



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

EXPLANATORY MEMORANDUM

TO

**RATES AND MONETARY AMOUNTS AND AMENDMENT OF REVENUE LAWS
BILL, 2014**

10 JUNE 2014

Explanatory Memorandum to Rates and Monetary Amounts and Amendment of Revenue Laws Bill, 2014

1. Purpose of Bill

The Rates and Monetary Amounts and Amendment of Revenue Laws Bill, 2014 (the “Rates Bill”) aims to give legislative effect to some of the tax proposals announced by the Minister of Finance in the Budget Review 2014, as tabled in Parliament on 26 February 2014. The Rates Bill specifically deals with proposed changes to the rates and monetary thresholds pertaining to income tax and to changes in customs and excise duties. More substantive changes to tax matters are dealt with in the Taxation Laws Amendment Bill, due to be introduced in Parliament later this year.

2. Contents of Bill

Section 5(2) of the Income Tax Act, 1962 (Act No. 58 of 1962), (the “Income Tax Act”), requires that the rates of tax on income be fixed annually by Parliament. Section 48B(1) of the Income Tax Act has a similar requirement for the rates of the turnover tax payable by micro businesses. These rate changes are proposed in clause 2 of the Rates Bill, as set out in detail in Appendix I to the Rates Bill, in respect of different categories of taxpayers: individuals, companies, trusts and micro businesses.

Section 58(1) of the Customs and Excise Act, 1964 (Act No. 91 of 1964), (the “Customs and Excise Act”), provides that the Minister of Finance may table in the National Assembly a taxation proposal that increases the rate of duty payable on certain goods. Such a taxation proposal was tabled in Parliament on 26 February 2014, as part of the documents related to the 2014 Budget. The Rates Bill therefore proposes to give legislative effect to the excise proposals tabled and announced by the Minister during the 2014 Budget Speech. This is done by means of clause 7 of the Rates Bill that proposes amendments to Part 2A of Schedule No. 1 to the Customs and Excise Act, as set out in Appendix II to the Rates Bill.

3. Clause-by-clause explanation

3.1 *Clause 1* provides that words and expressions that are defined in the Income Tax Act have the same meaning in those clauses of the Rates Bill and Appendix I that deal with amendments to the Income Tax Act.

3.2 *Clause 2* deals with the annual fixing of rates of normal tax in terms of section 5(2) of the Income Tax Act and with the rate of tax for registered micro businesses to be set annually in terms of section 48B(1) of the Income Tax Act.

Subclauses (3) and (4) specify the dates on which these rates are proposed to come into effect for individual taxpayers and special trusts (years of assessment commencing on or after 1 March 2014 or ending on 28 February 2015), companies (years of assessment ending between 1 April 2014 and 31 March 2015), trusts (years of assessment commencing on 1 March 2014 or ending on 28 February 2015) and registered micro businesses (years of assessment ending between 1 March 2014 and 28 February 2015).

3.3 *Clause 3* proposes to raise the amounts of the primary, secondary and tertiary rebates under section 6(2) of the Income Tax Act to R12 726, R7 110 and R2 367, respectively.

3.4 *Clause 4* proposes new amounts for the medical scheme fees tax credit contained in section 6A of the Income Tax Act. The amount for the first two members of a medical aid is raised to R257 each and for additional members to R172 each.

3.5 *Clause 5* proposes to raise the upper limit for the purchase price of a vehicle that qualifies for the car allowance from R480 000 to R560 000. This limit is contained in section 8(1)(b)(iiiA)(A) and (B) of the Income Tax Act.

3.6 *Clause 6* proposes to raise the abatement amount in respect of the provision of residential accommodation (in determining the amount of a taxable benefit in terms of paragraph 9 of the Seventh Schedule to the Income Tax Act) from R67 111 to R70 700.

3.7 *Clause 7* proposes amendments to Part 2A of Schedule No. 1 to the Customs and Excise Act. These amendments are set out in Appendix II to the Rates Bill and give effect to the increased excise duties announced by the Minister of Finance in Parliament on 26 February 2014 in terms of section 58(1) of the Customs and Excise Act.

3.8 *Clause 8* proposes a short title for the Rates Bill.

3.9 *Appendix 1* specifies the amounts referred to in clause 2 of the Rates Bill.

Paragraph 1 deals with proposed rates for individuals and special trusts according to specified bands of taxable income.

Paragraph 2 specifies a rate of 40 per cent for trusts.

Paragraph 3 proposes rates for tax levied on companies.

Paragraph 4 deals with proposed rates for approved public benefit organisations and recreational clubs.

Paragraph 5 proposes tax rates to be levied on the taxable income of small business corporations.

Paragraph 6 proposes tax rates based on the taxable turnover of registered micro businesses.

Paragraph 7 deals with the tax rates imposed on lump sums received in the form of retirement fund lump sum withdrawal benefits, retirement fund lump sum benefits and severance benefits (in subparagraphs (a), (b) and (c), respectively).

3.10 *Appendix II* specifies the proposed amendments to Part 2A of Schedule No. 1 of the Customs and Excise Act referred to in clause 7 of the Rates Bill, pertaining to excise duties.