4

Revenue trends and tax proposals

- This year's tax proposals are intended to meet the requirements of the fiscus while supporting consumer and business confidence in the context of a weakening economy.
- Significant adjustments have been made to personal income tax brackets, the primary rebate and some thresholds to adjust for the effects of higher inflation during 2008, and to provide real tax relief. Environmental initiatives that promote sustainable development, energy efficiency and investment in new technologies receive support. Industrial policy tax incentives announced last year will be implemented in 2009 and should encourage private-sector investment.
- The South African economy has entered a period of slower growth, and this is reflected in lower revenue growth, especially for VAT. Tax revenue for 2008/09 is projected to total R627.7 billion, R14.4 billion less than the budgeted R642.1 billion. Estimated gross tax revenue for 2009/10 is R659.3 billion, or 5 per cent higher than the revised estimate for 2008/09.

Overview

The economic slowdown is having a negative impact on tax revenues

The tax proposals and revenue projections take cognisance of a significantly weaker economic environment. The global financial crisis, recession in most of the developed world, a dramatic decline in commodity prices and cooling domestic consumption expenditure have all contributed to a decline in aggregate demand and business confidence. The economic slowdown is having a negative impact on tax revenues, with the revised estimated tax revenue for 2008/09 projected to be R14.4 billion lower than the budgeted R642.1 billion announced in February 2008. Falling domestic consumption resulted in lower-than-expected VAT collections.

2009 tax proposals provide relief to households

The 2009 tax proposals provide real tax relief to households. A combination of incentives and taxes is proposed to address environmental concerns, with a particular focus on energy efficiency, furthering another key objective of government. The South African Revenue Service (SARS) continues to improve its operational efficiency, and additional steps are proposed to support its modernisation agenda.

Main tax proposals

The main tax proposals include:

- Personal income tax relief for individuals amounting to R13.6 billion
- Delaying implementation of new mineral and petroleum royalties until 1 March 2010
- A final set of amendments to support dividends tax reform
- Incentives for investments in energy-efficient technologies
- Implementation of the electricity levy announced in Budget 2008
- Making certified emission reduction credits tax exempt or subject to capital gains tax, instead of normal income tax
- Taxation of energy-intensive light bulbs
- Reforms to the motor vehicle ad valorem excise duties
- Increases in the Road Accident Fund (RAF) and general fuel levies
- Tax-sharing arrangements with municipalities
- Increases in excise duties on alcoholic beverages and tobacco products
- An increase in the international air passenger departure tax
- Reviewing the tax treatment of travel (motor vehicle) allowances to improve the equity and transparency of the tax system
- Amendments to the treatment of contributions to medical schemes.

Consolidated national revenue estimates

Revised consolidated revenue estimated at R637.8 billion for 2008/09

Table 4.1 sets out consolidated national revenue from 2007/08 to 2011/12, consisting of main budget revenue and the receipts of social security funds. Consolidated national revenue in 2007/08 amounted to R585 billion, which is 3.4 per cent higher than the 2007 Budget estimate. The revised figure for 2008/09 is estimated at R637.8 billion, which is 1.9 per cent lower than the 2008 Budget estimate.

Table 4.1 Consolidated national revenue, 2007/08 – 2011/12

	2007/08	2008/09		2009/10	2010/11	2011/12
R million	Outcome	Budget estimate	Revised estimate	Medium-term estimates		
Main budget revenue						
Tax revenue[1]	572 815	642 089	627 693	659 304	720 935	793 667
Non-tax revenue[2]	11 672	12 185	12 352	11 602	14 375	15 426
Less: SACU payments	-24 713	-28 921	-28 921	-27 915	-26 237	-27 867
Total main budget revenue	**559 774**	**625 353**	**611 124**	**642 990**	**709 074**	**781 226**
Percentage of GDP	*27.1%*	*27.3%*	*26.5%*	*26.0%*	*26.4%*	*26.5%*
Social security funds revenue						
Tax revenue	20 868	21 631	22 336	27 011	29 531	31 810
Non-tax revenue[3]	4 308	3 053	4 302	4 432	5 097	5 860
Total social security revenue	**25 176**	**24 683**	**26 639**	**31 443**	**34 628**	**37 670**
Consolidated national revenue[4]	**584 950**	**650 036**	**637 762**	**674 433**	**743 702**	**818 896**

1. *Mining leases and ownership has been reclassified as non-tax revenue (rent on land). Historical numbers have been adjusted for comparative purposes.*
2. *Includes interest, dividends, sales of goods and services, other miscellaneous departmental receipts, financial transactions in assets and liabilities, sales of capital assets, mining leases and ownership (see note no. 1) and mineral royalties.*
3. *Includes own revenue, sale of capital assets and grants received.*
4. *Transfers between funds have been netted out.*

National budget revenue – revised estimates

Table 4.2 highlights budget estimates and revenue outcomes of the major tax instruments for 2007/08 and projected revenue outcomes for 2008/09. Tables 2 and 3 in Annexure B set out these trends in greater detail.

Outcome for 2007/08 and revised estimate for 2008/09

Audited results show that main budget revenue for 2007/08 of R559.8 billion was R15.2 billion or 2.8 per cent higher than the budgeted estimate.

Main budget revenue for 2007/08 was R15.2 billion higher than projected

Based on the revised macroeconomic projections outlined in Chapter 2 and revenue trends for the first nine months of the fiscal year, the main budget revenue estimate for 2008/09 is revised to R611.1 billion, 2.3 per cent lower than the R625.4 billion announced in the 2008 Budget. The lower revised tax revenue estimate is a reflection of the slowdown in the economy.

Revenue from VAT, customs duties, transfer duties and the general fuel levy are revised downwards by R12.1 billion, R7.3 billion, R3.6 billon and R2 billion respectively. Over the medium term, lower revenue collection will also have an adverse effect on revenue for neighbouring countries in the Southern African Customs Union.

Revenue from personal income taxes is expected to increase to R199 billion, R8 billion higher than the original estimate, largely as a result of higher inflation and higher nominal salary increases. During 2008, the number of registered individual taxpayers increased to 5.4 million, from 5.2 million in 2007.

The number of registered individual taxpayers has grown to 5.4 million

The revised estimate for corporate income tax revenue is R162 billion, which is R5.5 billion higher than the original budgeted amount. The more robust revenue performance reflects the improved business climate during the latter part of 2007 and the first half of 2008, which takes some time to filter through into revenue.

Table 4.2 Main budget estimates and revenue outcome, 2007/08 and 2008/09

	2007/08			2008/09			2007/08–2008/09 %
R million	Budget	Outcome	Deviation	Budget	Revised estimate	Deviation	change[1]
Taxes on income and profits	**312 150**	**332 058**	**19 908**	**369 754**	**383 635**	**13 881**	**15.5%**
Persons and individuals	155 335	168 774	13 439	191 046	199 000	7 954	17.9%
Companies	138 515	140 120	1 605	156 471	162 000	5 529	15.6%
Secondary tax on companies	16 000	20 585	4 585	20 000	20 000	–	-2.8%
Interest on overdue income tax	2 300	2 281	-19	2 237	2 365	128	3.7%
Other taxes on income and profits[2]	–	298	298	–	270	270	-9.5%
Taxes on payroll and workforce	**6 500**	**6 331**	**-169**	**7 530**	**7 256**	**-274**	**14.6%**
Skills development levy	6 500	6 331	-169	7 530	7 256	-274	14.6%
Taxes on property	**10 995**	**11 884**	**889**	**14 212**	**9 710**	**-4 502**	**-18.3%**
Securities transfer tax	3 465	3 757	292	4 682	3 875	-807	3.1%
Transfer duties	7 050	7 408	358	8 620	5 040	-3 580	-32.0%
Other taxes on property[3]	480	719	239	910	795	-115	10.6%
Domestic taxes on goods and services	**199 045**	**194 690**	**-4 355**	**218 420**	**202 064**	**-16 356**	**3.8%**
Value-added tax	155 068	150 443	-4 625	167 028	154 919	-12 109	3.0%
Specific excise duties	17 792	18 218	426	20 401	20 420	19	12.1%
Ad valorem excise duties	1 415	1 480	65	1 682	1 370	-312	-7.5%
Levies on fuel	23 938	23 741	-197	26 434	24 480	-1 954	3.1%
Other domestic taxes on goods and services[4]	832	808	-24	2 875	875	-2 000	8.3%
Taxes on international trade and transactions	**27 485**	**27 082**	**-403**	**31 473**	**24 410**	**-7 063**	**-9.9%**
Customs duties	27 084	26 470	-614	31 073	23 780	-7 293	-10.2%
Miscellaneous customs and excise receipts	401	612	211	400	630	230	2.9%
Stamp duties and fees	**222**	**557**	**335**	**700**	**618**	**-82**	**10.9%**
State miscellaneous revenue[5]	**–**	**212**	**212**	**–**	**–**	**–**	**–**
Total tax revenue	**556 397**	**572 815**	**16 418**	**642 089**	**627 693**	**-14 396**	**9.6%**
Non-tax revenue[6]	11 258	11 672	414	12 185	12 352	167	5.8%
of which:							
Mining leases and ownership[7]	*165*	*56*	*-109*	*180*	*495*	*315*	–
Less: SACU payments	-23 053	-24 713	-1 660	-28 921	-28 921	–	17.0%
Main budget revenue	**544 602**	**559 774**	**15 172**	**625 353**	**611 124**	**-14 229**	**9.2%**

1. *Percentage change 2007/08 outcome versus 2008/09 revised estimate.*
2. *Includes tax on retirement funds and small business tax amnesty.*
3. *Includes estate duty and donations tax.*
4. *Includes air departure tax, plastic bags levy and the Universal Service Fund.*
5. *Tax revenue received by SARS that could not be allocated to a specific tax instrument.*
6. *Includes interest, dividends, sales of goods and services, other miscellaneous departmental receipts, financial transactions in assets and liabilities, sales of capital assets and mining leases and ownership.*
7. *Mining leases and ownership has been reclassified from tax revenue to non-tax revenue (rent on land).*

Revenue estimates and 2009/10 tax proposals

Table 4.3 sets out the estimates of revenue before consideration of tax proposals for 2009/10, based on the existing tax structure. Main budget revenue in 2009/10 is estimated to be R647.6 billion before the consideration of any tax changes. Personal income tax revenue is projected to increase by 11.1 per cent to R221 billion and VAT revenues by 9 per cent to R168.8 billion. Revenue from corporate income tax is projected to raise R161 billion, marginally down from the revised figure for 2008/09.

Main budget revenue in 2009/10 is estimated to be R647.6 billion before tax changes are considered

The current global economic environment presents an element of downside risk to the revenue outlook, particularly in relation to corporate income tax as the effects of slower growth filter through.

Global slowdown introduces downside risk element into revenue projections

Table 4.3 Estimates of revenue before tax proposals, 2009/10

R million	2008/09 Revised estimate	2009/10 Before tax proposals	2008/09– 2009/10 % change[1]
Taxes on income and profits	**383 635**	**403 590**	**5.2%**
Persons and individuals	199 000	221 000	11.1%
Companies	162 000	161 000	-0.6%
Secondary tax on companies	20 000	19 000	-5.0%
Interest on overdue income tax	2 365	2 560	8.2%
Other taxes on income and profits	270	30	-88.9%
Taxes on payroll and workforce	**7 256**	**7 750**	**6.8%**
Skills development levy	7 256	7 750	6.8%
Taxes on property	**9 710**	**10 420**	**7.3%**
Securities transfer tax	3 875	4 300	11.0%
Transfer duties	5 040	5 340	6.0%
Other taxes on property	795	780	-1.9%
Domestic taxes on goods and services	**202 064**	**216 832**	**7.3%**
Value-added tax	154 919	168 807	9.0%
Specific excise duties	20 420	20 500	0.4%
Ad valorem excise duties	1 370	1 350	-1.5%
Levies on fuel	24 480	25 200	2.9%
Other domestic taxes on goods and services	875	975	11.4%
Taxes on international trade and transactions	**24 410**	**25 287**	**3.6%**
Customs duties	23 780	24 635	3.6%
Miscellaneous customs and excise receipts	630	652	3.5%
Stamp duties and fees	**618**	**–**	**–**
Total tax revenue	**627 693**	**663 879**	**5.8%**
Non-tax revenue	12 352	11 602	-6.1%
of which:			
Mining leases and ownership[2]	*495*	*325*	*-34.3%*
Less: SACU payments	-28 921	-27 915	-3.5%
Main budget revenue	**611 124**	**647 565**	**6.0%**

1. *Percentage change 2008/09 revised estimate versus 2009/10 estimate before tax proposals.*
2. *Mining leases and ownership has been reclassified from tax revenue to non-tax revenue (rent on land).*

Actual revenue collections and medium-term estimates

Table 4.4 sets out the actual revenue collections for 2005/06 to 2007/08, the revised estimate for 2008/09 and the medium-term estimates for 2009/10 to 2011/12. More detailed information is provided in Tables 2 and 3 of Annexure B.

Table 4.4 Main budget revenue, 2005/06 – 2011/12

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
R million		**Outcome**		**Revised**		**Medium-term estimates**	
Taxes on income and profits	230 804	279 991	332 058	383 635	389 040	424 280	469 384
Taxes on payroll and workforce	4 872	5 597	6 331	7 256	7 750	8 424	9 149
Taxes on property	11 138	10 332	11 884	9 710	10 420	11 530	13 100
Domestic taxes on goods and services	151 224	174 671	194 690	202 064	226 757	250 039	273 590
Taxes on international trade and transactions	18 202	24 002	27 082	24 410	25 337	26 662	28 444
Stamp duties and fees	793	616	557	618	–	–	–
State miscellaneous revenue[1]	164	339	212	–	–	–	–
Tax revenue	**417 196**	**495 549**	**572 815**	**627 693**	**659 304**	**720 935**	**793 667**
Non-tax revenue[2]	8 697	10 843	11 672	12 352	11 602	14 375	15 426
of which:							
Mineral royalties	–	–	–	–	–	*2 890*	*3 820*
Mining leases and ownership[3]	*138*	*-34*	*56*	*495*	*325*	*340*	*355*
Less: SACU payments	-14 145	-25 195	-24 713	-28 921	-27 915	-26 237	-27 867
Main budget revenue	**411 748**	**481 197**	**559 774**	**611 124**	**642 990**	**709 074**	**781 226**
Percentage of GDP	*26.0%*	*26.6%*	*27.1%*	*26.5%*	*26.0%*	*26.4%*	*26.5%*
GDP (R billion)	*1 586.0*	*1 810.7*	*2 067.9*	*2 304.1*	*2 474.2*	*2 686.3*	*2 953.0*
Tax/GDP multiplier	*1.59*	*1.33*	*1.10*	*0.84*	*0.68*	*1.09*	*1.02*

1. *Revenue received by SARS in respect of taxation which could not be allocated to a specific tax instrument.*
2. *Includes interest, dividends, rent on land (which includes mineral royalties and mining leases and ownership), sales of goods and services, other miscellaneous departmental receipts, transactions in assets and liabilities and sales of capital assets. The 2006/07 outcome has been restated in the 2007/08 financial statements.*
3. *Mining leases and ownership has been reclassified from tax revenue to non-tax revenue (rent on land).*

Overview of tax proposals

Table 4.5 shows the anticipated revenue impact of the 2009/10 tax proposals, the net effect of which is to reduce total estimated tax revenue by R4.6 billion. The table includes the electricity tax (announced in 2008) and the diamond export levy (enacted during 2008), both of which will only be implemented during 2009/10.

Annexure C contains additional tax proposals of a more technical nature. The tax proposals will be published in draft legislation and will be refined following a consultation process.

Table 4.5 Summary effects of tax proposals, 2009/10

R million	Effect of tax proposals	
Tax revenue		663 879
Non-tax revenue[1]		11 602
Less: SACU payments		-27 915
Main budget revenue (before tax proposals)		**647 565**
Budget 2009/10 proposals:		**-4 575**
Personal income tax	**-13 550**	
Adjust personal income tax rate structure	-13 000	
Adjustment in monetary thresholds (medical scheme contributions and savings)	-550	
Business taxes	**-1 000**	
Industrial policy	-1 000	
Indirect taxes	**9 975**	
Increase in general fuel levy	4 890	
Electricity tax	2 780	
Incandescent light bulb levy	20	
Air passenger departure tax	120	
Plastic bag levy	15	
Diamond export levy	50	
Increase in excise duties on tobacco products and alcoholic beverages	2 100	
Main budget revenue (after tax proposals)		**642 990**

1. Includes mining leases and ownership.

Relief for individuals

Personal income tax relief

Economic growth supported substantial tax relief over past decade

Over the past decade substantial tax relief has been provided to individuals. Real personal income tax relief was made possible by buoyant corporate income tax revenues as a result of an improved culture of compliance and higher corporate profits.

The 2009 Budget proposes personal income tax relief to individual taxpayers amounting to R13.6 billion. This will compensate taxpayers for wage inflation ("bracket creep").

Taxpayers with an annual taxable income below R150 000 will receive 45 per cent of the proposed relief; those with an annual taxable income between R150 001 and R250 000, 22 per cent; those with an annual taxable income between R250 001 and R500 000, 21 per cent; and those with an annual taxable income above R500 000, 12 per cent.

About 18 per cent of taxpayers account for 67 per cent of personal income tax revenue

Alongside corporate income tax and VAT, personal income tax is one of the three main tax instruments and provides the basis for the progressive structure of South Africa's tax system. It is estimated that the 12.5 per cent of registered individual taxpayers with an annual taxable income between R250 001 and R500 000 will account for 29 per cent of personal income tax revenues, and the 5.5 per cent of registered individual taxpayers with an annual taxable income above R500 000 will account for 38 per cent of personal income tax revenues during 2009/10.

Table 4.6 Personal income tax rate and bracket adjustments, 2008/09 and 2009/10

	2008/09		2009/10
Taxable income	**Rates of tax**	**Taxable income**	**Rates of tax**
R0 – R122 000	18% of each R1	R0 – R132 000	18% of each R1
R122 001 – R195 000	R21 960 + 25% of the amount above R122 000	R132 001 – R210 000	R23 760 + 25% of the amount above R132 000
R195 001 – R270 000	R40 210 + 30% of the amount above R195 000	R210 001 – R290 000	R43 260 + 30% of the amount above R210 000
R270 001 – R380 000	R62 710 + 35% of the amount above R270 000	R290 001 – R410 000	R67 260 + 35% of the amount above R290 000
R380 001 – R490 000	R101 210 + 38% of the amount above R380 000	R410 001 – R525 000	R109 260 + 38% of the amount above R410 000
R490 001 and above	R143 010 + 40% of the amount above R490 000	R525 001 and above	R152 960 + 40% of the amount above R525 000
Rebates		**Rebates**	
Primary	R8 280	Primary	R9 756
Secondary	R5 040	Secondary	R5 400
Tax threshold		**Tax threshold**	
Below age 65	R46 000	Below age 65	R54 200
Age 65 and over	R74 000	Age 65 and over	R84 200

Consideration given to phasing out SITE

Given that the tax-free income threshold for taxpayers younger than 65 years is approaching R60 000, which is the current Standard Income Tax on Employees (SITE) ceiling, consideration is being given to discontinuing the SITE system by 2010/11. Two measures introduced by SARS in 2008 – pre-populated returns and the waiver of the annual filing requirement for taxpayers with single employers meeting certain requirements – would take the place of SITE.

Medical scheme contributions

Caps on tax-deductible contributions to medical schemes are increased

From 1 March 2009, the monthly monetary caps for tax-deductible contributions to medical schemes will increase from R570 to R625 for each of the first two beneficiaries, and from R345 to R380 for each additional beneficiary.

Replacement of the medical scheme contribution deduction with a non-refundable tax credit is currently under consideration. To be broadly neutral in its overall impact, the tax credit would be set at about 30 per cent of the prevailing deduction. Where medical expenses in addition to contributions to schemes qualify as deductions, the credit would also be set at 30 per cent of allowable expenses. A consultation paper will be released during 2009 to allow for comment from interested parties, and to ensure that the change is consistent with broader health policy considerations. Implementation is proposed in two years' time so that SARS, employers and payroll providers will have sufficient time to make the necessary administrative adjustments.

In preparation for this proposal medical scheme contributions will cease to qualify as tax-free fringe benefits. All contributions paid by an employer will be regarded as taxable and the employee will be permitted to claim a tax deduction (or a credit) for contributions up to the cap. The net tax effect of this step should be neutral for both employee and employer.

The monthly caps have given rise to some compliance and administrative difficulties for both employers and SARS. These will be investigated to determine whether a legislative intervention is required.

Travel (motor vehicle) allowances

Claiming "deemed business kilometres" as a travelling expense is one of the few remaining salary structuring methods used to reduce tax liability. More than 500 000 taxpayers annually claim this deduction. Excessive deductions that do not match actual business expenses distort household purchasing decisions and travelling choices.

Deemed kilometre allowance system to be scrapped by 2011

It is proposed that the deemed business kilometre procedure be scrapped from 2010/11. Taxpayers who are required to use their personal vehicles for business purposes will still be able to keep a logbook to claim business travelling expenses. This reform will improve the overall equity and efficiency of the income tax system. The default practice of claiming private kilometres travelled as business travel cannot be justified from an equity perspective.

Tax deductibility of post-retirement medical contributions

Some companies provide a subsidy towards medical scheme contributions for employees after retirement. In general, contributions towards medical schemes on behalf of pensioners on a pay-as-you-go basis are deductible by the employer.

Accounting practice now requires companies to reflect future obligations with respect to medical contributions for already retired employees as liabilities on their balance sheets. For this reason some companies prefer to settle these obligations as once-off payments directly to their retired employees. Other companies opt to make once-off contributions towards insurance-type products that will take over liability for some or all of the future medical expenses/contributions to a medical scheme on behalf of retirees.

Tax deductibility of contributions by employers to post-retirement medical schemes to be clarified

To provide clarity on the deductibility of these once-off payments, it is proposed that such contributions be deductible immediately, not spread over a period of time. The precondition is that the company making such contributions must not derive any direct benefits from such payments, nor will a return of the funds to the employer or a redirection of the use of the funds be permitted.

Provisional tax for taxpayers 65 years and older

Individuals 65 years and older are exempt from provisional tax if they are not company directors and only receive employment income, interest, rental or dividends amounting to taxable income of up to R80 000. It is proposed that the threshold be increased to R120 000.

Savings

Tax-free interest, dividend income and capital gains

Higher thresholds to encourage savings

In line with government's goal of encouraging greater national savings, it is proposed to increase the tax-free interest-income ceiling from R19 000 to R21 000 for persons below the age 65 and from R27 500 to R30 000 for persons aged 65 and above. It is also proposed to increase the tax-free income ceilings for foreign dividends and interest from R3 200 to R3 500, and the annual exclusion ceiling for capital gains and losses for individuals from R16 000 to R17 500.

Modification of capital gains exclusion for primary residence

The capital gains tax regime contains several exclusions designed to reduce the tax burden for lower- and middle-income earners. One such exclusion is for an individual's primary residence: a capital gain or loss of up to R1.5 million upon the disposal of such a residence is excluded from taxable capital gains.

Capital gains tax exclusion for primary residences is simplified to benefit lower-income individuals

To reduce the compliance burden and complexity associated with this measure, it is proposed that the exclusion be extended so that an alternative is available based on the gross sale proceeds of the residence. By basing the calculation on gross proceeds, the taxpayer would have a better understanding of how the exclusion applies on disposal, without resorting to complex capital gain calculations.

The capital gains tax exclusion will fully apply to the primary residence up to a gross value of R2 million. As a result, people selling their primary residence with a gross value below R2 million will not be liable for capital gains tax. For primary residences valued above this threshold the normal rules (including the current R1.5 million capital gain/loss exclusion) will apply.

Completion of the dividend tax reform process

Tax at shareholder level likely to be implemented in late 2010

The basic legislative framework for the introduction of the dividend tax, which replaces the secondary tax on companies, was enacted in 2008. The dividend tax will come into effect once the treaty ratification processes are completed. All the applicable treaties have already been renegotiated, and it is likely that this tax at shareholder level will be implemented during the second half of 2010.

Under the dividend tax regime, local individual taxpayers are taxed at 10 per cent; domestic retirement funds, public benefit organisations and domestic companies are exempt; and foreign persons are eligible for tax-treaty benefits (i.e. a potential reduction to a 5 per cent rate). The tax also provides for transitional credits, so that tax paid under the secondary tax on companies can be used to offset the dividend tax. The new tax also contains a mechanism under which the paying company (or paying intermediary) withholds the tax.

Legislative amendments will deal with anti-avoidance concerns related to dividends tax

Further legislative amendments during 2009 will provide for the completion of the dividend tax reform. The remaining items mostly relate to anti-avoidance concerns (such as preventing companies from converting taxable sales to tax-free dividends) and to foreign dividends.

Treatment of collective investment scheme distributions

Distribution by collective investment schemes should follow a flow-through principle

Under current law, a collective investment scheme (CIS) in shares is treated as a company whose distributions are treated as a special form of dividend. The CIS dividend is generally exempt, like other dividends, unless that dividend is distributed out of ordinary revenue (e.g. distributed out of interest and income from trading). In all cases, the CIS distribution retains its character as a dividend.

It is proposed that distributions by these schemes should generally follow a flow-through principle. If a CIS distributes dividends received, this should be viewed as dividend distribution; if it distributes interest received it should be viewed as an interest distribution. This approach will eliminate certain unintended anomalies. Currently, a CIS distribution results in less-favourable tax treatment for some investors.

Mineral and petroleum royalties

Support for a constructive dialogue to mitigate the impact of retrenchments

The Mineral and Petroleum Resources Royalty Act (2008) was scheduled to be implemented from 1 May 2009. It is proposed to postpone implementation until 1 March 2010, resulting in gross savings of about R1.8 billion in 2009/10 for mining companies. It is hoped that this relief will contribute to constructive dialogue between government, the mining houses and labour, resulting in practical initiatives to mitigate the impact of expected retrenchments in the sector.

Environmental fiscal reform

South Africa is playing an important role in the Kyoto Protocol talks

Climate change requires both global and domestic policy responses. Internationally, government is playing an important role in the post-2012 Kyoto Protocol negotiation process.

At the domestic level, environmental challenges likely to be aggravated by economic growth if natural resources are not adequately managed include excessive greenhouse gas emissions, large-scale release of local pollutants that result in poor air quality, inappropriate land use that leads to land degradation and biodiversity loss, deteriorating water quality and increasing levels of solid waste generation. While everyone feels the effects of environmental degradation, the impact of such deterioration on poor communities, particularly those sited near industrial areas, is often severe.

In recent years, the role of market-based instruments has gained prominence in addressing environmental concerns. Such instruments, which include taxes, charges and tradable permits, use the price mechanism to deter environmentally detrimental activity and encourage improved environmental management practices.

Measures to mitigate and adapt to climate change

Appropriate domestic policy intervention will be required to ensure that mitigation and adaptation measures to address climate change are implemented.

Incentives for cleaner production – energy efficiency

Tax incentives will support investments in more energy-efficient equipment

A number of environmental statutes and regulations require the private sector to eliminate inefficiencies in the use of energy, water and raw materials. To complement these measures, market-based instruments are playing a greater role. Incentives for energy-efficient investments have been explored. Current legislation provides for a three year 50:30:20 per cent accelerated depreciation allowance for investments in renewable energy and biofuels production.

It is proposed that investments by companies in energy-efficient equipment should qualify for an additional allowance of up to 15 per cent on condition that there is documentary proof of the resulting energy efficiencies (after a two- or three-year period), certified by the Energy Efficiency Agency.

Plastic bag levy

1 cent increase in plastic shopping bag levy

The levy on plastic shopping bags was introduced at 3 cents per bag in 2004/05. Together with the agreement between government and the retail sector to charge for such bags, this levy has helped to reduce waste. It is proposed to increase the levy to 4 cents per bag from 1 April 2009.

Taxation of incandescent (filament) light bulbs

A brighter future for energy-efficient light bulbs

The introduction of an environmental levy on incandescent light bulbs to promote energy efficiency and reduce electricity demand is proposed. Energy-saving light bulbs last longer, require five times less electricity and result in lower greenhouse gas emissions. It is recommended that an environmental levy of about R3 per bulb (between 1 cent and 3 cents per watt) be levied on incandescent light bulbs at the manufacturing level and on imports from 1 October 2009.

Emission reduction credits from clean development projects

Certified emission reductions to receive favourable tax treatment

South Africa's greenhouse gas emissions rank in the top 20 in the world, contribute 1.8 per cent to global emissions and are responsible for 42 per cent of Africa's emissions.

The clean development mechanism established in terms of the Kyoto Protocol allows for certified emission reductions (CERs) to be issued to recognise progress in reducing the release of greenhouse gases into the atmosphere. There is, however, uncertainty with regard to the income tax treatment of CERs, which may be one reason for the slow take-up of clean development mechanism projects in South Africa. It is proposed that income derived from the disposal of primary CERs be tax–exempt or subject to capital gains tax instead of normal income tax. Secondary CERs are to be classified as trading stock and taxed accordingly.

Motor vehicle ad valorem excise duties

Policy measures to address the environmental and social costs associated with the transport sector, such as reforms to vehicle and fuel taxation, seek to promote fuel efficiency, limit the rapid growth of the number of vehicles on the roads and encourage the use of public transport.

Improved fuel efficiency is important in curbing the growth in greenhouse gas emissions. It is recommended that the existing ad valorem excise duties on motor vehicles be adjusted to incorporate CO_2 emissions as an environmental criterion from 1 March 2010. Details of the proposed formula are provided in Annexure C.

Excise duties on motor vehicles adjusted to take into account CO_2 emissions

International air passenger departure tax

The international air passenger departure tax, which stands at R120 per passenger on flights to international destinations and R60 on flights to Southern African Customs Union member states, was last raised in 2005/06. It is proposed to increase these amounts to R150 and R80 respectively from 1 October 2009.

International air passenger tax is increased

Value-added tax

VAT voluntary registration threshold

The VAT refund mechanism is an integral part of the VAT system but remains a major risk area. One important measure implemented in 1999 was to deny businesses with an annual taxable supply turnover below R20 000 the ability to register as VAT vendors. It is proposed to increase this threshold to R50 000 from 1 March 2010. It is unlikely that a viable business requiring VAT registration will have turnover below this level.

False statements on VAT forms

It is proposed that false statements on any VAT form submitted to SARS, not just returns, be considered an offence. This will serve as a deterrent to those who seek to register for VAT without being eligible to do so.

False statements on any VAT form to be considered an offence

Verifying applicants for VAT registration

As an additional measure to combat VAT fraud, the introduction of enabling provisions to permit the use of biometric measures to verify the identity of applicants for VAT registration is proposed.

Customs and excise duties

Tobacco products

Excise duties on tobacco products will be increased in accordance with the policy decision to target a total excise burden (excise duties plus VAT) of 52 per cent for all categories of tobacco products. The proposed increases for the various tobacco products vary between 5.5 and 13 per cent as indicated in Table 4.7.

Excise duties on tobacco products and alcoholic beverages are increased

Alcoholic beverages

Excise duties on alcoholic beverages will be increased in accordance with the policy decision to target a total tax burden (excise duties plus VAT) of 23, 33 and 43 per cent on wine products, malt beer and spirits respectively. No increase in the excise duty on traditional beer is proposed. The proposed increases for the various alcoholic beverages vary between 7.6 and 14.7 per cent.

Table 4.7 Changes in specific excise duties, 2009/10

Product	Current excise duty rate	Proposed excise duty rate	Percentage change Nominal	Real
Malt beer	R42.38/ℓ of absolute alcohol (72c/average 340ml can)	R46.41/ℓ of absolute alcohol (79c/average 340ml can)	9.5%	4.1%
Traditional beer	7.82c/ℓ	7.82c/ℓ	0.0%	-5.4%
Traditional beer powder	34.70c/kg	34.70c/kg	0.0%	-5.4%
Unfortified wine	R1.84/ℓ	R1.98/ℓ	7.6%	2.2%
Fortified wine	R3.40/ℓ	R3.72/ℓ	9.4%	4.0%
Sparkling wine	R5.63/ℓ	R6.16/ℓ	9.4%	4.0%
Ciders and alcoholic fruit beverages	R2.12/ℓ (72c/average 340ml can)	R2.33/ℓ (79c/average 340ml can)	9.9%	4.5%
Spirits	R67.72/ℓ of absolute alcohol (R21.84/750ml bottle)	R77.67/ℓ of absolute alcohol (R25.05/750ml bottle)	14.7%	9.3%
Cigarettes	R6.82/20 cigarettes	R7.70/20 cigarettes	12.9%	7.5%
Cigarette tobacco	R8.67/50g	R9.15/50g	5.5%	0.0%
Pipe tobacco	R2.30/25g	R2.50/25g	8.6%	3.2%
Cigars	R39.72/23g	R44.88/23g	13.0%	7.6%

Fuel levies

General fuel levy

Increase in general fuel levy in line with reducing environmental impact

Given the importance of maintaining a strong price signal to limit fuel consumption, road congestion and environmental impact, it is proposed to increase the general fuel levy. In addition, noting the increasing use of diesel in passenger vehicles, government intends to equalise the general fuel levy on diesel and petrol over time. It is proposed to increase the general fuel levy on petrol and diesel by 23 and 24 cents per litre respectively from 1 April 2009. The diesel fuel levy refund relief for the primary sector remains unchanged in percentage terms and its monetary value will be adjusted accordingly.

Road Accident Fund levy

It is proposed to increase the RAF levy by 17.5 cents/litre, from 46.5 c/l to 64.0 c/l from 1 April 2009. It is hoped that these adjustments and recent reforms to the legislation governing the RAF will strengthen the Fund's financial position and effectiveness.

Table 4.8 Total combined fuel levy on leaded petrol and diesel, 2007/08 – 2009/10

c / litre	2007/08 93 Octane petrol	2007/08 Diesel	2008/09 93 Octane petrol	2008/09 Diesel	2009/10 93 Octane petrol	2009/10 Diesel
General fuel levy	121.00	105.00	127.00	111.00	150.00	135.00
Road Accident Fund levy	41.50	41.50	46.50	46.50	64.00	64.00
Customs and excise levy	4.00	4.00	4.00	4.00	4.00	4.00
Illuminating paraffin marker	–	0.01	–	0.01	–	0.01
Total	**166.50**	**150.51**	**177.50**	**161.51**	**218.00**	**203.01**
Pump price: Gauteng (as in February)[1]	561.00	542.10	750.00	732.30	643.00	649.35
Taxes as % of pump price	*29.7%*	*27.8%*	*23.7%*	*22.1%*	*33.9%*	*31.3%*

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

Tax-sharing arrangements with metropolitan municipalities

As part of continuing efforts to find a viable basket of tax instruments to replace the Regional Services Council (RSC) and Joint Services Board (JSB) levies that were abolished several years ago, it is proposed that from 2009/10, 23 per cent of the revenues from the general fuel levy be earmarked for metropolitan (Category A) municipalities. Distribution of this revenue among various metropolitan municipalities, to be phased in over four years, will eventually be based on fuel sales in each metro. Consideration will be given to ensuring that municipalities use such funds to boost budgets for roads and transportation infrastructure.

A portion of general fuel levy revenues will be earmarked for large metros

Other measures under review

Income tax act rewrite – phase one

Government's commitment to retirement reform and the creation of a broader social security safety net will comprise a number of reforms, some of which have been already implemented. To continue making progress while key policy issues are still under discussion, it is proposed that the employment income tax base be simplified.

Steps are being taken to simplify the employment income tax base

At issue initially is the development of a uniform definition of employment income to be applied across all tax instruments. This would be important for social security and private pensions, and provide alignment with Unemployment Insurance Fund (UIF) contributions and the skills development levy. It would help to reduce compliance costs for employers and support efforts by SARS to modernise taxation of salaried taxpayers.

To enhance the process of simplification, proposed revisions to the employment income tax base will represent the first step towards rewriting the Income Tax Act (1962). It is intended that a discussion document and draft legislation will be released for comment by the end of 2010.

A step towards rewriting the Income Tax Act

Provident funds, social security and retirement reforms

The current debate on social security and retirement reforms has raised the need to examine whether provident funds should be phased into pension funds. This question is also relevant given the different tax treatment of contributions to pension and provident funds. One option would be to phase out provident funds as a prelude to broader social security reforms. This option will be explored with the relevant stakeholders during 2009.

Tax administration modernisation agenda

A set of incremental changes is proposed to underpin the SARS modernisation agenda. These measures will allow for continued progress in the reform of personal income tax collection and lay the groundwork for a future social security tax. The changes are:

SARS strengthens modernisation efforts

- The introduction of enabling provisions to require employer reconciliations of employees' tax more frequently than once a year, together with the extension of the reconciliations to skills development levies and UIF contributions.

- Reinstatement of employers' obligation to obtain and maintain certain employee data (originally known as the IRP2 and done away with in 1995), and to report this data as required.
- Permitting SARS to provide employees' tax reference numbers and certain other non-financial data to their employers.
- Requiring other third-party data providers to include taxpayer reference numbers – which will be available in many cases due to requirements of the Financial Intelligence Centre Act (2001) – with the information they provide.
- Alignment of estimated assessment, interest and additional tax provisions across personal income tax, the skills development levy and UIF contributions.

Key customs modernisation measures were introduced in 2008 and supporting amendments are anticipated in 2009. Measures under consideration in accounting for SARS's administered revenue include:

- Moving to a single taxpayer account across different tax types
- Use of a single interest rate on underpayments and overpayments
- Charging compound interest instead of simple interest
- A revised payment allocation rule that generally sets payments off against the oldest outstanding debt.

Single taxpayer registration process to be explored

SARS is assessing the potential for a single taxpayer registration process across multiple taxes, as well as the automatic registration of employees. This would improve customer service and operational efficiency, using technology and third-party information to authenticate data, and reduce the need for supporting documents.