remaining beneficiaries from R192 to R204 per month. Future adjustments will be balanced with the funding requirements of national health insurance.

Tax-free savings accounts were introduced on 1 March 2015 with an annual allowance of R30 000. The 2014 Budget stated that the allowance would be increased in line with inflation. Government proposes increasing the annual allowance to R33 000.

Table 4.5 Estimates of individual taxpayers and taxable income, 2017/18

Taxable bracket	Registered individuals		Taxable income		Income tax payable before relief		Income tax relief		Income tax from new top rate		Income tax payable after proposals	
	Number	%	R billion	%	R billion	%	R billion	%	R billion	%	R billion	%
R0 - R70 000[1]	6 582 884	-	159.8	0.0	–	0.0	0.0	0.0	–	0.0	–	0.0
R70 001 - R150 000	2 602 653	35.1	274.4	11.9	12.5	2.6	-0.3	13.5	0.0	0.0	12.1	2.5
R150 001 - R250 000	1 813 517	24.5	355.6	15.4	35.6	7.4	-0.4	16.6	0.0	0.0	35.2	7.3
R250 001 - R350 000	1 077 915	14.5	315.1	13.7	46.9	9.8	-0.4	15.9	0.0	0.0	46.5	9.6
R350 001 - R500 000	906 151	12.2	365.1	15.8	70.6	14.7	-0.5	19.5	0.0	0.0	70.1	14.5
R500 001 - R750 000	527 288	7.1	310.4	13.5	77.3	16.1	-0.4	16.1	0.0	0.0	76.9	16.0
R750 001 - R1 000 000	227 561	3.1	189.6	8.2	56.0	11.7	-0.2	8.7	0.0	0.0	55.8	11.6
R1 000 001 - R1 500 000	152 604	2.1	178.4	7.7	58.9	12.3	-0.1	5.8	0.0	0.0	58.7	12.2
R1 500 001+	103 353	1.4	319.0	13.8	122.6	25.5	-0.1	3.9	4.4	100.0	126.9	26.3
Total	**7 411 042**	**100.0**	**2 308**	**100.0**	**480.2**	**100.0**	**-2.5**	**100.0**	**4.4**	**100.0**	**482.1**	**100.0**
Grand total	**13 993 926**		**2 467**		**480.2**		**-2.5**		**4.4**		**482.1**	

1. Registered individuals with taxable income below the income-tax threshold
Source: National Treasury

Additional support for employee bursaries to boost skills

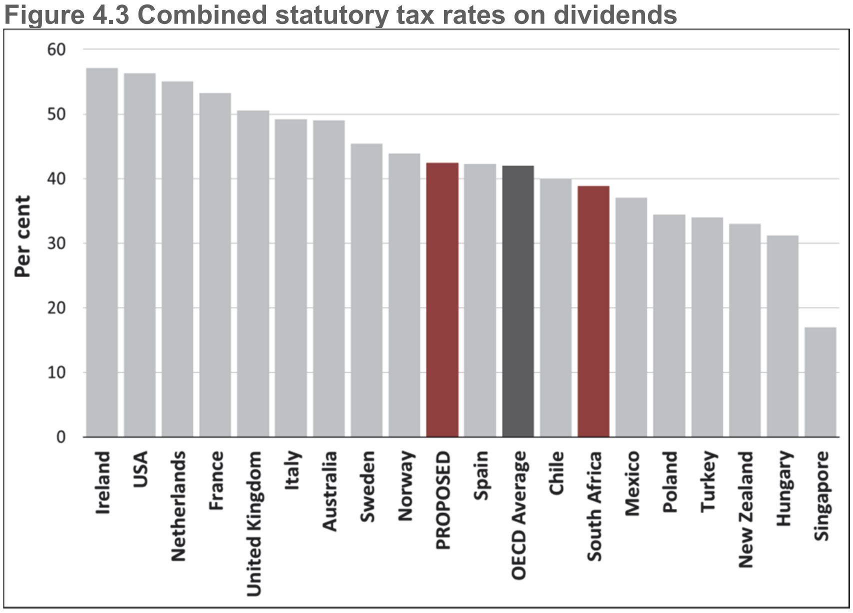
The need for improved skills in the economy justifies additional support for bursaries. Currently, if an employee has an income of less than R400 000 and their employer provides a bursary to them or their relatives, the value of the bursary, up to a limit, will not be taxable in the hands of the employee. Government proposes to increase the applicable threshold and the monetary limits for bursaries. Details are provided in Annexure C. The effective date of implementation will be 1 March 2017. A higher limit will be considered for those with disabilities.

Dividend withholding tax

Dividend withholding tax rate increased to narrow opportunities for arbitrage

Dividend income paid to shareholders is taxed at a rate of 15 per cent. After accounting for corporate income tax, which is paid before a distribution of dividends, the combined statutory tax rate on dividends is 38.8 per cent. Currently, South Africa's combined statutory tax rate on dividend income falls below the OECD average.

Figure 4.3 Combined statutory tax rates on dividends



Source: OECD and National Treasury

To reduce the difference between the combined statutory tax rate on dividends and the top marginal personal income tax rate, government is increasing the dividend withholding tax rate to 20 per cent, effective 22 February 2017. The exemption and rates for inbound foreign dividends will also be adjusted in line with the new rate, effective for years of assessment commencing on or after 1 March 2017.

Withholding tax on immovable property sales

Withholding tax rates on immovable property sales to be increased

To align with the increased effective capital gains tax rate, government proposes to increase the withholding tax on immovable property sales by non-residents. Rates will be increased from 5 per cent to 7.5 per cent for individuals, 7.5 per cent to 10 per cent for companies and 10 per cent to 15 per cent for trusts.

General fuel levy

Government proposes to increase the general fuel levy and the RAF levy, effective 5 April 2017. South Africa has three main fuel taxes – the general fuel levy, the customs and excise levy on petrol, diesel and biodiesel, and the RAF levy. They fund general government expenditure, support environmental goals and finance the RAF. The general fuel levy's proposed increase of 30c/litre contributes to the additional revenue requirement for 2017/18. After a large increase in the RAF levy in 2015/16 and no increase last year, it is proposed that the RAF levy be increased by 9c/litre.

Fuel levy to increase by 30c/litre and RAF levy by 9c/litre

Table 4.6 Total combined fuel taxes on petrol and diesel

	2015/16		2016/17		2017/18	
Rands/litre	**93 octane petrol**	**Diesel**	**93 octane petrol**	**Diesel**	**93 octane petrol**	**Diesel**
General fuel levy	2.55	2.40	2.85	2.70	3.15	3.00
Road Accident Fund levy	1.54	1.54	1.54	1.54	1.63	1.63
Customs and excise levy	0.04	0.04	0.04	0.04	0.04	0.04
Total	**4.13**	**3.98**	**4.43**	**4.28**	**4.82**	**4.67**
Pump price[1]	10.09	9.26	12.15	9.43	13.38	11.63
Taxes as percentage of pump price	*40.9%*	*43.0%*	*36.5%*	*45.4%*	*36.0%*	*40.2%*

1. Gauteng pump price in February of each year. Diesel (0.05% sulphur) wholesale price (retail price not regulated)

Source: National Treasury

Expanding the VAT base

Government will look to expand the VAT base in 2018/19. It is proposed that the zero-rating on fuel be removed. This will be subject to consultation leading up to the 2018 Budget. To mitigate the effect on transport costs, government will consider combining this with either a freeze or a decrease in the fuel levy.

Government aims to expand VAT base in 2018/19

To address base erosion and profit shifting, businesses providing foreign electronic services to South African consumers have been required to register for VAT since 1 June 2014. In line with the 2015 Budget announcement, the regulations are being updated to broaden the scope of electronic services that are subject to VAT and to remove some uncertainties and practical difficulties. Taxable services will now include cloud computing and services provided using online applications.

The proposed changes will be published for public comment during 2017.

Transfer duty

To provide relief for lower- and middle-income households, government proposes to raise the duty-free threshold on purchases of residential property from R750 000 to R900 000, effective 1 March 2017.

Duty-free threshold on purchases of residential property raised to R900 000

Table 4.7 Transfer duty rate adjustments

2016/17		2017/18	
Property value (R)	**Rates of tax**	**Property value (R)**	**Rates of tax**
R0 - R750 000	0% of property value	R0 - R900 000	0% of property value
R750 001 - R1 250 000	3% of property value above R750 000	R900 001 - R1 250 000	3% of property value above R900 000
R1 250 000 - R1 750 000	R15 000 + 6% of property value above R1 250 000	R1 250 001 - R1 750 000	R10 500 + 6% of property value above R1 250 000
R1 750 001 - R2 250 000	R45 000 + 8% of property value above R1 750 000	R1 750 001 - R2 250 000	R40 500 + 8% of property value above R1 750 000
R2 250 001 - R10 000 000	R85 000 + 11% of property value above R2 250 000	R2 250 001 - R10 000 000	R80 500 + 11% of property value above R2 250 000
R10 000 001 and above	R937 500 + 13% of property value above R10 000 000	R10 000 001 and above	R933 000 + 13% of property value above R10 000 000

Source: National Treasury

Tax on sugary beverages

Government proposes to implement tax on sugary beverages

Government proposes to implement a tax on sugary beverages, as soon as the necessary legislation is approved by Parliament and signed by the President. The tax will be administered through the Customs and Excise Act (1964). The National Treasury's preliminary socioeconomic impact assessment shows a relatively small effect on job losses, most of which can be prevented if companies reformulate their products.

Over the past year, the National Treasury published a draft policy paper and consulted with industry associations and other interested parties on the tax. Following this process, the design of the tax has been revised:

- A broader World Health Organisation definition will be applied to cover both intrinsic and added sugars in sugary beverages.
- The sugar content will remain the base on which the tax is applied because it is well suited to public health goals.
- The proposed tax rate will be 2.1c/gram for sugar content in excess of 4g/100ml.
- Of the proposed rate, 50 per cent will apply to concentrated beverages.

Some of the revenue will be used to support health-promotion interventions as part of a strategy to fight non-communicable diseases.

Carbon tax

During first phase of carbon tax, there will be no effect on electricity prices

During 2016, following comments received on the draft Carbon Tax Bill, government held additional public consultations. A revised Carbon Tax Bill will be published for public consultation and tabled in Parliament by mid-2017. The latest developments include the following:

- During the first phase of the tax (until 2020), there will be no impact on the price of electricity.
- A revised regulation for the carbon offset allowance, enabling firms to reduce their carbon tax liability, will be published by mid-2017.

By the end of this year, government expects to provide clarity on the alignment of the carbon tax and carbon budget after 2020.

Excise duties on alcoholic beverages and tobacco products

Excise duty rates to increase between 6.1 and 9.5 per cent

The targeted excise tax burdens for wine, beer and spirits are 11 per cent, 23 per cent and 36 per cent of the weighted average retail price, respectively. Since the implementation of the current excise regime in 2002, tax rates on most alcoholic beverages have consistently increased above inflation annually. The 2017 Budget continues this trend with proposed excise duty rate increases of between 6.1 per cent and 9 per cent. This will lead to excise tax burdens that are slightly higher than the targets for beer and spirits.

The targeted excise tax burden as a percentage of the retail selling price of the most popular brand within each tobacco product category is currently 40 per cent. The consumption of cigars has moved towards more expensive brands, requiring a higher than inflationary increase to maintain the targeted tax burden. Government proposes to increase the excise duty rate by between 8 per cent and 9.5 per cent.

Table 4.8 Changes in specific excise duties, 2017/18

Product	Current excise duty rate	Proposed excise duty rate	Percentage change Nominal	Real
Malt beer	R79.26 / litre of absolute alcohol (135c / average 340ml can)	R86.39 / litre of absolute alcohol (146.9c / average 340ml can)	9.0	2.9
Traditional African beer	7,82c / litre	7,82c / litre	–	-6.1
Traditional African beer powder	34,70c / kg	34,70 / kg	–	-6.1
Unfortified wine	R3.31 / litre	R3.61 / litre	8.8	2.7
Fortified wine	R5.82 / litre	R6.17 / litre	6.1	–
Sparkling wine	R10.53 / litre	R11.46 / litre	8.8	2.7
Ciders and alcoholic fruit beverages	R79.26 / litre of absolute alcohol (135c / average 340ml can)	R86.39 / litre of absolute alcohol (146.9c / average 340ml can)	9.0	2.9
Spirits	R161.47 /litre of absolute alcohol (R52.07 / 750ml bottle)	R175.19 / litre of absolute alcohol (R56.50 / 750ml bottle)	8.5	2.4
Cigarettes	R13.24 / 20 cigarettes	R14.30 / 20 cigarettes	8.0	1.9
Cigarette tobacco	R14.88 / 50g	R16.07 / 50g	8.0	1.9
Pipe tobacco	R4.16 / 25g	R4.56 / 25g	9.5	3.4
Cigars	R69.28 / 23g	R75.86 / 23g	9.5	3.4

Source: National Treasury

Status of announced tax policies

In the 2014 Budget, government proposed an acid mine drainage tax. The 2012 Budget proposed a gambling tax. Neither proposal has been implemented. Their status is as follows:

- A discussion paper outlining the options to address acid mine drainage will be published for public comment and further consultation will take place by mid-2017.
- The State Law Advisor has certified the draft National Gambling Tax Bill and the National Gambling Tax Administration Bill. Both bills will be taken to Cabinet in 2017.

Measures to protect the income tax base

In November 2015, the Group of 20 (G20) governments endorsed a package of measures to curb base erosion and the shifting of profits to low-tax countries. The base erosion and profit shifting project is now being implemented. Many countries, including South Africa, have begun incorporating the preventative measures into domestic legislation.

South Africa and other states expected to sign multilateral instrument in June 2017

South Africa worked with more than 100 jurisdictions in crafting the multilateral instrument that will swiftly modify and implement tax treaty-related measures without the need to renegotiate each tax treaty bilaterally. It was adopted on 24 November 2016 and governments, including South Africa, are expected to sign the multilateral instrument on 7 June 2017. Government has also committed to the automatic exchange of financial account information from 1 September 2017. Large multinational companies will be required to file country-by-country transfer-pricing reports with SARS from 31 December 2017.

Government is strengthening its efforts to curb excessive debt financing, which erodes the tax base, and will review the current regime in light of OECD recommendations. Table C.5 in Annexure C shows progress in implementing the standards and recommendations.

Summary

Tax proposals to raise revenue in progressive manner

For the first time since 2009/10, tax revenue growth has not matched economic growth. The tax proposals aim to raise the necessary revenue in a progressive manner to reinforce the social compact and address excessive levels of inequality. The potential effects on economic growth will be monitored. Government remains committed to maintaining a progressive, stable and transparent tax system that improves tax morality, and that is supported by a professional and effective tax administration.