5

Revenue trends and tax proposals

- The international financial crisis, and the recession that followed, required governments the world over to fund crucial stimulus measures at a time when tax revenues were falling sharply. In South Africa too, tax revenue has fallen as a share of GDP, contributing to a widening budget deficit.
- Lower tax revenue is automatically taken into account in government's countercyclical fiscal policy, which adjusts to highs and lows in the business cycle, supporting investment and demand. As the economy recovers, tax revenue will begin to recover, though there is often a considerable lag between an economic recovery and higher corporate tax receipts.
- Tax policy will remain supportive of the overall economic recovery by providing relief to individuals to compensate for inflation. The 2010 tax proposals also include initiatives to improve tax compliance and broaden the tax base. In the future, higher tax revenue will be required to help narrow the fiscal deficit.

Overview

The economic slowdown has caused a steep reduction in tax revenue

The past year has been one of the most challenging periods for revenue collection since 1994. From the fourth quarter of 2008, the economy contracted for three consecutive quarters. A significant slowdown in household consumption expenditure, falling employment, and declining imports and exports led to a steep cyclical reduction in tax revenue.

At the beginning of 2010 there are indications that the worst of the global recession is behind us. South Africa's economy is on the way to recovery, with economic growth turning positive in the third quarter of 2009, and the trend is expected to continue during 2010/11.

The revised estimated tax revenue for 2009/10 is projected to be R68.9 billion lower than the budgeted R659.3 billion announced in February 2009, but R1.4 billion higher than the estimate at the time of the

Medium Term Budget Policy Statement last October. In line with the economic slowdown, value-added tax (VAT) and customs duty revenues declined substantially in 2009/10, followed by corporate income tax revenues after a lag of two quarters. While both VAT and customs revenues may recover relatively quickly in response to renewed growth, corporate income tax is likely to trail behind.

Relief to individuals for the effects of inflation

The 2010 tax proposals provide individuals with relief for the effects of inflation. The taxation of financial instruments, certain aggressive financial transactions, and a comprehensive approach to taxing carbon emissions will be investigated during the course of 2010.

Main tax proposals

The main tax proposals include:

- Personal income tax relief for individuals amounting to R6.5 billion to compensate partially for inflation
- Discontinuation of the SITE system
- Measures to limit tax avoidance through salary structuring
- A limited voluntary disclosure dispensation for taxpayers in default
- Measures to curtail certain aggressive financial transactions
- An increase in fuel taxes
- Increases in excise duties on tobacco and alcohol products
- An amended carbon emissions tax on new motor vehicles.

Budget revenue – revised estimates

Table 5.1 highlights budget estimates and revenue outcomes of the major tax instruments for 2008/09, and projected revenue outcomes for 2009/10. Tables 2 and 3 in Annexure B set out these trends in greater detail.

Outcome for 2008/09 and revised estimate for 2009/10

Tax revenue for 2008/09 was R17 billion lower than projected

Audited results show that tax revenue for 2008/09 of R625.1 billion was R17 billion or 2.6 per cent lower than the budgeted estimate. This underperformance in revenues is a reflection of the economic contraction in the fourth quarter of 2008 and the first half of 2009. The decline in revenue in 2008/09 is mainly attributable to declines in VAT and customs revenues, partially offset by better collections in corporate income tax and personal income tax.

The revised tax revenue estimate for 2009/10 is R68.9 billion below the 2009 Budget estimate due to declines across most tax instruments, including corporate income tax (-R29.5 billion), VAT (-R22.3 billion), customs duties (-R6.1 billion), personal income tax (-R4.0 billion) and secondary tax on companies (-R3.0 billion). Non-tax revenues are also expected to be R2.6 billion below the budget estimate, largely as a result of lower interest and dividend income, and substantially lower licence fee income from telecommunication companies.

Table 5.1 Budget estimates and revenue outcome, 2008/09 and 2009/10

	2008/09			2009/10			2008/09–2009/10
R million	**Budget**	**Outcome**	**Deviation**	**Budget**	**Revised**	**Deviation**	**% change[1]**
Taxes on income and profits	**369 754**	**383 483**	**13 729**	**389 040**	**352 800**	**-36 240**	**-8.0%**
Persons and individuals	191 046	195 115	4 069	207 450	203 500	-3 950	4.3%
Companies	156 471	165 378	8 907	160 000	130 500	-29 500	-21.1%
Secondary tax on companies	20 000	20 018	18	19 000	16 000	-3 000	-20.1%
Tax on retirement funds	–	143	143	–	–	–	–
Other taxes on income and profits [2]	2 237	2 829	592	2 590	2 800	210	-1.0%
Taxes on payroll and workforce	**7 530**	**7 327**	**- 202**	**7 750**	**7 750**	**–**	**5.8%**
Taxes on property	**14 212**	**9 477**	**-4 735**	**10 420**	**9 000**	**-1 420**	**-5.0%**
Domestic taxes on goods and services	**218 420**	**201 416**	**-17 004**	**226 757**	**201 995**	**-24 762**	**0.3%**
Value-added tax	167 028	154 343	-12 685	168 807	146 500	-22 307	-5.1%
Specific excise duties	20 401	20 185	- 216	22 600	21 000	-1 600	4.0%
Ad valorem excise duties	1 682	1 170	- 512	1 350	1 100	- 250	-5.9%
General fuel levy	26 434	24 884	-1 550	30 090	29 000	-1 090	16.5%
Other domestic taxes on goods and services[3]	2 875	835	-2 040	3 910	4 395	485	426.3%
Taxes on international trade and transactions	**31 473**	**22 852**	**-8 621**	**25 337**	**18 830**	**-6 507**	**-17.6%**
Customs duties	31 073	22 751	-8 322	24 635	18 500	-6 135	-18.7%
Miscellaneous customs and excise receipts[4]	400	101	- 299	702	330	- 372	225.4%
State miscellaneous revenue and fees[5]	**700**	**544**	**- 156**	**–**	**50**	**50**	**–**
Total tax revenue	**642 089**	**625 100**	**-16 988**	**659 304**	**590 425**	**-68 879**	**-5.5%**
Non-tax revenue[6]	12 185	12 616	431	11 602	8 983	-2 619	-28.8%
of which:							
Mining leases and ownership	*180*	*708*	*528*	*325*	*810*	*485*	14.3%
Less: SACU payments	-28 921	-28 921	–	-27 915	-27 915	–	-3.5%
National budget revenue	**625 353**	**608 796**	**-16 557**	**642 990**	**571 492**	**-71 498**	**-6.1%**
Provinces, social security funds and selected public entities	84 978	80 876	-4 102	88 245	86 060	-2 185	6.4%
Budget revenue	**710 331**	**689 672**	**-20 659**	**731 235**	**657 552**	**-73 683**	**-4.7%**

1. Percentage change 2008/09 outcome versus 2009/10 revised estimate.

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

3. Includes air departure tax, plastic bags levy, electricity levy and Universal Service Fund.

Note: electricity levy only implemented on 1 July 2009.

4. Includes diamond export levy.

5. Includes stamp duties and revenue received that could not be allocated to a specific tax instrument.

6. Includes mineral and petroleum royalities, mining leases and departmental revenue.

Revenue estimates and 2010/11 tax proposals

Table 5.2 sets out the estimates of revenue before consideration of tax proposals for 2010/11, based on the existing tax rates.

Table 5.2 Estimates of revenue before tax proposals, 2010/11

R million	2009/10 Revised estimate	2010/11 Before tax proposals	2009/10–2010/11 % change
Taxes on income and profits	**352 800**	**384 466**	**9.0%**
Persons and individuals	203 500	230 076	13.1%
Companies	130 500	135 000	3.4%
Secondary tax on companies	16 000	16 500	3.1%
Other taxes on income and profits[1]	2 800	2 890	3.2%
Taxes on payroll and workforce	**7 750**	**8 424**	**8.7%**
Taxes on property	**9 000**	**9 960**	**10.7%**
Domestic taxes on goods and services	**201 995**	**224 580**	**11.2%**
Value-added tax	146 500	164 000	11.9%
Specific excise duties	21 000	22 000	4.8%
Ad valorem excise duties	1 100	1 200	9.1%
General fuel levy	29 000	31 000	6.9%
Electicity levy	3 400	5 200	52.9%
Other domesic taxes on goods and services[2]	995	1 180	18.6%
Taxes on international trade and transactions	**18 830**	**20 850**	**10.7%**
Customs duties	18 500	20 500	10.8%
Miscellaneous customs and excise receipts	330	350	6.1%
State miscellaneous revenue and fees[3]	**50**	**20**	**-60.0%**
Total tax revenue	**590 425**	**648 300**	**9.8%**
Non-tax revenue[4]	8 983	10 380	15.6%
of which			
Mining leases and ownership	*810*	–	
Less: SACU payments	-27 915	-14 991	-46.3%
National budget revenue	**571 492**	**643 689**	**12.6%**
Provinces, social security funds and selected public entities	86 060	95 165	10.6%
Budget revenue	**657 552**	**738 854**	**12.4%**

1. Includes interest on overdue income tax and small business tax amnesty levy.
2. Includes air departure tax and plastic bags levy and Universal Service Fund.
3. Includes stamp duties and revenue received that could not be allocated to a specific tax instrument.
4. Includes mineral and petroleum royalties, mining leases and departmental revenue.

Corporate income tax will remain under pressure in 2010/11 as the effects of recovery take time to filter through

Corporate income tax will continue to be under pressure during 2010/11, as the effects of the economic recovery will take time to filter through to higher revenue collection. Total tax revenue before tax proposals is expected to increase by 9.7 per cent, from a revised estimated figure of R590.4 billion in 2009/10 to an estimated R648.3 billion in 2010/11. Mineral royalties are classified as a resource rent and therefore fall into the non-tax revenue category. The introduction of mining royalties was postponed for a year due to the recession and will be levied on minerals disposed off or exported from 1 March 2010.

Actual revenue collections and medium-term estimates

Table 5.3 sets out actual revenue collections for 2006/07 to 2008/09, the revised estimate for 2009/10 and medium-term estimates for 2010/11 to 2012/13. Given the modest recovery forecast, tax revenue as a percentage of GDP is unlikely to reach the level of 27.5 per cent seen in 2007/08 in the near future.

Table 5.3 Budget revenue, 2006/07 – 2012/13

R million	2006/07	2007/08 Outcome	2008/09	2009/10 Revised	2010/11	2011/12 Medium-term estimates	2012/13
Taxes on income and profits[1]	279 991	332 058	383 483	352 800	377 716	428 132	489 416
of which:							
Personal income tax	*140 578*	*168 774*	*195 115*	*203 500*	*224 676*	*264 646*	*312 123*
Corporate income tax	*118 999*	*140 120*	*165 378*	*130 500*	*133 650*	*143 065*	*159 753*
Taxes on payroll and workforce	5 597	6 331	7 327	7 750	8 424	9 149	9 606
Taxes on property	10 332	11 884	9 477	9 000	9 960	10 980	12 460
Domestic taxes on goods and services	174 671	194 690	201 416	201 995	230 880	250 335	280 980
of which:							
Value-added tax	*134 463*	*150 443*	*154 343*	*146 500*	*164 000*	*179 250*	*203 820*
Taxes on international trade and transactions	24 002	27 082	22 852	18 830	20 850	22 861	25 806
State miscellaneous revenue and fees[2]	955	769	544	50	20	20	30
Tax revenue	**495 549**	**572 815**	**625 100**	**590 425**	**647 850**	**721 477**	**818 298**
Non-tax revenue[3]	10 843	11 672	12 616	8 983	10 380	11 483	12 379
of which:							
Mineral and petroleum royalties	–	–	–	–	*3 540*	*4 800*	*5 500*
Less: SACU payments	-25 195	-24 713	-28 921	-27 915	-14 991	-11 211	-22 781
National budget revenue	**481 197**	**559 774**	**608 796**	**571 492**	**643 239**	**721 749**	**807 896**
Provinces, social security funds and selected public entities	60 027	67 895	80 876	86 060	95 165	105 993	114 382
Budget revenue	**541 224**	**627 669**	**689 672**	**657 552**	**738 404**	**827 742**	**922 278**
Tax revenue as a percentage of GDP	*27.0%*	*27.5%*	*26.9%*	*24.1%*	*24.0%*	*24.3%*	*24.8%*
Budget revenue as a percentage of GDP	*29.5%*	*30.2%*	*29.7%*	*26.8%*	*27.3%*	*27.9%*	*28.0%*
GDP (R billion)	1 833	2 082	2 320	2 450	2 700	2 968	3 296
Tax/GDP multiplier	*1.40*	*1.15*	*0.80*	*-0.99*	*0.95*	*1.15*	*1.21*

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

2. Includes stamp duties and revenue received that could not be allocated to a specific tax instrument.

3. Includes mineral and petroleum royalties, mining leases and departmental revenue.

Overview of tax proposals

Net effect of tax changes reduces tax revenues by R450 million

Table 5.4 shows the expected impact of tax proposals on 2010/11 revenue collections, the net effect of which is to reduce the estimated total tax revenues by R450 million. The tax proposals for 2010, including additional proposals contained in Annexure C, will be published in draft legislation and refined during public consultation in Parliament.

Relief for individuals

Personal income tax relief

Over the past 10 years government has adjusted income tax brackets to take account of the effects of inflation on income tax paid by individuals. In addition, by adjusting thresholds, real relief has been provided to taxpayers, increasing disposable income and supporting economic growth.

Table 5.4 Summary effects of tax proposals, 2010/11

R million		Effect of tax
Tax revenue		648 300
Non-tax revenue		10 380
Less: SACU payments		-14 991
National budget revenue (before tax proposals)		**643 689**
Budget 2010/11 proposals:		**- 450**
Taxes on individuals and companies	**-6 750**	
Personal income tax	-5 400	
Adjustment in personal income tax rate structure	*-6 500*	
Adjustment in monetary thresholds	*- 700*	
Reform of taxation of travel allowance	*1 800*	
Business taxes	-1 350	
Industrial policy incentives	*-1 000*	
Energy-efficient savings incentive	*- 350*	
Indirect taxes	**6 300**	
Increase in general fuel levy	3 600	
Increase in excise duties on tobacco products and alcoholic beverages	2 250	
CO_2 tax motor vehicle emissions	450	
National budget revenue (after tax proposals)		**643 239**

Personal income tax relief of R6.5 billion, most of which benefits lower-income taxpayers

Despite the tight fiscal environment, the 2010 Budget proposes direct tax relief to individuals amounting to R6.5 billion to partially compensate for the effects of inflation. Table 5.5 provides a summary of the 2010/11 income tax brackets and rates.

Most of the relief is provided to taxpayers in lower-income brackets. Taxpayers with an annual taxable income below R150 000 will receive 24.6 per cent of this relief; those with an annual taxable income between R150 001 and R250 000 will receive 28.8 per cent; those with an annual taxable income between R250 001 and R500 000 will receive 26.2 per cent; and those with an annual taxable income above R500 000 will receive 20.4 per cent.

South Africa has a progressive income tax system. Registered taxpayers with taxable income below R250 000 account for about 30 per cent of personal income tax revenue; those with taxable incomes of between R250 000 and R500 000, 26 per cent; and those with taxable income above R500 000 account, 44 per cent. In addition, all South Africans contribute to funding government’s developmental objectives through taxes such as VAT, the fuel tax and corporate taxes.

Medical scheme contributions and medical expenses

From 1 March 2010, the monthly monetary caps for deductible medical scheme contributions will increase from R625 to R670 for each of the first two beneficiaries, and from R380 to R410 for each additional beneficiary. The proposed conversion of these deductions into non-refundable tax credits will be postponed to 1 March 2012.

Table 5.5 Personal income tax rate proposals and bracket adjustments, 2009/10 and 2010/11

2009/10		2010/11	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 - R132 000	18% of each R1	R0 - R140 000	18% of each R1
R132 001 - R210 000	R23 760 + 25% of the amount above R 132 000	R140 001 - R221 000	R25 200+25% of the amount above R140 000
R210 001 - R290 000	R43 260 + 30% of the amount above R210 000	R221 001 - R305 000	R45 450 + 30% of the amount above R221 000
R290 001 - R410 000	R67 260 + 35% of the amount above R290 000	R305 001 - R431 000	R70 650 + 35% of the amount above R305 000
R410 001 - R525 000	R109 260 + 38% of the amount above R410 000	R431 001 - R552 000	R114 750 + 38% of the amount above R431 000
R525 001 and above	R152 960 + 40% of the amount above R525 000	R552 001 and above	R160 730 + 40% of the amount above R552 000
Rebates		**Rebates**	
Primary	R9 756	Primary	R10 260
Secondary	R5 400	Secondary	R5 675
Tax threshold		**Tax threshold**	
Below age 65	R54 200	Below age 65	R57 000
Age 65 and over	R84 200	Age 65 and over	R88 528

Retrenchment package merger

The R30 000 income-tax exemption for retrenchment packages has not been adjusted in many years. It is proposed to merge this exemption into the retirement lump sum tax exemption. In future, all retirement and retrenchment lump sum payments will be treated equally.

Savings

Annual tax-free interest income limits are increased

Annual tax-free interest income will be increased from R21 000 to R22 300 for individuals below 65 years, from R30 000 to R32 000 for individuals 65 years and over, and from R3 500 to R3 700 for foreign-interest income. These exemptions will be limited to savings through widely available interest-bearing instruments, such as bank deposits, government retail bonds and collective investment money market funds. The new limits will exclude tax planning aimed at shifting taxable income.

Discontinuation of the SITE system

SITE overtaken by personal income tax threshold

The standard income tax on employees (SITE) system was introduced in the late 1980s to limit the number of personal income tax returns filed annually, freeing resources to deal with more complicated returns. Administrative modernisation, and the fact that the personal income tax threshold for taxpayers younger than 65 years is approaching the SITE ceiling of R60 000, have eliminated the need for this system. Government proposes to repeal SITE with effect from 1 March 2011. The impact on low-income taxpayers with multiple sources of income will be reviewed, with a view to possible transitional administrative relief measures.

Limiting salary-structuring opportunities

Government aims to make the tax system more equitable and efficient by reducing tax avoidance or structuring opportunities.

Company car fringe benefits

Company car fringe benefit rules tightened

The company car fringe benefit rules will be tightened by increasing the deemed monthly taxable values. This amendment will limit the potential abuse of company car fringe benefits.

Employee deferred compensation and insurance schemes

Employee deferred compensation and insurance packages to be taxed as fringe benefits

Companies often protect themselves against revenue shortfalls stemming from the loss of key employees by taking out employee life cover. These policies have over time become methods of creating immediate tax deductions for employers while providing tax-deferred benefit packages on behalf of employees upon retirement or termination of employment. Problems also exist with employer-provided group life insurance schemes. Steps will be taken to ensure that employer deductions match employee gross income. Employee insurance packages will be taxed fully as fringe benefits on a monthly basis.

Closure of sophisticated tax loopholes

Anti-avoidance schemes cost the fiscus a substantial amount of revenue

Government has achieved lower rates over the past decade by broadening the tax base. One area of concern is the use of sophisticated tax avoidance schemes. The scale of these schemes often presents a substantial loss to the fiscus, even when considered in isolation. The schemes below have been identified for closure, and details are provided in Annexure C:

- Cross-border mismatches
- Interest cost allocation for finance operations
- “Protected cell” companies
- Cross-border insurance payments
- Participation preference and guaranteed shares
- Cross-border interest exemption
- Transfer pricing.

Promoting South Africa as a gateway into Africa

Enhancing South Africa’s position as a viable location from which businesses can expand into Africa

South Africa’s location, its strength in financial services and its banking infrastructure make it a potential gateway into Africa. Government proposes measures to enhance this role. In 2010/11, further investigations will be done to enhance our attractiveness as a viable and effective location from which businesses can extend their African operations.

Headquarter companies

Relief from exchange control and taxation for various types of headquarter companies located in South Africa will be considered. Currently, funds received from foreign locations cannot be channelled through South Africa to other foreign locations without explicit exchange control approval. These barriers and certain tax rules will be reviewed.

Islamic-compliant finance

The tax system may act as a barrier to certain forms of Islamic-compliant finance, which prohibits payment or receipt of various types of interest. The tax treatment of financial instruments such as forward purchases, financial leasing and purchases of profit shares will be reviewed over the next two years, and tax treaties with relevant countries will be re-examined.

Depreciation allowances

Improvements on leased land

Depreciation allowances, including the accelerated depreciation relief for urban development zones, are available if the underlying land is owned by the party undertaking the improvement. This requirement creates practical problems for development partnerships undertaken by government and the private sector. Government entities often provide long-term use of land in exchange for private development. An enhanced allowance will be considered for private developers who improve another party's land, subject to anti-avoidance mechanisms.

Enhanced allowance to be considered for private developers who improve another party's land

Environmental fiscal reform

The 2009 Budget announced an ad valorem CO_2 emissions tax on new passenger motor vehicles. Based on subsequent consultations, it is recommended that the original tax proposal be converted into a flat rate CO_2 emissions tax, effective from 1 September 2010. The main objective of this tax is to influence the composition of South Africa's vehicle fleet to become more energy efficient and environmentally friendly. The emissions tax will initially apply to passenger cars, but will be extended to commercial vehicles once agreed CO_2 standards for these vehicles are set. See Annexure C for details.

'We cannot stop development in the developing world, but we can control the emission of greenhouse gases.' – *Minister of Science and Technology Naledi Pandor*

Further research is being done to expand environmental levies and taxes.

VAT and residential property developers

The sale of residential property by developers is subject to VAT at the standard rate, while the leasing of residential accommodation is VAT exempt. VAT input credits are allowed for standard-rated sales of property, but disallowed for exempted rentals. The temporary leasing of residential units requires a full claw-back of the VAT input credits for leased units. The current value of the adjustment is disproportionate to the exempt temporary rental income. Options will be investigated to determine an equitable value and rate of claw-back for developers.

Customs and excise duties: tobacco and alcohol

Excise duties on alcoholic beverages will be increased in accordance with the policy objective to target a total consumption tax burden (excise duties plus VAT) of 23, 33, and 43 per cent of the average retail price of wine, malt beer and spirits respectively.

Taxes on alcoholic beverages and tobacco products are increased

The proposed increases for the various alcoholic beverages vary between 8.1 and 8.9 per cent as indicated in Table 5.6. No increase in the excise duty on traditional beer is proposed. Given that the tax burden benchmarks for the various alcoholic beverages were set as far back as 2002, and considering the social need to curb alcohol abuse, a consultation process to increase these benchmarks will be initiated during 2010.

Excise duties on tobacco products will be increased in accordance with the policy objective to target a total consumption tax burden (excise duties plus VAT) of 52 per cent of the average retail price of the most popular brand for all categories of tobacco products. The proposed increases for tobacco products vary between 6.2 and 16.1 per cent.

Table 5.6 Changes in specific excise duties, 2010/11

Product	Current excise duty rate	Proposed excise duty rate	Percentage change Nominal	Percentage change Real
Malt beer	R46.41 / litre of absolute alcohol (78.90c / average 340ml can)	R50.20 / litre of absolute alcohol (85.34c / average 340ml can)	8.2%	2.5%
Traditional beer	7.82c / litre	7.82c / litre	0.0%	-5.7%
Traditional beer powder	34.70c / kg	34.70c / kg	0.0%	-5.7%
Unfortified wine	R1.98 / litre	R2.14 / litre	8.1%	2.4%
Fortified wine	R3.72 / litre	R4.03 / litre	8.3%	2.6%
Sparkling wine	R6.16 / litre	R6.67 / litre	8.3%	2.6%
Ciders and alcoholic fruit beverages	R2.33 / litre (79.22c / average 340ml can)	R2.52 / litre (85.68c / average 340ml can)	8.2%	2.5%
Spirits	R77.67 / litre of absolute alcohol (R25.05 / 750ml bottle)	R84.57 / litre of absolute alcohol (R27.27 / 750ml bottle)	8.9%	3.2%
Cigarettes	R7.70/ 20 cigarettes	R8.94/ 20 cigarettes	16.1%	10.4%
Cigarette tobacco	R9.15/ 50g	R9.73/ 50g	6.3%	0.6%
Pipe tobacco	R2.50/ 25g	R2.70/ 25g	8.0%	2.3%
Cigars	R44.88 / 23g	R47.66 / 23g	6.2%	0.5%

Gambling taxes

Gambling is subject to various forms of taxation at both provincial and national level. These arrangements will be reviewed to ensure efficient tax collection. In addition, winnings in the hands of gamblers are exempt from personal income tax, a practice that will also be reviewed. Measures will be considered to limit opportunities for money laundering, unlicensed online gambling and other abuses.

Fuel levies

General fuel levy

An additional increase in the general fuel levy to help finance fuel pipeline for security of supply

It is proposed to increase the general fuel levy on petrol and diesel by 10 c/l in line with the expected rate of inflation. An additional 7.5 c/l increase on both petrol and diesel is proposed to help fund the new multi-product petroleum pipeline between Durban and Gauteng. Both increases will take effect on 7 April 2010. The total combined fuel taxes on petrol and diesel from 2008/09 to 2010/11 are indicated in Table 5.7. The diesel fuel tax refund and biodiesel fuel tax rebate concessions automatically adjust to maintain the relative benefits for qualifying beneficiaries.

Road Accident Fund levy

It is proposed to increase the Road Accident Fund levy on petrol and diesel by 8 c/l, from 64 c/l to 72 c/l, with effect from 7 April 2010.

Table 5.7 Total combined fuel taxes on petrol and diesel, 2008/09 – 2010/11

	2008/09		2009/10		2010/11	
Cents per litre	**93 Octane**	**Diesel**	**93 Octane**	**Diesel**	**93 Octane**	**Diesel**
General fuel levy	127.00	111.00	150.00	135.00	167.50	152.50
Road Accident Fund levy	46.50	46.50	64.00	64.00	72.00	72.00
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	**177.50**	**161.51**	**218.00**	**203.01**	**243.50**	**228.51**
Pump price: Gauteng (as in February)[1]	750.00	732.30	643.00	649.35	785.00	701.85
Taxes as % of pump price	*23.7%*	*22.1%*	*33.9%*	*31.3%*	*31.6%*	*32.8%*

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

Measures to enhance tax administration

Voluntary disclosure

Interest and penalties can be avoided through timely voluntary disclosure

To encourage taxpayers to come forward and avoid the future imposition of interest, a voluntary disclosure programme will be instituted from 1 November 2010 to 31 October 2011. Taxpayers may come forward during this period to disclose their defaults and regularise their tax affairs. In line with greater international cooperation over bank secrecy and enhanced measures to prevent money laundering, the voluntary disclosure period will also enable individuals with unreported banking accounts overseas to fully disclose such untaxed revenue. The full amount of tax will remain due.

A defaulting taxpayer will be granted relief under the programme, provided:

- The disclosure is complete
- SARS was not aware of the default
- A penalty or additional tax would have been imposed had SARS discovered the default in the normal course of business.

In light of this step, government proposes to do away with the discretion of the South African Revenue Service (SARS) to waive interest charged on unpaid provisional tax.

Compliance

SARS further strengthens modernisation efforts

The general level of tax compliance appears to have deteriorated during the recession. As a result, SARS is refocusing its enforcement and audit capacity, and modernising its systems.

The key areas for improved tax administration over the next three years are:

- Increased digitisation to enable self-service and voluntary compliance
- Further modernisation of personal income tax, pay-as-you-earn, corporate income tax and VAT systems
- Modernisation of customs systems
- Improved call centres, office operations and payment processes
- Increased system infrastructure to process administrative penalties
- Enhanced focus on large taxpayers and high net worth individuals.

Increased enforcement through access to third-party databases

Improved data analysis helps SARS to identify high-risk taxpayers for increased enforcement. This process will be enhanced by the improved collection of third-party data that allows for specific case identification.

Tax policy research agenda

Over the year ahead, several issues will be researched for possible attention in tax proposals for 2011 and 2012.

Taxes upon death

Both estate duty and capital gains tax are payable upon death, which is perceived as giving rise to double taxation. The estate duty raises limited revenue and is cumbersome to administer. Moreover, its efficacy is questionable: many wealthy individuals escape estate duty liability through trusts and other means. Taxes upon death will be reviewed.

Financial instruments and aggressive financial transactions

Tax rules on financial instruments to be reviewed

In line with the global reassessment of financial regulation, government will conduct an extensive review of the taxation of financial instruments (such as derivatives) and measures that deal with debt/equity arbitrage. The new era of financial regulation that seeks to prevent the recurrence of an international crisis will require South Africa to follow global best practice without undermining our tax sovereignty or our competitiveness.

Environmental fiscal reform and the pricing of carbon

Two discussion documents on carbon pricing for public comment

The electricity levy announced in 2008 was the first step towards a carbon tax in South Africa. A discussion document exploring the feasibility of a more comprehensive carbon tax will be published for public comment during the first half of 2010.

Various lobbying efforts are underway to expand the carbon market to include the developing world. Although government's preference is for a carbon tax, a discussion document on the possible scope and administrative feasibility of emissions trading in South Africa will also be released for public comment towards the end of 2010.

The following environmental taxes and charges will also be investigated:

- A waste water discharge levy in terms of the Water Act
- Pollution charges in terms of the new Air Quality Act
- Levies on the waste streams of various products
- A landfill tax at municipal level
- Traffic congestion charges.

Conclusion

Tax revenue, which fell sharply over the past year, will recover as the economy recovers, but with a lag. Tax policy will remain supportive of the overall economic recovery by providing relief to individuals to compensate partially for inflation. The 2010 tax proposals also include initiatives to improve tax compliance and broaden the tax base.