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2023 BUDGET REVIEW

REVENUE TRENDS AND TAX PROPOSALS

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

In brief

- A strong revenue performance in 2022/23 was driven by elevated commodity prices, and a continued recovery from the pandemic among manufacturing and financial firms.
- Over the next three years, revenue is expected to grow by R351 billion, reaching R2.04 trillion in 2025/26.
- The tax-to-GDP ratio increases from 25.4 per cent to 25.7 per cent over this period.
- The 2023 Budget provides tax relief amounting to R13 billion in 2023/24. Of this amount, R9 billion is provided to encourage households and businesses to invest in renewable energy, supporting the clean energy transition and addressing the electricity crisis.

OVERVIEW

Over the past year, revenue collection has remained strong despite an uneven economic recovery. Tax revenue for 2022/23 is expected to reach R1.69 trillion, an upward revision of R10.3 billion from the 2022 *Medium Term Budget Policy Statement* (MTBPS) estimate. The tax-to-GDP ratio continues to recover from COVID-19-induced lows and is projected to reach 25.4 per cent in 2022/23.

Income and profits have proven more resilient than anticipated a year ago. Corporate income tax collections from mining remain large in historical terms due to elevated – although declining – commodity prices. Higher profitability in the services sector has supported corporate and dividends tax collections. Personal income tax collection has been buoyed by a recovery in earnings and improving employment levels. Growth in import prices supported noteworthy collections in import value-added tax (VAT) and customs duties. VAT refund payments exceeded 2022 Budget expectations due to increased zero-rated exports from manufacturers. Enhanced tax administration has also contributed to additional revenue collection during the recovery period.

Figure 4.1 Tax-to-GDP ratio

Source: National Treasury and SARS

The medium-term revenue outlook has improved slightly due to higher tax receipts in 2022/23. However, the scope of power cuts and weak global growth pose significant risks to the outlook.

REVENUE COLLECTION AND OUTLOOK

A broad-based recovery in tax collections was sustained in the second half of 2022/23. Growth in corporate tax collections has been driven by manufacturing and financial firms.

Table 4.1 Budget estimates and revenue outcomes[1]

R million	2021/22			2022/23			Percentage
	Budget[2]	Outcome	Deviation	Budget[2]	Revised	Deviation	change[3]
Taxes on income and profits	**910 107**	**912 870**	**2 764**	**894 300**	**989 877**	**95 577**	**8.4%**
Personal income tax	553 529	553 951	422	587 907	601 649	13 742	8.6%
Corporate income tax	318 380	320 447	2 067	269 931	344 944	75 013	7.6%
Dividends tax	32 182	33 429	1 247	30 450	38 515	8 065	15.2%
Other taxes on income and profits[4]	6 015	5 042	-972	6 011	4 768	-1 243	-5.4%
Skills development levy	**18 933**	**19 336**	**403**	**20 619**	**21 238**	**619**	**9.8%**
Taxes on property	**19 693**	**22 033**	**2 339**	**20 291**	**22 656**	**2 364**	**2.8%**
Domestic taxes on goods and services	**541 296**	**549 806**	**8 510**	**600 732**	**581 871**	**-18 861**	**5.8%**
Value-added tax	383 724	390 895	7 171	439 681	426 283	-13 398	9.1%
Specific excise duties	48 212	49 705	1 493	51 864	55 228	3 364	11.1%
Health promotion levy	2 211	2 182	-28	2 355	2 320	-35	6.3%
Ad valorem excise duties	4 276	4 725	449	4 406	4 461	55	-5.6%
Fuel levy	89 884	88 889	-995	89 113	79 131	-9 982	-11.0%
Other domestic taxes on goods and services[5]	12 990	13 410	420	13 313	14 448	1 135	7.7%
Taxes on international trade and transactions	**57 042**	**59 719**	**2 678**	**62 505**	**76 535**	**14 030**	**28.2%**
Customs duties	55 821	57 994	2 173	61 095	74 176	13 081	27.9%
Health promotion levy on imports	78	78	-1	86	114	28	46.4%
Diamond export levy	92	170	78	89	151	62	-11.1%
Export tax	302	407	105	473	819	347	101.0%
Miscellaneous customs and excise receipts	748	1 071	322	763	1 276	513	19.2%
Gross tax revenue	**1 547 071**	**1 563 754**	**16 684**	**1 598 447**	**1 692 177**	**93 729**	**8.2%**
Non-tax revenue[6] *of which:*	47 964	46 602	-1 362	33 280	55 078	21 798	18.2%
Mineral and petroleum royalties	*27 979*	*28 456*	*478*	*18 554*	*25 483*	*6 928*	*-10.5%*
Less: SACU[7] payments	-45 966	-45 966	–	-43 683	-43 683	–	-5.0%
Main budget revenue	**1 549 068**	**1 564 390**	**15 322**	**1 588 044**	**1 703 571**	**115 527**	**8.9%**
Provinces, social security funds and selected public entities	172 235	186 215	13 980	182 601	189 176	6 575	1.6%
Consolidated budget revenue	**1 721 303**	**1 750 605**	**29 302**	**1 770 645**	**1 892 747**	**122 102**	**8.1%**

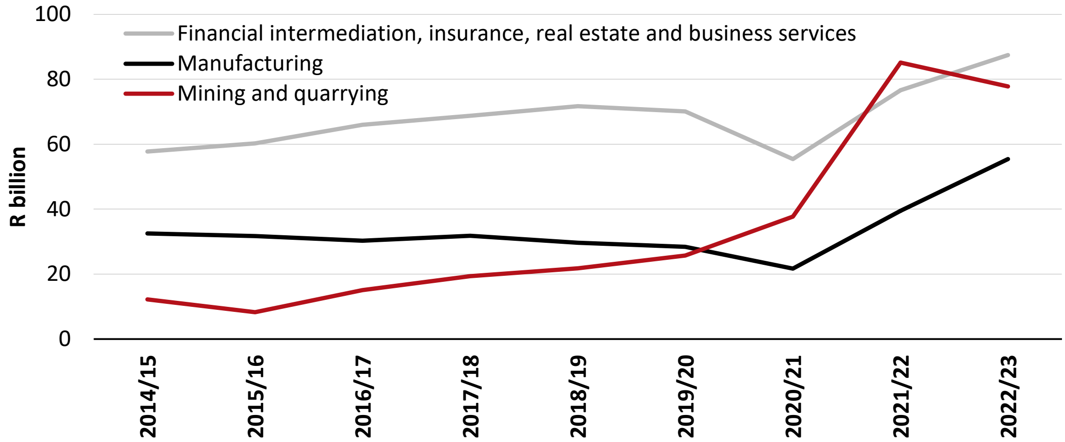
1. A more disaggregated view is presented in Tables 2 and 3 of the statistical annexure
2. 2022 Budget Review estimates
3. Percentage change between outcome in 2021/22 and revised estimate in 2022/23
4. Includes interest on overdue income tax and interest withholding tax
5. Includes turnover tax for micro businesses, air departure tax, plastic bag levy, electricity levy, CO_2 tax on motor vehicle emissions, incandescent light bulb levy, Universal Service Fund, tyre levy, carbon tax and International Oil Pollution Compensation Fund
6. Includes mineral and petroleum royalties, mining leases, departmental revenue and sales of capital assets
7. Southern African Customs Union. Amounts made up of payments and other adjustments
Source: National Treasury

Elevated commodity prices have boosted mining tax revenue. Tax revenue collections for 2022/23 are expected to exceed the 2022 Budget estimate by R93.7 billion and the 2022 MTBPS estimate by R10.3 billion.

Previous forecasts assumed that corporate income tax collections from mining would decline rapidly in line with commodity price expectations. Although the extended period of elevated prices has led to revenue surpluses over the last two years, these are expected to be temporary and the current tax revenue outlook assumes that these prices will gradually decline. A continuation of high prices would likely result in future revenue overruns.

The mining sector accounts for nearly 30 per cent of provisional corporate tax collections in 2022/23 – significantly higher than its average share before 2020/21. Relative to 2021/22, the contribution declined mainly because of a sustained fall in production and declining terms of trade. Collections from the finance and manufacturing sectors remained strong, in part because economic growth exceeded expectations, supporting the better-than-expected corporate tax performance.

Figure 4.2 Provisional corporate income tax collections by sector, 1 April–31 January



Source: National Treasury and SARS

Net VAT collections for 2022/23 have been revised down compared with 2022 Budget expectations. Larger-than-expected VAT refund payments associated with zero-rated manufactured exports offset robust growth in import VAT. Domestic VAT is projected to outpace previous estimates but persistent inflationary pressures and rising borrowing costs may erode consumer spending power, curtailing domestic demand. Stronger growth in specific excise duties has been limited as collections in cigarettes and cigarette tobacco remain below pre-pandemic levels. Fuel levy collections are also projected to fall short of 2022 Budget expectations due to fuel levy relief of about R10.5 billion provided during the first half of 2022/23.

Over the past three years, during the pandemic and its immediate aftermath, government applied conservative assumptions in revenue forecasting. Over this period, several risks have materialised, including accelerated power cuts, weaker global economic conditions and lower domestic growth expectations. However, these were more than offset by sustained collection from all major tax bases, buoyed predominantly by the favourable commodity cycle, the broad return to work and a resumption of international trade in key supply chains. A portion of the revenue improvement is also due to improved tax compliance and tax administration. Although international trade and employment gains are likely to be sustained, they will be partially offset by an expected decline in commodity prices and moderating compliance improvements.

Table 4.2 Budget revenue[1]

R million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Outcome			Revised	Medium-term estimates		
Taxes on income and profits[2]	772 685	718 180	912 870	989 877	1 021 213	1 089 123	1 172 033
of which:							
Personal income tax	*527 633*	*487 011*	*553 951*	*601 649*	*640 300*	*696 624*	*752 627*
Corporate income tax	*211 522*	*202 123*	*320 447*	*344 944*	*336 119*	*345 434*	*369 477*
Skills development levy	18 486	12 250	19 336	21 238	23 027	24 816	26 846
Taxes on property	15 980	15 947	22 033	22 656	23 863	25 384	27 040
Domestic taxes on goods and services	492 283	455 867	549 806	581 871	642 765	687 208	731 032
of which:							
VAT	*346 761*	*331 197*	*390 895*	*426 283*	*471 477*	*505 409*	*537 868*
Taxes on international trade and transactions	56 322	47 455	59 719	76 535	76 588	81 195	86 506
Gross tax revenue	**1 355 766**	**1 249 711**	**1 563 754**	**1 692 177**	**1 787 456**	**1 907 727**	**2 043 456**
Non-tax revenue[3]	40 384	52 053	46 602	55 078	51 583	46 859	44 310
of which:							
Mineral and petroleum royalties	*11 830*	*14 228*	*28 456*	*25 483*	*22 469*	*22 701*	*24 072*
Less: SACU[4] payments	-50 280	-63 395	-45 966	-43 683	-79 811	-86 505	-80 059
Main budget revenue	**1 345 870**	**1 238 369**	**1 564 390**	**1 703 571**	**1 759 229**	**1 868 080**	**2 007 707**
Provinces, social security funds and selected public entities	173 756	170 866	186 215	189 176	199 678	209 707	217 619
Consolidated budget revenue	**1 519 626**	**1 409 235**	**1 750 605**	**1 892 747**	**1 958 907**	**2 077 788**	**2 225 326**
As percentage of GDP							
Tax revenue	*23.8%*	*22.3%*	*24.9%*	*25.4%*	*25.5%*	*25.6%*	*25.7%*
Main budget revenue	*23.6%*	*22.1%*	*24.9%*	*25.6%*	*25.1%*	*25.1%*	*25.3%*
GDP (R billion)	*5 699.2*	*5 606.7*	*6 287.6*	*6 651.3*	*7 005.7*	*7 452.4*	*7 938.5*
Tax buoyancy	*1.00*	*4.82*	*2.07*	*1.42*	*1.06*	*1.06*	*1.09*

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

Medium-term revenue outlook

The medium-term outlook reflects a moderate improvement based on three factors:

- After revenue overruns of R198.6 billion and R93.7 billion in the past two budgets, the buoyancy of tax revenue for a given level of economic growth is expected to be slightly higher over the medium term.

- The projected revenue surplus for 2022/23, from strong collections in personal income taxes in particular, translates into marginally better revenue estimates for the outer years.
- The nominal GDP forecast results in moderate reductions to key variables used in the forecast, such as the wage bill, compared with the 2022 MTBPS projections.

Notwithstanding a weaker medium-term growth outlook and further tax relief proposed in this budget, the tax-to-GDP ratio is expected to reach 25.7 per cent by 2025/26. Higher revenue collection requires sustained investment and economic growth. Gross tax revenue collections are expected to increase by 5.6 per cent, 6.7 per cent and 7.1 per cent over the next three years as economic growth gradually improves. This translates into gross tax revenue increasing from an anticipated R1.69 trillion in 2022/23 to R2.04 trillion in 2025/26.

TAX POLICY

Since 1994, South Africa has constructed a broad-based tax system where rates were low to promote economic growth. The objective was to avoid short-term revenue increases from households and businesses, and instead focus on sustainable revenue mobilisation over the long term to boost national development.

Between 2015 and 2020, substantial revenue shortfalls and lower economic growth, which had not fully recovered since the global financial crisis, necessitated increases in tax rates to create a sustainable fiscal position. However, growth and revenue collections continued to disappoint. Since the 2020 Budget, government has avoided further increases in tax rates.

Tax increases are often put forward as the natural response to cover expected revenue shortfalls, but in a highly unpredictable or low-growth economic environment, such increases carry significant risks. Research in South Africa – including two United Nations University World Institute for Development Economics Research papers – has indicated that tax increases can impede economic activity and the negative impact is more pronounced when growth is weak. For this reason, government intends to avoid tax increases while the economy is recovering from recent shocks.

Over the past three years, government has focused on measures to protect the tax base and reforms aimed at improving equity, efficiency, certainty and simplicity. The review of tax incentives, following the advice of the Davis Tax Committee, has led to a number of incentives being discontinued because there was little evidence of any additional benefit. But each incentive needs to be assessed on its own merits, and the refinement and expansion of some incentives in the 2023 Budget demonstrates that the tax system can help to address particular market failures, such as a lack of research and development or inadequate electricity generation capacity.

An efficient, effective tax administration that builds trust to increase voluntary compliance is a cornerstone of South Africa's progressive tax system.

SARS renewal

The South African Revenue Service (SARS) celebrated its 25th anniversary in October 2022. SARS continues to enhance its service offering as it rebuilds from the period of state capture. Over the past three years it has strengthened revenue collection and worked to ensure that its systems, officials and leadership are capacitated to improve the taxpayer's experience, increase compliance and generate additional tax revenue. In November 2022, SARS finalised the reparation process for current and former employees as recommended by the Nugent Commission of Inquiry. It continues to build a tax administration that collects tax receipts in an efficient and fair manner.

TAX PROPOSALS

The 2023 Budget provides tax relief totalling R13 billion to support the clean energy transition, increase electricity supply and limit the impact of consistently high fuel prices. In addition, the budget provides inflation-related adjustments to the personal income tax tables, the retirement tax tables, transfer duties and excise duties for alcohol and tobacco.

As shown in Table 4.3, R4 billion in relief is provided for households that install solar panels, R5 billion is provided to companies through an expansion of the renewable energy incentive and there is no increase in the fuel levies, resulting in R4 billion in tax foregone.

Table 4.3 Impact of tax proposals on 2023/24 revenue[1]

R million		Effect of tax proposals
Gross tax revenue (before tax proposals)		**1 800 456**
Budget 2023/24 proposals		**-13 000**
Direct taxes		**-9 000**
Personal income tax		
Increasing brackets by inflation	–	
Revenue if no adjustment is made	*15 700*	
Increase in brackets and rebates by inflation	*-15 700*	
Rooftop solar tax incentive for individuals	-4 000	
Corporate income tax		
Expansion of section 12B - renewable energy incentive	-5 000	
Indirect taxes		**-4 000**
Fuel levy		
Not adjusting the general fuel levy	-4 000	
Specific excise duties		
Increasing excise duties on alcohol by inflation	–	
Increasing excise duties on tobacco by inflation	–	
Gross tax revenue (after tax proposals)		**1 787 456**

1. Revenue changes are in relation to thresholds that have been fully adjusted for inflation
Source: National Treasury

Expansion of the renewable energy tax incentive

The tax incentive available for businesses to promote renewable energy will be temporarily expanded to encourage rapid private investment to alleviate the energy crisis. The current incentive allows businesses to deduct the costs of qualifying investments over a one- or three-year period, which creates a cash flow benefit in the early years of a project. Businesses are able to deduct 50 per cent of the costs in the first year, 30 per cent in the second and 20 per cent in the third for qualifying investments in wind, concentrated solar, hydropower below 30 megawatts (MW), biomass and photovoltaic (PV) projects above 1 MW. Investors in PV projects below 1 MW are able to deduct 100 per cent of the cost in the first year.

Under the expanded incentive, businesses will be able to claim a 125 per cent deduction in the first year for all renewable energy projects with no thresholds on generation capacity. The adjusted incentive will only be available for investments brought into use for the first time between 1 March 2023 and 28 February 2025. For a business with positive taxable income, the deduction will reduce its tax liability. For example, a renewable energy investment of R1 million would qualify for a deduction of R1.25 million. Using the current corporate tax rate, this deduction could reduce the corporate income tax liability of a company by R337 500 in the first year of operation.

Rooftop solar tax incentive

To increase electricity generation, government is also proposing a rooftop solar incentive for individuals to invest in solar PV. Individuals will be able to receive a tax rebate to the value of 25 per cent of the cost of any new and unused solar PV panels. To qualify, the solar panels must be purchased and installed at a private residence, and a certificate of compliance for the installation must be issued from 1 March 2023 to 29 February 2024.

The rebate is only available for solar PV panels, and not inverters or batteries, to focus on the promotion of additional generation. It can be used to offset the individual's personal income tax liability for the 2023/24 tax year up to a maximum of R15 000 per individual. For example, an individual who purchases 10 solar panels at a cost of R40 000 can reduce their personal income tax liability for the 2023/24 tax year by R10 000.

Fuel levies

South Africa's fuel prices are driven by international crude oil prices, supply-demand balances and the rand-dollar exchange rate. Largely as a result of steep increases in world market prices, South Africa has experienced relatively high fuel prices in the past year, with inland unleaded petrol remaining above R20 per litre for most of 2022.

Table 4.4 Total combined fuel taxes on petrol and diesel

Rands/litre	2021/22		2022/23		2023/24	
	93 octane	Diesel	93 octane	Diesel	93 octane	Diesel
General fuel levy	3.85	3.70	3.85	3.70	3.85	3.70
Road Accident Fund levy	2.18	2.18	2.18	2.18	2.18	2.18
Customs and excise levy	0.04	0.04	0.04	0.04	0.04	0.04
Carbon tax[1]	0.08	0.09	0.09	0.10	0.10	0.11
Total	**6.15**	**6.01**	**6.16**	**6.02**	**6.17**	**6.03**
Pump price[2]	18.55	16.31	22.81	23.21	21.38	21.32
Taxes as percentage of pump price	*33.2%*	*36.9%*	*27.0%*	*25.9%*	*28.9%*	*28.3%*

1. The carbon tax on fuel became effective from 5 June 2019
2. Average Gauteng pump price for the 2021/22 and 2022/23 years. The 2023/24 figure is the Gauteng pump price in February 2023. Diesel (0.05% sulphur) wholesale price (retail price not regulated)
Source: National Treasury

Figure 4.3 Price of 95 unleaded petrol in Gauteng

Source: National Treasury and SARS

To reduce pressure on households and businesses, no changes were made to the general fuel levy or the Road Accident Fund (RAF) levy in the 2022 Budget. Additional temporary relief was provided for four months at a cost of R10.5 billion. In 2023/24, government will again keep these levies unchanged, leading to revenue foregone of R4 billion.

Extension of diesel fuel levy refund

Government implemented the diesel refund system in 2000 to provide full or partial relief for the general fuel levy and the RAF levy to primary sectors. The refund system is in place for the farming, forestry, fishing and mining sectors. In light of the current electricity crisis, a similar refund on the RAF levy for diesel used in the manufacturing process (such as for generators) will be extended to the manufacturers of foodstuffs. This will take effect from 1 April 2023, with refund payments taking place once the system is developed, and will be in place for two years until 31 March 2025. This relief is implemented to limit the impact of power cuts on food prices.

Personal income tax thresholds

The personal income tax tables are reviewed annually to ensure that inflation does not automatically push personal income taxpayers into higher tax brackets. The 2023/24 tax brackets will be adjusted in line with the expected inflation rate of 4.9 per cent.

Table 4.5 Personal income tax rates and bracket adjustments

2022/23		2023/24	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 - R226 000	18% of each R1	R0 - R237 100	18% of each R1
R226 001 - R353 100	R40 680 + 26% of the amount above R226 000	R237 101 - R370 500	R42 678 + 26% of the amount above R237 100
R353 101 - R488 700	R73 726 + 31% of the amount above R353 100	R370 501 - R512 800	R77 362 + 31% of the amount above R370 500
R488 701 - R641 400	R115 762 + 36% of the amount above R488 700	R512 801 - R673 000	R121 475 + 36% of the amount above R512 800
R641 401 - R817 600	R170 734 + 39% of the amount above R641 400	R673 001 - R857 900	R179 147 + 39% of the amount above R673 000
R817 601 - R1 731 600	R239 452 + 41% of the amount above R817 600	R857 901 - R1 817 000	R251 258 + 41% of the amount above R857 900
R1 731 601 and above	R614 192 + 45% of the amount above R1 731 600	R1 817 001 and above	R644 489 + 45% of the amount above R1 817 000
Rebates		**Rebates**	
Primary	R16 425	Primary	R17 235
Secondary	R9 000	Secondary	R9 444
Tertiary	R2 997	Tertiary	R3 145
Tax threshold		**Tax threshold**	
Below age 65	R91 250	Below age 65	R95 750
Age 65 and over	R141 250	Age 65 and over	R148 217
Age 75 and over	R157 900	Age 75 and over	R165 689

Source: National Treasury

As a result, the annual tax-free threshold for a person under the age of 65 will increase to R95 750. If the brackets were not adjusted, revenue would have increased by about R15.7 billion. Relief mainly benefits middle-income households. Medical tax credits will increase from R347 to R364 per month for the first two members, and from R234 to R246 per month for additional members.

Table 4.6 Estimates of individuals and taxable income, 2023/24

Taxable bracket	Registered individuals		Taxable income		Income tax payable before relief		Income tax relief after proposals		Income tax payable after proposals	
R thousand	**Number**	**%**	**R billion**	**%**	**R billion**	**%**	**R billion**	**%**	**R billion**	**%**
R0 - R96[1]	7 545 020	–	292.2	–						
R96 - R150	1 528 990	21.5	182.0	6.2	14.9	2.3	-1.1	5.7	13.8	2.2
R150 - R250	1 505 950	21.1	292.0	9.9	22.0	3.3	-1.4	7.3	20.6	3.2
R250 - R350	1 248 123	17.5	370.1	12.5	48.5	7.4	-2.2	11.3	46.3	7.2
R350 - R500	1 233 846	17.3	516.3	17.4	89.5	13.6	-3.3	16.7	86.2	13.5
R500 - R750	842 653	11.8	506.4	17.1	113.9	17.3	-3.6	18.3	110.3	17.2
R750 - R1 000	354 263	5.0	305.1	10.3	84.3	12.8	-2.2	11.2	82.1	12.8
R1 000 - R1 500	244 586	3.4	294.3	9.9	92.8	14.1	-2.5	12.8	90.3	14.1
R1 500 +	163 702	2.3	493.6	16.7	193.9	29.4	-3.3	16.7	190.6	29.8
Total	**7 122 113**	**100.0**	**2 959.9**	**100.0**	**660.0**	**100.0**	**-19.7**	**100.0**	**640.3**	**100.0**
Grand total	**14 667 133**		**3 252.1**		**660.0**		**-19.7**		**640.3**	

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

Adjustment of transfer duty and retirement tax tables

As part of the periodic reviews of monetary values in tax tables, the brackets for transfer duties, retirement fund lump sum benefits and retirement fund lump sum withdrawal benefits will all be adjusted upwards by 10 per cent to compensate for inflation. Tax rates remain unchanged. The rates shown in tables 4.7 to 4.9 are effective from 1 March 2023.

Table 4.7 Transfer duty rate adjustments

2022/23		2023/24	
Property value (R)	Rates of tax	Property value (R)	Rates of tax
R0 - R1 000 000	0% of property value	R0 - R1 100 000	0% of property value
R1 000 001 - R1 375 000	3% of property value above R1 000 000	R1 100 001 - R1 512 500	3% of property value above R1 100 000
R1 375 001 - R1 925 000	R11 250 + 6% of property value above R1 375 000	R1 512 501 - R2 117 500	R12 375 + 6% of property value above R1 512 500
R1 925 001 - R2 475 000	R44 250 + 8% of property value above R1 925 000	R2 117 501 - R2 722 500	R48 675 + 8% of property value above R2 117 500
R2 475 001 - R11 000 000	R88 250 + 11% of property value above R2 475 000	R2 722 501 - R12 100 000	R97 075 + 11% of property value above R2 722 500
R11 000 001 and above	R1 026 000 + 13% of property value above R11 000 000	R12 100 001 and above	R1 128 600 + 13% of property value above R12 100 000

Source: National Treasury

Table 4.8 Personal income tax rates: Retirement fund lump sum benefits

2022/23		2023/24	
Taxable income (R)	Rates of tax	Taxable income (R)	Rates of tax
R0 - R500 000	0% of taxable income	R0 - R550 000	0% of taxable income
R500 001 - R700 000	18% of taxable income above R500 000	R550 001 - R770 000	18% of taxable income above R550 000
R700 001 - R1 050 000	R56 700 + 27% of taxable income above R700 000	R770 001 - R1 155 000	R39 600 + 27% of taxable income above R770 000
R1 050 001 and above	R141 750 + 36% of taxable income above R1 050 000	R1 155 001 and above	R143 550 + 36% of taxable income above R1 155 000

Source: National Treasury

Table 4.9 Personal income tax rates: Retirement fund lump sum withdrawal benefits

2022/23		2023/24	
Taxable income (R)	Rates of tax	Taxable income (R)	Rates of tax
R0 - R25 000	0% of taxable income	R0 - R27 500	0% of taxable income
R25 001 - R660 000	18% of taxable income above R25 000	R27 501 - R726 000	18% of taxable income above R27 500
R660 001 - R990 000	R114 300 + 27% of taxable income above R660 000	R726 001 - R1 089 000	R125 730 + 27% of taxable income above R726 000
R990 001 and above	R203 400 + 36% of taxable income above R990 000	R1 089 001 and above	R223 740 + 36% of taxable income above R1 089 000

Source: National Treasury

Base erosion and profit shifting: The two-pillar solution

The 2022 *Budget Review* announced that legislative amendments would be proposed to implement tax rules related to digitalisation and base erosion, flowing from South Africa’s role in the Steering Group of the OECD/G20 Inclusive Framework. The framework has two pillars.

Pillar One focuses on the digital economy and is expected to establish a coherent and integrated approach to the tax treatment of multinationals, with the allocation of taxing rights among jurisdictions based on their market share. Currently, no final agreement has been reached on Pillar One and OECD guidelines for this pillar have not been finalised.

Pillar Two focuses on the remaining base erosion and profit shifting matters. It proposes an approach to ensure that all internationally operating businesses with global annual revenue of more than €750 million pay an effective tax rate of at least 15 per cent, regardless of where they are headquartered or which jurisdictions they operate in. A minimum effective tax rate for large multinationals is expected to apply in a number of countries from December 2023. During the 2023 legislative cycle, government will publish a draft position on the implementation of Pillar Two for public comment and draft legislation will be prepared for inclusion in the 2024 Taxation Laws Amendment Bill.

Two-pot retirement system

Following extensive public consultation, the first phase of legislative amendments to the retirement system is due to take effect on 1 March 2024. The intent of these amendments is to enable pre-retirement access to a portion of one's retirement assets, while preserving the remainder for retirement. Retirement fund contributions will remain deductible up to R350 000 per year or 27.5 per cent of taxable income per year – whichever is lower. Permissible withdrawals from funds accrued before 1 March 2024 will be taxed according to the lump sum tables. Withdrawals from the "savings pot" before retirement will be taxed at marginal rates. On retirement, any remaining amounts in the savings pot will be taxed according to the retirement lump sum table (for example, R550 000 is a tax-free lump sum on retirement).

Four areas required additional work: a proposal for seed capital, legislative mechanisms to include defined benefit funds in an equitable manner, legacy retirement annuity funds and withdrawals from the retirement portion if one is retrenched and has no alternative source of income. The first three matters will be clarified in forthcoming draft legislation. The final matter will be reviewed as a second phase of implementation.

Refining the research and development tax incentive

Government's tax policy instrument supporting early-phase research and development (R&D) is the R&D tax incentive. Following public consultation on a review of the incentive published in 2021, government proposes to:

- Extend the incentive for 10 years from 1 January 2024. There will be a six-month grace period for projects to commence before the application is submitted, to allow new and smaller applicants to gather information and potentially benefit from the incentive.
- Refine the definition of R&D to make it simpler to understand and administer, resulting in an easier application process for the incentive. The incentive should apply

only to activities aimed at resolving a scientific or technological uncertainty. For example, if a professional with appropriate knowledge and skills could resolve the uncertainty without R&D, then the incentive may not apply.

- Move the definition of R&D from an "end-result" approach (for example, it must be patentable) to incorporate principles of the OECD Frascati Manual, in which activities should be novel, uncertain, systematic and transferable and/or reproducible. This change recognises that, given the risk and uncertainty involved, applicants will not know how their R&D activities will unfold when applying for the incentive. It also removes a confusing requirement on innovation.
- Remove the exclusion for internal business processes – so that if an activity is investigative or experimental with the aim of resolving a scientific or technological uncertainty and it meets the proposed (revised) definition of R&D for the purposes of this incentive, it should be considered R&D – regardless of whether it is intended for sale or the use thereof is granted to connected parties.
- Allow the Commissioner of SARS to disclose certain information to the Minister of Higher Education, Science and Innovation to improve monitoring and evaluation.

Extending the urban development zone incentive

Public consultation as part of the policy review process for the urban development zone tax incentive will not be concluded before the 31 March 2023 sunset date. Further engagement is required to assess the incentive's results – particularly to source and evaluate municipal data on its uptake. Relatively low compliance of municipalities with annual reporting requirements has delayed the review process. As a result, the incentive will be extended for two years to 31 March 2025 while its review process is completed.

Adjusting the minimum royalty rate for oil and gas companies

In 2021, a review of the tax regime for oil and gas companies was published for public comment. Following consultation, government proposes to retain the flexibility of the royalty rate, which is determined by profitability, rather than opt for a flat rate for these companies. This decision recognises that companies face varying costs and profit levels depending on whether they are, for example, operating in deep or shallow waters. However, to ensure that the country is adequately compensated for the loss of its finite resources, the minimum royalty rate will be increased from 0.5 per cent to 2 per cent, with the maximum remaining at 5 per cent.

Excise duties on alcoholic beverages and tobacco products

The guideline excise tax burdens for wine, beer and spirits are 11 per cent, 23 per cent and 36 per cent, respectively, of the weighted average retail price. Excise duties have increased more than inflation in recent years, resulting in a higher tax incidence. Government proposes to increase excise duties on alcohol in line with expected inflation of 4.9 per cent for 2023/24. Further, the rate for sparkling wine is realigned to the policy decision taken in 2016 to peg it at 3.2 times that of natural unfortified wine.

The guideline 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. Government proposes to increase the excise duties in line with expected inflation of 4.9 per cent for 2023/24. The alcohol review paper will be published soon after the budget, and the tobacco review paper will be published later in the year. Consultations on the excise policy for these products will take place after the release of the discussion papers.

Table 4.10 Changes in specific excise duties, 2023/24

Product	Current excise duty rate	Proposed excise duty rate	Percentage change	
			Nominal	Real
Malt beer	R121.41 / litre of absolute alcohol (206,40c / average 340ml can)	R127.40 / litre of absolute alcohol (216,58c / average 340ml can)	4.9	–
Traditional African beer	7,82c / litre	7,82c / litre	–	-4.9
Traditional African beer powder	34,70c / kg	34,70c / kg	–	-4.9
Unfortified wine	R4.96 / litre	R5.20 / litre	4.9	–
Fortified wine	R8.36 / litre	R8.77 / litre	4.9	–
Sparkling wine	R16.52 / litre	R16.64 / litre	0.7	-4.2
Ciders and alcoholic fruit beverages	R121.41 / litre of absolute alcohol (206,40c / average 340ml can)	R127.40 / litre of absolute alcohol (216,58c / average 340ml can)	4.9	–
Spirits	R245.15 / litre of absolute alcohol (R79.06 / 750ml bottle)	R257.23 / litre of absolute alcohol (R82.96 / 750ml bottle)	4.9	–
Cigarettes	R19.82 / 20 cigarettes	R20.80 / 20 cigarettes	4.9	–
HTPs sticks	R14.87 / 20 sticks	R15.60 / 20 sticks	4.9	–
Cigarette tobacco	R22.28 / 50g	R23.38 / 50g	4.9	–
Pipe tobacco	R6.63 / 25g	R6.96 / 25g	4.9	–
Cigars	R110.93 / 23g	R116.40 / 23g	4.9	–

Source: National Treasury

Health promotion levy

To enable stakeholders in the sugar industry to restructure, given the challenges from greater regional competitive pressures and the effect of recent floods and public violence, there will be no increase in the health promotion levy in 2023/24 and 2024/25. Government will soon publish a discussion paper on the levy for consultation on proposals to extend the levy to pure fruit juices and lower the 4-gram threshold.

Carbon tax rates

South Africa is committed to achieving its Nationally Determined Contribution to reduce greenhouse gas emissions. The carbon tax plays an important role in mitigation. Effective 1 January 2023, the carbon tax rate increased from R144 to R159 per tonne of carbon dioxide equivalent. To ensure transparency and provide certainty, future adjustments to the tax rate are provided in the Carbon Tax Act (2019), as outlined in the 2022 Taxation Laws Amendments Act. In line with the carbon tax rate increase, the carbon fuel levy for 2023/24 will increase by 1c to 10c/l for petrol and 11c/l for diesel from 5 April 2023. The carbon tax cost recovery quantum for the liquid fuels refinery sector increased from 0.63c/l to 0.66c/l, effective from 1 January 2023.

Third-party data and personal income tax administration reform

The pay-as-you-earn (PAYE) and personal income tax administration reform announced in the 2020 Budget has given pensioners the option to agree to more accurate PAYE withholding rates to take account of multiple sources of income, as well as enabling 2.9 million individual taxpayers to be automatically assessed without the need to file personal income tax returns. The reform will continue over the medium term with a view to reducing the administrative burden for employers, payroll administrators and SARS, as well as individual salaried taxpayers. Work has commenced, in consultation with employers and representative organisations, to provide employer and employee data on a monthly basis in a fully automated fashion. Over time, the need for employer PAYE annual reconciliation is expected to fall away, and the reform will be extended to third-party data providers.

SARS administration

Over the period ahead, SARS intends to review the VAT administrative framework to simplify and modernise the current system, in consultation with all affected parties. In line with SARS' strategic objective of providing clarity and certainty through instruments such as advance rulings, government also proposes to introduce a legislative framework to empower SARS to conclude bilateral advance pricing agreements.

TAX RESEARCH AND REVIEWS

Broadening the personal income tax base. As part of exploring the effect of remote work on the personal income tax regime, the National Treasury and SARS committed to a multi-year review of allowances. A discussion document will be released this year to outline workplace practices and policies, changes in the current environment and how different workplaces are affected by home office and travel allowance policies.

Adjustments for feed-in tariffs. The start of feed-in tariffs in some municipalities may require adjustments in the Income Tax Act (1962) to cater for additional revenue from electricity sales. The National Treasury and SARS will investigate the potential changes required.

CONCLUSION

Revenue collection remained strong in the past year and the medium-term outlook has improved slightly. The 2023 Budget includes several tax proposals designed to support businesses and individuals with the higher cost of living and promote private investments in renewable energy. Government remains focused on ensuring that the tax system is fair, efficient and equitable.