4

Revenue trends and tax policy

In brief

- Nominal gross tax revenue for 2013/14 amounted to R900 billion, a 10.6 per cent or R86.2 billion increase from the prior year.
- The 2014 Budget projected 10.5 per cent growth in tax revenues for 2014/15. This has been revised down to 8.8 per cent, reflecting weaker-than-expected economic growth.
- The 2015 tax proposals reflect government's commitment to stabilise the fiscus, while ensuring that the tax system remains fair, efficient and progressive.
- The main proposals are to raise personal income tax rates for all but the lowest tax bracket by one percentage point, and to increase the fuel levies by a total of 80.5 c/litre.
- Reforms will improve the turnover regime for small business and support greater energy efficiency.

Overview

An efficient and progressive tax system is a cornerstone of South Africa's democracy, supporting the values of social solidarity as reflected in the Constitution. Tax revenues enable government to redistribute wealth, supply public services and increase domestic investment. Accordingly, the tax system needs to be fair, transparent, efficient and sufficiently flexible to adjust to changes in economic activity.

Weak economic growth reduces tax revenue estimate by R14.7 billion

Tax revenues for 2014/15 are expected to be R14.7 billion below the 2014 *Budget Review* forecast and R4.6 billion below the 2014 *Medium Term Budget Policy Statement* forecast. This mirrors deteriorating GDP growth over the past year. The economic outlook presented in Chapter 2 projects only moderate improvements in economic growth over the medium term, and this is reflected in lower revenue estimates in 2015/16 and beyond.

The fiscal measures adopted by government include adjustments to tax policy. To ensure sustainable public finances, an increase in tax revenues is required. The main tax instruments that will be adjusted to generate additional revenues this year are personal income taxes and fuel levies.

Budget revenue collection and outlook

2013/14 revenue driven by customs duties, and personal and corporate income tax

Nominal gross tax revenue for 2013/14 amounted to R900 billion, a 10.6 per cent or R86.2 billion increase from the prior year. Revenue performance was driven by customs duties, personal income tax, corporate income tax and value-added tax (VAT). Dividends tax revenues declined for the second successive year. Mineral and petroleum royalty revenues rose sharply, reflecting the resumption of production following mining strikes, and higher prices for certain export commodities.

The 2014 *Budget Review* projected 10.5 per cent growth in nominal gross tax revenues for 2014/15. This has been revised down to 8.8 per cent owing to sharp falls in estimates of corporate income tax and customs duties, as shown in Table 4.1.

Table 4.1 Tax revenue perfomance, 2008/09 – 2014/15

Annual percentage change	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	Revised 2014/15
Personal income tax	15.6	5.1	10.6	10.3	10.2	12.3	13.0
Corporate income tax	18.0	-18.4	-1.5	14.1	5.0	11.3	3.2
Dividends tax	-2.8	-22.7	11.1	27.9	-10.1	-12.3	23.6
Skills development levy	15.7	6.5	10.9	17.6	11.8	9.6	5.8
Transfer duties	-33.4	-5.0	13.7	-28.0	11.6	28.3	22.1
Value-added tax	2.6	-4.1	24.1	4.1	12.6	10.5	9.6
of which:							
Domestic	9.1	4.2	5.1	7.4	10.1	8.7	8.9
Import	18.1	-23.6	16.9	23.9	9.4	17.6	3.0
Refunds	26.0	-5.9	-11.7	26.4	6.0	13.0	2.9
Customs duties	-14.0	-14.0	36.1	28.4	14.0	13.3	-9.7
Specific excise duties	10.8	5.5	7.9	10.6	11.7	2.3	10.2
Electricity levy[1]	–	–	49.5	28.7	24.2	10.5	-2.5
Fuel Levy	4.8	15.9	19.4	6.3	10.4	8.1	10.3
Tax revenue	**9.1**	**-4.2**	**12.6**	**10.2**	**9.6**	**10.6**	**8.8**
Mineral and petroleum royalties[2]	**–**	**–**	**–**	**57.9**	**-10.6**	**28.4**	**-12.5**

1.Electricity levy introduced in 2009/10
2.Mineral and petroleum royalties introduced in 2010/11
Source: National Treasury and South African Revenue Service

The lower customs duty and VAT revenues are mainly the result of a slowdown in imports of motor vehicles and manufacturing equipment. A misclassification of fuel levies on imported petrol and diesel has been corrected, and this revenue is now reflected under the general fuel levy. The performance of mineral and petroleum royalty revenues was adversely affected by mining sector strikes during the first half of the year, as well as a sharp decline in commodity prices. The impact of these downward revisions has been softened by upward revisions in personal income tax and dividends tax revenue. Personal income tax remains buoyant as wage settlements continue to outpace inflation.

Table 4.3 shows the actual revenue collections for 2011/12 to 2013/14, revised estimates for 2014/15 and over the medium-term.

Tax proposals and lower spending ceiling expected to close structural deficit

Tax revenue as a percentage of GDP is expected to increase from 25.2 per cent in 2014/15 to 25.8 per cent in 2015/16. This reflects the 2015 Budget tax proposals, which are expected to add R16.8 billion to revenue in the next year, before accounting for fiscal drag, and carry forward over subsequent years. Combined with the lower spending ceiling, these additional revenues should be sufficient to close the structural deficit in the public finances over the medium term.

Table 4.2 Budget estimates and revenue outcomes, 2013/14 and 2014/15

	2013/14			2014/15			%
R million	**Budget**	**Outcome**	**Deviation**	**Budget**	**Revised**	**Deviation**	**change[1]**
Taxes on income and profits	**505 475**	**507 759**	**2 284**	**556 951**	**556 700**	**- 251**	**9.6%**
Persons and individuals	308 930	309 834	905	335 944	350 000	14 056	13.0%
Companies	176 965	177 324	359	198 935	183 000	-15 935	3.2%
Dividends tax	17 000	17 309	309	19 250	21 400	2 150	23.6%
Other taxes on income and profits[2]	2 580	3 292	712	2 822	2 300	- 522	-30.1%
Taxes on payroll and workforce	**12 300**	**12 476**	**176**	**13 440**	**13 200**	**- 240**	**5.8%**
Taxes on property	**10 375**	**10 487**	**112**	**11 477**	**12 603**	**1 126**	**20.2%**
Domestic taxes on goods and services	**326 044**	**324 548**	**-1 496**	**361 320**	**355 718**	**-5 602**	**9.6%**
Value-added tax	239 286	237 667	-1 620	267 160	260 600	-6 560	9.6%
Specific excise duties	28 943	29 039	97	31 080	32 000	920	10.2%
Ad valorem excise duties	2 402	2 363	- 38	2 623	3 232	609	36.7%
General fuel levy	43 300	43 685	385	47 517	48 200	683	10.3%
Other domestic taxes on goods and services[3]	12 114	11 794	- 320	12 941	11 686	-1 254	-0.9%
Taxes on international trade and transactions	**44 775**	**44 732**	**- 42**	**50 463**	**40 779**	**-9 684**	**-8.8%**
Customs duties	44 500	44 179	- 321	50 300	39 900	-10 400	-9.7%
Diamond export levy	68	93	25	81	87	7	-6.4%
Miscellaneous customs and excise receipts	206	460	254	82	792	710	72.1%
Total tax revenue	**899 000**	**900 013**	**1 013**	**993 650**	**979 000**	**-14 650**	**8.8%**
Non-tax revenue[4]	30 541	30 626	85	20 869	27 006	6 137	-11.8%
of which:							
Mineral royalties	*6 500*	*6 439*	- 61	*7 167*	*5 636*	-1 531	*-12.5%*
less: SACU[5] payments	-43 374	-43 374	–	-51 738	-51 738	–	19.3%
Main budget revenue	**886 167**	**887 265**	**1 099**	**962 782**	**954 269**	**-8 513**	**7.6%**
Provinces, social security funds and selected public entities	124 322	120 838	-3 484	136 466	136 722	256	13.1%
Consolidated budget revenue	**1 010 489**	**1 008 103**	**-2 386**	**1 099 248**	**1 090 991**	**-8 257**	**8.2%**

1. Percentage change between outcome in 2013/14 and revised estimate in 2014/15
2. Includes interest on overdue income tax, and small business tax amnesty levy
3. Includes turnover tax for small businesses, air departure tax, plastic bags levy, electricity levy, CO_2 tax on motor vehicle emissions, incandescent light bulb levy and Universal Service Fund
4. Includes mineral royalties, mining leases, departmental revenue and sales of capital assets
5. Southern African Customs Union. Amounts made up of payments and other adjustments
Source: National Treasury

Table 4.3 Budget revenue, 2011/12 – 2017/18

R million	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
		Outcome		Revised		Medium-term estimates	
Taxes on income and profits[1]	426 584	457 314	507 759	556 700	620 890	678 652	744 473
of which:							
Personal income tax	*250 400*	*275 822*	*309 834*	*350 000*	*393 890*	*433 842*	*479 189*
Corporate income tax	*151 627*	*159 259*	*177 324*	*183 000*	*202 032*	*218 211*	*236 691*
Taxes on payroll and workforce	10 173	11 378	12 476	13 200	14 690	16 140	17 800
Taxes on property	7 817	8 645	10 487	12 603	13 692	14 823	16 089
Domestic taxes on goods	263 950	296 921	324 548	355 718	389 427	422 378	458 883
of which:							
VAT	*191 020*	*215 023*	*237 667*	*260 600*	*283 794*	*313 690*	*346 711*
Taxes on international trade	34 121	39 549	44 732	40 779	42 576	47 207	52 466
Tax revenue	**742 650**	**813 826**	**900 013**	**979 000**	**1 081 275**	**1 179 199**	**1 289 711**
Non-tax revenue[2]	24 402	28 468	30 626	27 006	19 038	23 302	21 143
of which:							
Mineral and petroleum	*5 612*	*5 015*	*6 439*	*5 636*	*6 221*	*6 730*	*7 301*
less: SACU[3] payments	-21 760	-42 151	-43 374	-51 738	-51 022	-36 513	-45 444
Main budget revenue	**745 291**	**800 142**	**887 265**	**954 269**	**1 049 291**	**1 165 988**	**1 265 409**
Provinces, social security funds and selected public entities	96 873	108 594	120 838	136 722	139 564	165 526	174 122
Consolidated budget revenue	**842 165**	**908 737**	**1 008 103**	**1 090 991**	**1 188 855**	**1 331 514**	**1 439 531**
As percentage of GDP							
Tax revenue	*24.1%*	*24.5%*	*24.9%*	*25.2%*	*25.8%*	*26.0%*	*26.2%*
Budget revenue	*24.2%*	*24.0%*	*24.6%*	*24.6%*	*25.0%*	*25.7%*	*25.7%*
GDP (R billion)	*3 080.9*	*3 327.6*	*3 609.8*	*3 879.9*	*4 191.8*	*4 538.8*	*4 926.1*
Tax/GDP multiplier	*1.13*	*1.20*	*1.25*	*1.17*	*1.30*	*1.09*	*1.10*

1. Includes secondary tax on companies/dividends tax, interest on overdue income tax and small business tax amnesty levy
2. Includes mineral royalties, mining leases, departmental revenue and sales of capital assets
3. Southern African Customs Union. Amounts made up of payments and other adjustments
Source: National Treasury and South African Revenue Service

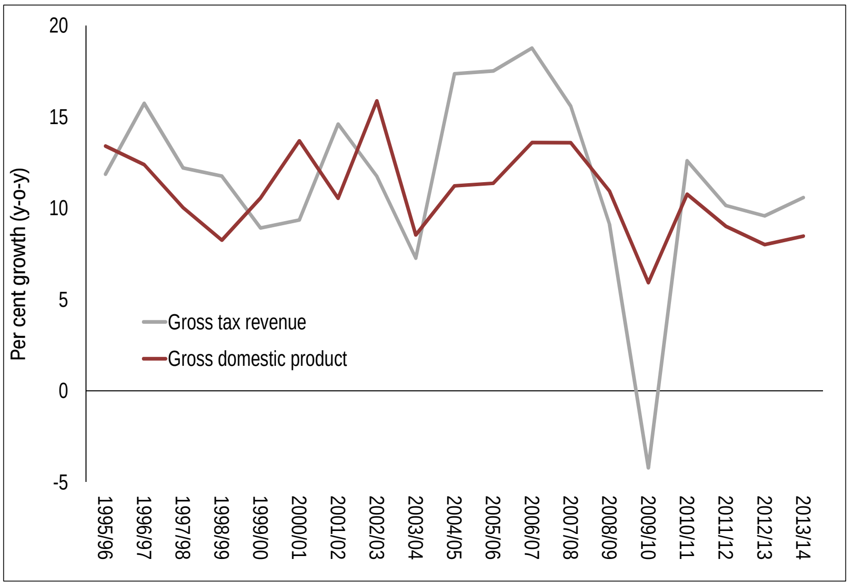
Growth, revenue trends and tax policy reforms

Tax revenue is highly sensitive to economic performance. During the first five years of South Africa's democracy, nominal gross tax revenues grew at an annual average of 12.1 per cent. From 2001, revenue performance accelerated, buoyed by strong commodity prices and improved tax administration, with growth rates in excess of 17 per cent after 2004. The onset of the global financial crisis and the recession saw revenue decline by 4.2 per cent in 2009/10. Since then growth in tax revenues has stabilised, but weakening economic performance has led to slowing revenue growth.

Tax revenue has remained above 24 per cent of GDP since 2009/10

From 1994/95 to 1999/2000 tax revenue averaged 22.8 per cent of GDP. Improvements in tax administration, the introduction of capital gains tax and higher corporate profits pushed the share of tax revenue as a percentage of GDP to 23.4 per cent between 2000/01 and 2004/05. The ratio peaked at 26.4 per cent in 2007/08, largely as a result of sustained commodity prices and profitability. As a consequence of the recession and the related decline in revenues, tax as a share of GDP fell to 23.5 per cent in 2009/10. Since then, tax revenue performance has remained buoyant, consistently sustaining a share of GDP above 24 per cent.

Figure 4.1 Nominal growth in gross tax revenue and GDP, 1995/96 – 2013/14



Source: National Treasury

Evolution of tax policy

An efficient tax system will not unduly influence taxpayers' economic decisions

Tax policy reforms aim to raise revenue in a manner that is fair and efficient, while maintaining social solidarity and supporting long-term economic growth and job creation. An equitable and progressive tax system imposes a similar tax burden on individuals at similar income levels, with a higher proportion of tax paid by those who have higher incomes. An efficient tax system will not unduly influence the economic decisions of taxpayers or make compliance overly burdensome.

The three main sources of tax revenue are personal income tax, corporate income tax and VAT. Tax policy reforms since 1994 have broadened the tax base, increasing the portion of total income that is taxable. Government introduced capital gains tax and broadened the inclusion of fringe-benefits "in kind" as part of taxable income. Alongside this broadening of the tax base, government has consistently provided tax relief to individuals, offsetting the impact of inflation (i.e. fiscal drag).

Efficiency improvements at the South African Revenue Service (SARS) and expansion of the pay-as-you-earn system (where employers pay tax on behalf of employees) have also enhanced the ability of the state to collect revenues, allowing for net tax relief in previous budgets.

Corporate tax revenues have recovered but remain volatile

The headline corporate income tax rate was reduced from 40 per cent in 1994 down to 28 per cent in 2008. Yet corporate income tax increased substantially as a share of taxable income until the recession of 2009, supported by strong corporate profitability and high commodity prices. This trend reversed with the onset of the global financial crisis, with negative nominal growth rates of -18 per cent and -1 per cent in 2009/10 and 2010/11 respectively. Corporate income tax revenues have recovered but remained volatile in response to shifting commodity prices and labour unrest, with nominal growth rates fluctuating between 5 per cent and 14 per cent between 2011/12 and 2013/14. In general, revenues from this instrument are more volatile than VAT and personal income tax.

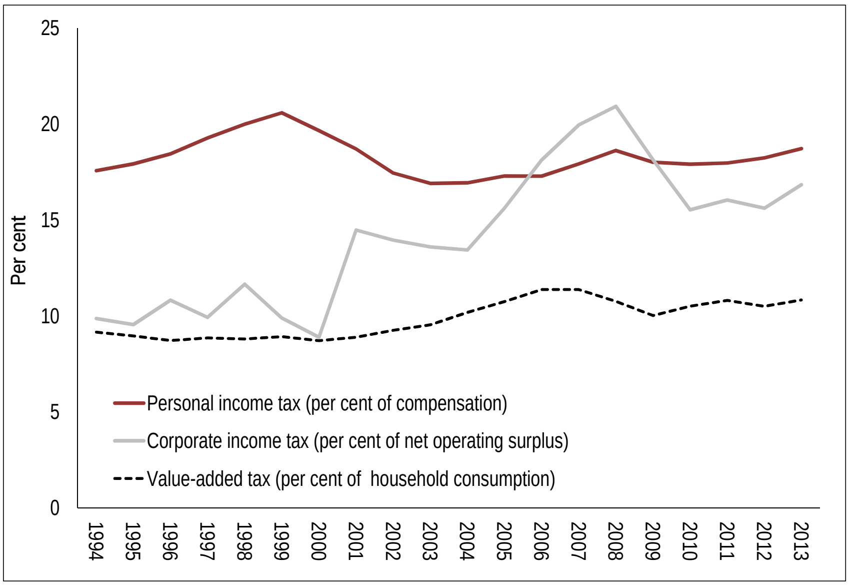
Support for social or industrial policy estimated at 15 per cent of gross tax revenue

Government has provided significant tax relief and incentives to business, including depreciation allowances that seek to support investment. Tax expenditures, or revenue foregone, to support social or industrial policy objectives is estimated at R120 billion, or 15 per cent of gross tax revenue. A tax expenditure statement appears in Annexure C.

The VAT rate has remained unchanged at 14 per cent. While South Africa's corporate and personal income tax rates are comparable to many Organisation for Economic Cooperation and Development (OECD) countries, its VAT rate remains comparatively low. Since VAT is directed at consumption, it is regarded as more efficient than other taxes, with a less damaging impact on long-term economic growth. Other indirect taxes, such as fuel taxes, were increased more or less in line with inflation.

Figure 4.2 shows the combined effect of broadening the personal income tax base and reducing the marginal personal income tax rates.

Figure 4.2 Effective tax rates,* 1994 – 2013



Source: National Treasury, Reserve Bank

** Effective rates show revenue collected as a share of the total tax base. Personal income tax collection is shown as a share of wages paid in the economy. Corporate income tax is shown as a share of net operating surplus. VAT is shown as a share of household consumption expenditure.*

Effective personal income tax rate remains below peak of 20.6 per cent

Between 1998 and 2002, the top personal income tax rate was decreased from 45 per cent to 40 per cent. Between 2005 and 2014, the tax-free threshold (below which individuals do not pay personal income tax) for taxpayers below 65 years old increased by an average of 8.1 per cent per year, from R35 000 to R70 700. The net result is that the effective personal income tax rate has remained below its 1999/2000 peak of 20.6 per cent.

The need for additional revenues to close the structural deficit requires increases in some tax rates. There is little room, however, to broaden the tax base since this approach has largely been exhausted.

Davis Tax Committee recommendations

The Davis Tax Committee, established in 2013, is advising government on future refinements to the tax system. The committee has noted that compared with rates in other countries, there appears to be some scope to increase taxes on capital income, marginal personal income tax rates and indirect taxes such as fuel levies and VAT. The committee's interim report on small and medium-sized enterprises was released for comment in 2014, and its recommendations on changes to the turnover tax regime for micro businesses are included in these tax proposals. The committee has also published a report on base erosion and profit shifting.

The National Treasury expects reports on the overall tax system, VAT, estate duty, wealth and mining taxes, to be published soon. These reports will inform policy considerations in the 2016 Budget.

Tax proposals

The 2015 Budget tax proposals aim to increase tax revenues, limit the erosion of the corporate tax base, increase incentives for small businesses and promote a greener economy. The main tax proposals include:

Increase of one percentage point proposed to marginal rate for individuals earning above R181 900

- Increasing marginal personal income tax rates by one percentage point for all taxpayers earning more than R181 900, and adjusting tax brackets and rebates to account for fiscal drag
- Raising the general fuel levy by 30.5 c/litre and the Road Accident Fund (RAF) levy on fuel by 50 c/litre (a total increase of 80.5 c/litre)
- Taking further steps to combat base erosion and profit shifting
- Providing for a more generous turnover tax regime for small businesses
- Increasing excise duties on alcohol and tobacco products
- Reviewing the diesel refund scheme
- Strengthening the energy-efficiency savings incentive
- Raising the electricity levy
- Changing transfer duty rates and brackets.

The main tax proposals are set out below. Proposals of a more technical nature are presented in Annexure C. In addition to these proposals, a draft carbon tax bill is expected to be published for public comment during 2015.

Personal income tax

To raise additional tax revenues while enhancing the progressive character of the tax system, government proposes to increase the marginal personal income tax rates by one percentage point for all income tax brackets except the lowest, which will remain at 18 per cent. This also requires a one percentage point increase in the tax rate for trusts.

All tax brackets and rebates to increase by 4.2 per cent

To provide relief for inflation-related earnings increases (fiscal drag), all income tax brackets and rebates will be increased by 4.2 per cent. The tax-free threshold for individual taxpayers below 65 years will increase from R70 700 to R73 650. Table 4.4 illustrates the proposed changes for 2015/16.

Table 4.4 Personal income tax rate and bracket adjustments, 2014/15 – 2015/16

Taxable income (R)	2014/15 Rates of tax	Taxable income (R)	2015/16 Rates of tax
R0 - R174 550	18% of each R1	R0 - R181 900	18% of each R1
R174 551 - R272 700	R31 419 + 25% of the amount above R174 550	R181 901 - R284 100	R32 742 + 26% of the amount above R181 900
R272 701 - R377 450	R55 957 + 30% of the amount above R272 700	R284 101 - R393 200	R59 314 + 31% of the amount above R284 100
R377 451 - R528 000	R87 382 + 35% of the amount above R377 450	R393 201 - R550 100	R93 135 + 36% of the amount above R393 200
R528 001 - R673 100	R140 074 + 38% of the amount above R528 000	R550 101 - R701 300	R149 619 + 39% of the amount above R550 100
R673 101 and above	R195 212 + 40% of the amount above R673 100	R701 301 and above	R208 587 + 41% of the amount above R701 300
Rebates		**Rebates**	
Primary	R12 726	Primary	R13 257
Secondary	R7 110	Secondary	R7 407
Tertiary	R2 367	Tertiary	R2 466
Tax threshold		**Tax threshold**	
Below age 65	R70 700	Below age 65	R73 650
Age 65 and over	R110 200	Age 65 and over	R114 800
Age 75 and over	R123 350	Age 75 and over	R128 500

Source: National Treasury

Medical tax credits

Monthly medical scheme contribution tax credits will, from 1 March 2015, be increased from R257 to R270 per month for the first two beneficiaries and from R172 to R181 per month for each additional beneficiary.

Table 4.5 Estimates of individual taxpayers and taxable income, 2014/15

Taxable bracket	Registered individuals		Taxable income		Income tax payable before relief		Income tax relief and medical tax credits		Personal income tax rate increases		Income tax payable after rate increase	
	Number	%	R billion	%	R billion	%	R billion	%	R billion	%	R billion	%
0 - R70 000[1]	8 435 314		182.0	11.5	–		–		–		–	
R70 001 - R150 000	2 725 505	38.8	287.2	14.4	14.1	3.6	-1.4	15.4	0.0	0.0	12.7	3.2
R150 001 - R250 000	1 747 426	24.9	340.6	17.0	36.7	9.3	-1.8	19.0	0.3	3.6	35.2	8.9
R250 001 - R350 000	1 080 762	15.4	319.2	16.0	49.7	12.6	-1.8	18.8	1.2	13.0	49.1	12.5
R350 001 - R500 000	687 085	9.8	283.7	14.2	56.9	14.4	-1.6	17.3	1.6	16.9	56.9	14.4
R500 001 - R750 000	429 454	6.1	258.7	12.9	64.9	16.5	-1.4	14.8	1.8	19.2	65.3	16.6
R750 001 - R1 000 000	164 738	2.3	141.1	7.1	41.4	10.5	-0.6	6.8	1.1	11.8	41.8	10.6
R1 000 001 - R1 500 000	110 686	1.6	132.2	6.6	42.8	10.9	-0.4	4.6	1.1	11.9	43.4	11.0
R1 500 001+	78 543	1.1	236.6	11.8	87.5	22.2	-0.3	3.3	2.2	23.6	89.4	22.7
Total	**7 024 199**	**100.0**	**1 999**	**100.0**	**393.9**	**100.0**	**-9.4**	**100.0**	**9.4**	**100.0**	**393.9**	**100.0**
Grand total	**15 459 513**		**2 181**		**393.9**		**-9.4**		**9.4**		**393.9**	

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

Turnover tax regime for micro businesses

Proposals include a more generous tax regime for small business

The turnover tax regime was introduced to limit the compliance burden on micro businesses with annual turnover of up to R1 million. These rules eliminate the need for a great deal of paperwork and compliance expenses. The Davis Tax Committee recommended that this incentive be made more generous to improve the participation of small businesses in the economy and the tax system. Government proposes to adjust the rates and thresholds to make the turnover tax more attractive, as shown in Table 4.6.

Table 4.6 Turnover tax regime, 2014/15 – 2015/16

	2014/15		2015/16
Turnover (R)	**Rates of tax**	**Turnover (R)**	**Rates of tax**
R0 - R150 000	0% of taxable turnover	R0 - R335 000	0% of taxable turnover
R150 001 - R300 000	1% of the amount above R150 000	R335 001 - R500 000	1% of the amount above R335 000
R300 001 - R500 000	R1 500 + 2% of the amount above R300 000	R500 001 - R750 000	R1 650 + 2% of the amount above R500 000
R500 001 - R750 000	R5 500 + 4% of the amount above R500 000	R750 001 - R1 000 000	R6 650 + 3% of the amount above R750 000
R750 001 - R1 000 000	R15 500 + 6% of the amount above R750 000		

Source: National Treasury

Base erosion and profit shifting

Many countries face the problem of businesses exploiting gaps in international tax rules to artificially shift profits and avoid paying tax. These avoidance measures, practiced widely by multinational firms, substantially reduce their contributions to national tax bases. In recent years, government has taken measures to limit artificial reductions of taxable income through cross-border interest payments.

Amendments to improve transfer-pricing reporting and rules for controlled foreign companies

Building on these steps, government will propose amendments to improve transfer-pricing documentation and reporting, and change the rules for controlled foreign companies and the digital economy. These proposals are in line with matters examined in a recent OECD report, “Addressing Base Erosion and Profit Shifting”, which examined the practice. A December 2014 report by the Davis Tax Committee on the same subject highlighted these concerns in the South African context. Tax returns will place a greater focus on indicators of potential base erosion and profit shifting.

Excise duties on alcoholic beverages and tobacco products

Since 2002, tax rates on alcoholic beverages have consistently increased above inflation. The amendments for 2015/16 continue this trend, with excise duty rate increases of between 4.8 and 8.5 per cent. The excise duties on tobacco products increased between 5 and 7 per cent.

Amendments propose above-inflation increases in excise duties on alcohol and tobacco

An additional excise duty category is proposed for grain-based fermented beverages (flavoured alcoholic beverages using 100 per cent unconverted grains). The rate for these beverages will initially be linked to the excise duty for beer, and may be reviewed to ensure a level playing field with fruit-fermented beverages.

Table 4.7 Changes in specific excise duties, 2015/16

Product	Current excise duty rate	Proposed excise duty rate	Percentage change Nominal	Real
Malt beer	R68.92 / litre of absolute alcohol (117c / average 340ml can)	R73.05 / litre of absolute alcohol (124c / average 340ml can)	6.0	1.2
Traditional African beer	7.82c / litre	7.82c / litre	–	-4.8
Traditional African beer powder	34.70c / kg	34.70c / kg	–	-4.8
Unfortified wine	R2.87 / litre	R3.07 / litre	7.0	2.2
Fortified wine	R5.21 / litre	R5.46 / litre	4.8	0.0
Sparkling wine	R9.11 / litre	R9.75 / litre	7.0	2.2
Ciders and alcoholic fruit beverages	R3.45 / litre (117c / average 340ml can)	R3.65 / litre (124c / average 340ml can)	6.0	1.2
Spirits	R137.54 / litre of absolute alcohol (R44.36 / 750ml bottle)	R149.23 / litre of absolute alcohol (R48.13 / 750ml bottle)	8.5	3.7
Cigarettes	R11.60 / 20 cigarettes	R12.42 / 20 cigarettes	7.0	2.2
Cigarette tobacco	R13.03 / 50g	R13.94 / 50g	7.0	2.2
Pipe tobacco	R3.63 / 25g	R3.89 / 25g	7.0	2.2
Cigars	R61.87 / 23g	R64.96 / 23g	5.0	0.2

Source: National Treasury

Other reforms under consideration include providing excise duty relief to wine-based spirits (e.g. brandy). The rationale is that brandy is at a cost disadvantage compared with other forms of alcoholic spirits, because it takes 4-5 litres of wine to produce a litre of brandy. Sparkling wine accounts for a very small proportion of alcoholic beverage sales and the nature of this market results in large price discrepancies. This may require a review of the way the excise duty on sparkling wine is calculated.

Excise tax burden for wine, beer and spirits will be 11, 23 and 36 per cent, and 40 per cent for tobacco

Government proposes a change in the way the targeted tax burden on alcoholic beverages and tobacco products is expressed. VAT will be removed from the calculation and, as a result, the excise tax burden for wine, beer and spirits will henceforth be 11, 23 and 36 per cent, excluding VAT and rounded to the nearest whole number. For tobacco products the rate will be 40 per cent. These proposals are detailed in Annexure C.

Transfer duties

Transfer duty relief provided to middle-income households

Average house prices have recovered slowly over the past two years following a post-2009 decline. The rates and brackets for transfer duties on the sale of property on or after 1 March 2015 will be adjusted to provide relief to middle-income households. The new rates will eliminate transfer duty on all property acquired below R750 000, decrease effective transfer-duty liability for properties acquired up to about R2.3 million and increase liability for properties above this amount.

Table 4.8 Transfer duty rate adjustments, 2014/15 – 2015/16

Property value (R)	2014/15 Rates of tax	Property value (R)	2015/16 Rates of tax
R0 - R600 000	0% of property value	R0 - R750 000	0% of property value
R600 001 - R1 000 000	3% of property value above R600 000	R750 001 - R1 250 000	3% of property value above R750 000
R1 000 001 - R1 500 000	R12 000 + 5% of property value above R1 000 000	R1 250 001 - R1 750 000	R15 000 + 6% of property value above R1 250 000
R1 500 001 +	R37 000 + 8% of property value above R1 500 000	R1 750 001 - R2 250 000	R45 000 + 8% of property value above R1 750 000
		R2 250 001+	R85 000 + 11% of property value above R2 250 000

Source: National Treasury

Fuel taxes

The steep decline in world oil prices over the past year has resulted in decreases in the local fuel price. Fuel levies are imposed at fixed cent/litre rates on petrol, diesel and biodiesel. The levies aim to raise revenue, reduce pollution and compensate for road accidents.

Combined increase of 80.5 c/litre in fuel levies

Government proposes to increase the general fuel levy by 30.5 c/litre. At the same time, the RAF levy, used to finance third-party motor vehicle personal accident claims, will be increased by 50 c/litre to support the RAF. It is proposed that these increases become effective on 1 April 2015.

The estimated overall fuel tax burden after this proposed increase will be about 41 per cent, which is comparable with the level in many other developed and some developing countries.

Table 4.9 Total combined fuel taxes on petrol and diesel, 2013/14 – 2015/16

	2013/14		2014/15		2015/16	
Cents/litre	93 octane petrol	Diesel	93 octane petrol	Diesel	93 octane petrol	Diesel
General fuel levy	212.50	197.50	224.50	209.50	255.00	240.00
Road Accident Fund levy	96.00	96.00	104.00	104.00	154.00	154.00
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	**312.50**	**297.51**	**332.50**	**317.51**	**413.00**	**398.01**
Pump price: Gauteng (as in February)[1]	1 077.00	1 026.69	1 206.00	1 129.17	1 009.00	926.09
Taxes as percentage of pump price	*29.0%*	*29.0%*	*27.6%*	*28.1%*	*40.9%*	*43.0%*

1. Diesel (0.05% sulphur) wholesale price (retail price not regulated)
Source: National Treasury

Diesel refunds

The diesel refund system allows for a refund of all or part of the fuel levies to producers in the agriculture, forestry, fishing and mining sectors. The administrative system in place since 2000 faces significant technical problems and legal challenges. Some eligible firms are unable to benefit from the system, while others appear to be making disproportionate refund claims. To address these concerns, government proposes to delink diesel refunds from the VAT system from 1 April 2016. The National Treasury and SARS will explore alternative, more equitable rules and administrative procedures after consultation with the affected industries.

Full diesel fuel levy exemption provides a perverse incentive to use diesel excessively

Government also proposes to reduce diesel fuel levy refunds to 20 per cent and 50 per cent of the general fuel levy respectively for land mining activities and generation of electricity by Eskom's open-cycle gas turbines. The current full exemption provides a perverse incentive to use diesel excessively. This change will become effective from 1 April 2016. In the interim, government proposes several technical amendments to this system. These are discussed in Annexure C.

Electricity levies

Government is considering an increase in electricity levy from 3.5c/kWh to 5.5c/kWh

Given electricity supply constraints, additional measures are needed to manage demand. Government is considering an increase in the electricity levy from 3.5c/kWh to 5.5c/kWh. The additional revenue will be used to fund the broadening of the scope of the energy-efficiency savings tax incentive to include co-generation and an increase in the amount available for this incentive. Also under consideration is enhancing the accelerated depreciation for solar photovoltaic renewable energy. In the absence of a carbon tax, the electricity levy promotes energy efficiency and reduced greenhouse gas emissions. The 2c/kWh increase is a temporary measure to be withdrawn when the carbon tax is introduced in 2016.

Government is examining loopholes that unduly favour intensive electricity users, and will consider a levy that would apply to users and exporters of electricity who consume in excess of 800 000 MWh per year. To prevent the possibility of double taxation, a credit of 5.5c/kWh could be provided for users if the price they pay is above 37 c/kWh. Before any measures are proposed, government will consult with industry, the electricity regulator, Eskom and other interested parties.

Energy-efficiency savings tax incentive

The energy-efficiency savings tax incentive will be increased from 45 c/kWh to 95 c/kWh and extended to cogeneration projects. This incentive was introduced in November 2013 to complement the proposed carbon tax. It encourages firms to support a greener economy. Businesses can claim deductions based on energy saved. In future, this allowance will be funded through a recycling of revenues from the carbon tax.

Revenue impact of tax proposals

Net tax revenue impact of proposed changes is an additional R8.3 billion

Table 4.10 illustrates the estimated change in tax revenues flowing from the tax policy proposals. The gross tax revenue impact of these changes will be R16.8 billion, with an estimated net increase of R8.3 billion after taking into account relief for fiscal drag.

Table 4.10 Impact of tax proposals on 2015/16 revenue

R million			Effect of tax proposals
Tax revenue (before tax proposals)			**1 073 000**
Non-tax revenue			19 038
less: Southern African Customs Union payments			-51 022
Main budget revenue			**1 041 015**
Provinces, social security funds and selected public entities			139 564
Consolidated revenue (before tax proposals)			**1 180 579**
Tax proposals before fiscal drag 2015/16 (gross):		**16 775**	
Tax proposals after fiscal drag 2015/16 (net):			**8 275**
Personal income tax	**–**		
Fiscal drag relief	-8 500		
Rate increase in income tax	9 420		
Medical credits	-920		
Business income tax	**-150**		
Energy-efficiency savings tax incentive	-150		
Taxes on property	**100**		
Adjustment in transfer duty	100		
Indirect taxes	**8 325**		
Increase in general fuel levy	6 490		
Increase in excise duties on tobacco products	602		
Increase in alcoholic beverages	1 234		
Tax revenue (after tax proposals)			**1 081 275**
Consolidated revenue (after tax proposals)			**1 188 855**

Source: National Treasury

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