2017 BUDGET PROPOSALS AND DRAFT RATES AND MONETARY AMOUNTS AND AMENDMENT OF REVENUE LAWS BILL

Standing Committee on Finance

Presenters: National Treasury | 1 March 2017

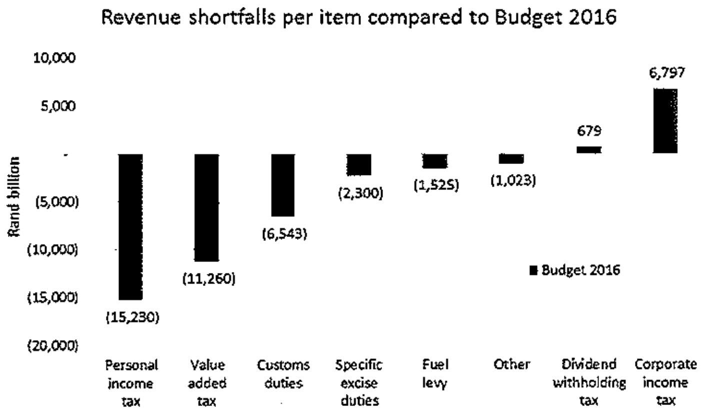
national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2017 BUDGET TAX PROPOSALS

- 2017 BUDGET contains significant tax proposals given funding shortfalls
  - R30bn less revenue collected than 2016 Budget
  - Lower revenue base leads to lowering of revenue for next three fiscal years
  - R31bn shortfall in 2017/18, R50bn in 2018/19 compared to 2016 Budget
- Chapter 4 of Budget Review deals with most significant tax proposals, and Annexure C deals with smaller anti-avoidance measures
- Annexure B deals with tax expenditures which is revenue foregone through incentives
- Rates Bill published on Budget Day deals with key rate monetary threshold changes, and more complex tax proposals will be dealt with in TLAB and TALAB Bills to be published in July for public comment
- In addition, for new taxes, dedicated bills like carbon tax bill, and gambling tax bill
- All the above are first draft bills, and tabled only after public hearings
- Given that a budget has both a tax and an expenditure side, it is important for 16 day fiscal framework and revenue proposals ito s8(3) of Money Bills Procedure Act

Tax revenue shortfalls compared to Budget 2016

- Large revenue shortfalls in personal income taxes, VAT and customs duties
- Smaller shortfalls in excise duties and fuel levy
- Outperformance in CIT
- Full revenue breakdowns are contained in Tables 4.1 and Table 4.2 in the Chapter 4 of the Budget Review
- Key risks to revenue related to low economic growth, tax morality, tax administration
- BMA fragmentation risk to customs modernisation affects up to 25% of revenue



Summary of Chapter 4 Tax Proposals

- Rates of Personal Income Tax for Individuals & Trusts
- Dividend Withholding Tax
- Medical Tax Credits
- Tax Free Savings Account
- Employer provided bursaries
- Transfer Duty
- Fuel Levy
- Withholding tax on immovable property sales by non-residents
- Tax on Sugary Beverages
- Excise duties on alcoholic beverages and tobacco products
- VAT regulations prescribing foreign electronic services
- Improving reporting on tax collection
- Rates Bill deals only with Chapter 4 proposals, and not with Annexure C proposals

Draft RATES BILL

- The Draft Rates Bill gives effect to the tax proposals dealing with tax rates and monetary threshold announced in the Budget. These proposals relate to:
  - Income Tax
  - Transfer Duty
  - VAT
  - Customs Duties
  - Excise Duties
- It enacts proposals that take effect on the Budget Day (e.g., 22 February 2017), or on 1 March or 1 April of every year or on the date of promulgation of the Rates Bill
- NT publishes the Rates Bill for comments on the Budget day, prior to formal introduction in Parliament
- NT and SARS introduces the Rates Bill informally to SCoF
- Thereafter, the Rates Bill is tabled by the Minister formally in Parliament for consideration (preferably when Parliament reconvenes in April)

Main tax proposals to raise revenue

- A total of R28 billion is expected to be raised due to increases in tax

Table 4.3 Impact of tax proposals on 2017/18 revenue[1]

R million	Effect of tax proposals	
Gross tax revenue (before tax proposals)		**1 237 464**
Budget 2017/18 proposals		**28 024**
Taxes on individuals and companies		
Personal income tax	**16 516**	
Revenue from not fully adjusting for inflation	12 148	
Revenue if no adjustment is made	*14 628*	
Bracket creep adjustment	*-2 480*	
New top marginal income tax bracket	4 369	
Dividend withholding tax	**6 822**	
Increase in dividend withholding tax rate	6 822	
Taxes on property	**-448**	
Transfer duty decrease	-448	
Indirect taxes	**5 133**	
Increase in general fuel levy	3 197	
Increase in excise duties on tobacco products	656	
Increase in excise duties on alcoholic beverages	1 280	
Gross tax revenue (after tax proposals)		**1 265 488**

Main revenue proposals include:

- Higher rate of 45 per cent for taxable incomes above R1.5 million (R4.4 billion)
- Bracket creep relief of 1 per cent (R12.1 billion)
- Dividends withholding to 20 per cent (R6.8 billion)
- 30c/l general fuel levy increase (R3.2 billion)
- Alcohol and tobacco excise duty increases of 6.1 per cent to 9.5 per cent (R1.9 billion)
- Transfer duty threshold to R900 000 (-R0.45 billion)

New top marginal rate of 45%

- Propose the introduction of a new top bracket
  - To apply to taxable incomes in excess of R1.5 million per year
  - Previous top bracket: 41% for taxable income in excess of R 701 300 per year
- Further strengthens the progressivity of the personal income tax system
  - Raises the contribution of the top 103 000 tax payers from 25.5% to 26.3%
  - Likely to raise R4.37 billion rand in revenue (rate also applies to trusts)

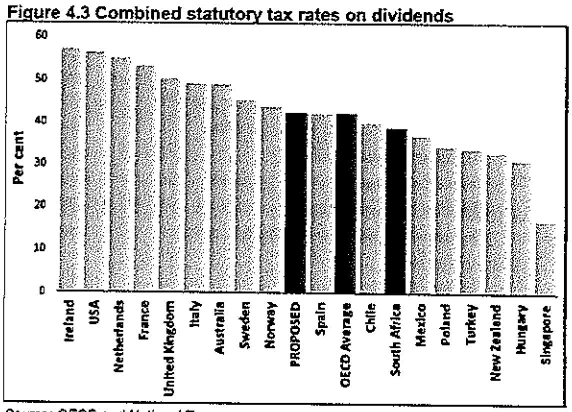
Table 4.5 Estimates of individual taxpayers and taxable income, 2017/18

Taxable bracket	Registered individuals		Taxable income		Income tax payable before relief		Income tax relief		Income tax from new top rate		Income tax payable after proposals	
	Number	%	R billion	%	R billion	%	R billion	%	R billion	%	R billion	%
R0 - R70 000[1]	6 582 884	-	159.6	0.0	–	0.0	0.0	0.0	–	0.0	–	0.0
R70 001 - R150 000	2 602 653	35.1	274.4	11.9	12.5	2.6	-0.3	13.5	0.0	0.0	12.1	2.5
R150 001 - R250 000	1 813 517	24.5	355.6	15.4	35.6	7.4	-0.4	16.6	0.0	0.0	35.2	7.3
R250 001 - R350 000	1 077 915	14.5	315.1	13.7	46.9	9.8	-0.4	15.9	0.0	0.0	46.5	9.6
R350 001 - R500 000	906 151	12.2	365.1	15.8	70.6	14.7	-0.5	19.5	0.0	0.0	70.1	14.5
R500 001 - R750 000	527 288	7.1	310.4	13.5	77.3	16.1	-0.4	16.1	0.0	0.0	76.9	16.0
R750 001 - R1 000 000	227 561	3.1	189.6	8.2	56.0	11.7	-0.2	8.7	0.0	0.0	55.8	11.6
R1 000 001 - R1 500 000	152 604	2.1	178.4	7.7	58.9	12.3	-0.1	5.8	0.0	0.0	58.7	12.2
R1 500 001+	103 353	1.4	319.0	13.8	122.6	25.5	-0.1	3.9	4.4	100.0	126.9	26.3
Total	**7 411 042**	**100.0**	**2 308**	**100.0**	**480.2**	**100.0**	**-2.5**	**100.0**	**4.4**	**100.0**	**482.1**	**100.0**
Grand total	**13 993 926**		**2 467**		**480.2**		**-2.5**		**4.4**		**482.1**	

Dividends withholding tax

- Dividends withholding tax rate to increase from 15% to 20%, effective from 22 February 2017
- Implementation date on the day of the Budget to avoid potential avoidance as mainly small and medium sized enterprises have considerable influence over their dividends policy and would front-load dividends to avoid the higher rate
- Listed companies are liable for dividends withholding tax on the date of payment, even if declared before 22 February – any payment on 22 February or later would be liable for the higher rate
  - Similarly to any bonuses or wages that are made that face a higher rate of tax
- Rate is now just above OECD average

Figure 4.3 Combined statutory tax rates on dividends



Source: OECD and National Treasury

Outbound dividends

- Dividends paid from South Africa to foreign investors will also be subject to dividend withholding tax rate of 20%.

- However, the dividend withholding tax rate unlikely to affect many foreign investors as their dividends tax rate may be reduced due to the application of the tax treaties, which in most cases reduces the rate to 5% or 10%.

Inbound foreign dividends

- Inbound foreign dividends received by South African residents from foreign companies are subject to tax in South Africa, subject to certain exclusions, for example 10% or more of shareholding in the foreign company.
- Given the proposed increase of dividend withholding tax on domestic dividends, it is proposed that the exemption and rates for inbound foreign dividends be adjusted in line with the new rate.
- It is proposed that inbound foreign dividends be taxable at a maximum effective rate of 20%.

Withholding tax on immovable property sales by non residents

- Generally, non residents are liable to capital gains tax on the disposal of immovable property owned by non residents in South Africa.
- In order to ensure compliance, a withholding tax is levied on the disposal of such immovable property by non-residents.
- This withholding tax is not a final tax but an advance payment of tax to be set off against normal tax liability of the non-resident.
- In order to align with the increased effective capital gains tax rate, it is proposed that the withholding tax on immovable property sales by non-residents be increased from 5% to 7.5% for individuals, 7.5 % to 10% for companies and 10 % to 15% for trusts.

Employer provided bursaries

- The Income Tax Act makes provision for tax exemption for bursaries or scholarships granted by employers to employees or relatives of employees, subject to certain monetary limits and other requirements.
- Over the past years, Government has been adjusting the monetary limits and requirements for exemption for employer provided bursaries.
- In 2016, an adjustment was made in the Income Tax Act to increase the monetary limit in respect of remuneration for qualifying employees from R250 000 to R400 000 and the monetary limit in respect of exempt bursary from R10 000 to R15 000 (for education below NQF level 7)and from R30 000 to R40 000 (for qualifications at NQF level 7 and above).
- The need for improved skills in the economy justifies additional support in this regard.
- As a result, Government proposes to increase the income eligibility threshold for employees from R400 000 to R600 000 and the monetary limits for exempt bursaries from R15 000 to R20 000 (for education below NQF level 7)and from R40 000 to R60 000 (for qualifications at NQF level 7 and above).

Increase in general fuel levy and RAF levy

- SA has three main fuel taxes
  - General fuel levy, in lieu of other consumption taxation
  - Customs and excise levy on petrol
  - Diesel and biodiesel, and the RAF levy
- Aims to
  - Fund general government expenditure
  - Support environmental goals
  - Finance the RAF

- The proposed 30c/litre increase in the general fuel levy contributes to the additional revenue of R3.2 billion in 2017/18
- *The proposed RAF levy increase by 9c/litre does not contribute to general revenue*

Table 4.6 Total combined fuel taxes on petrol and diesel

Rands/litre	2015/16 93 octane petrol	2015/16 Diesel	2016/17 93 octane petrol	2016/17 Diesel	2017/18 93 octane petrol	2017/18 Diesel
General fuel levy	2.55	2.40	2.85	2.70	3.15	3.00
Road Accident Fund levy	1.54	1.54	1.54	1.54	1.63	1.63
Customs and excise levy	0.04	0.04	0.04	0.04	0.04	0.04
Total	**4.13**	**3.98**	**4.43**	**4.28**	**4.82**	**4.67**
Pump price[1]	10.09	9.26	12.15	9.43	13.38	11.63
Taxes as percentage of pump price	*40.9%*	*43.0%*	*36.5%*	*45.4%*	*36.0%*	*40.2%*

1. Gauteng pump price in February of each year. Diesel (0.05% sulphur) wholesale price (retail price not regulated)
Source: National Treasury

Tax on Sugary Beverages

Initial Proposal (July 2016)	Revised Proposal (February 2017)
Scope: Beverages with added sugar: sucrose, high-fructose corn syrup (HFCS), or beverages sweetened with fruit-juice concentrates	**Scope:** A broader World Health Organisation definition will be applied to cover both intrinsic and added sugars in a sugary beverage (i.e. total sugar content)
Tax Base: Total sugar content of sugary beverages (grams)	**Tax Base:** • Sugar content of sugary beverages (grams) • Tax-free threshold of 4g/100ml (i.e. almost a teaspoon of sugar per 100ml)
Tax Rate: • R0.0229 (i.e. 2.29 cents) per gram of sugar • This equates to 20%, based on the most popular sugary beverage	**Tax Rate:** • R0.021 (i.e. 2.1 cents) per gram of sugar in excess of 4g/100ml for all other beverages • R0.0105 (i.e.1.05 cents) per gram of sugar in excess of 4g/100ml for concentrated beverages
Exemptions: • 100 fruit and vegetable juice • Milk products with no added sugar	**Exemptions:** • 100 fruit and vegetable juice • Milk products with no added sugar (*Inclusion of 100% fruit juice will be considered in future*)

Tax on Sugary Beverages (2)

Economic Impacts

- The initial tax design proposal that had **a higher rate and no threshold** was estimated to lead to 5000 job loss (assuming on innovation or reformulation)
- The revised tax design, **with a threshold and a lower effective rate**, will have a marked reduced impact on the economy and job losses

Use of Revenue

- The tax is part of a comprehensive plan to decrease the extent of NCD's in the country
- Funding will be made available on budget to the National Department of Health to spend on NCDs intervention programmes

Rates Bill

- The Draft Rates Bill published on 22 February 2017 with amendments in the Customs and Excise Act introduces a new schedule entitled "Health Promotion Levy" with details on the beverage categories subject to this levy.
- The draft bill is open for public comments until the 31st of March
- It is envisaged that this levy will be effective on the date of promulgation of the Rates Bill.

How Revised Tax on Sugary Beverages takes account of public comments received

- Revised sugary beverage tax takes into account 140 comments received and parliamentary hearings
- Intro of threshold so that first 4 teaspoons exempt, and tax from 5th teaspoon for a 330ml can of soft drink
  - More precisely 4g/100ml is not taxed
- Also rate lowered slightly from 2.29c/g to 2.1c/g
- Pages 24 to 36 of Rates Bill provides details
- Q&A provides simpler explanation
- Need to run economic impact model on revised design, but should have a milder impact on jobs
- Treasury requesting public comments by 31 March 2017

VAT Regulations prescribing foreign electronic services

- In order to address base erosion and profit shifting, several legislative changes were made in the VAT Act including requirement for foreign electronic services to South African consumers to register for VAT in South Africa since 1 June 2014.
- In line with the 2015 Budget announcement, regulations prescribing electronic foreign electronic services will be updated in order to broaden the scope of electronic services that are subject to VAT and remove some uncertainties and practical difficulties.
- As a result, services that are subject to VAT will also include cloud computing and services provided using online applications.
- Regulations proposing these changes will be published for public comment during 2017.

Improving reporting on tax collection

- In terms of section 107 of the Income Tax Act and section 74 of the VAT Act, the Minister of Finance is entitled to make regulations prescribing amongst other things the information that he needs to obtain from the Commissioner to ensure smooth tax administration and optimal revenue collection of Personal Income Tax, Corporate Income Tax, Capital Gains Tax, withholding taxes as well as VAT respectively.
- Both sections are made explicit in relation to pointing out that the Minister of Finance may make Regulations in relation to information the Minister deems necessary to obtain from the Commissioner in order to ensure transparency and reporting on tax collection.

Conclusion

- Whilst division of revenue and appropriation bills are passed by July (normally), it is important to try and also pass Rates Bill by July so we can only focus on TLAB and TALAB Bills
- If we did not need more revenue, we would not have jacked up rates and given more fiscal drag
- Generally any tax increase will be negative for growth or jobs, but the way we spend such funds collected can mitigate this impact
- Need to improve growth prospects which have the biggest impact on revenue collected, but tax morality and tax admin can also be significant factors if not strengthened
- Need to improve accountability for collection of taxes to ensure we reduce risk for under-collection

Summary of the Rates Bill

- **Clause 1**
  - Interpretation
- **Clause 2**
  - Increase in the threshold for transfer duty from R750 000 to R900 000
- **Clause 3**
  - Fixing of rates of normal tax –Inclusion of the new top marginal rate of 45% for individuals and trusts-See Schedule 1
- **Clause 4**
  - Increase in rebates primary, secondary and tertiary
- **Clause 5**
  - Increase in medical Tax Credits
- **Clause 6**
  - Increase of the maximum motor vehicle cap for purpose of claiming motor vehicle allowance from R560 000 to R595 000.
- **Clause 7**
  - Increase in the exemption threshold for bursaries, namely remuneration proxy and limits
- **Clause 8**
  - Adjustment of the exemption and rates for inbound foreign dividends in line with the new dividend withholding tax rate of 20%
- **Clause 9**
  - Increase in the annual threshold for tax free savings account from R30 000 to R33 000
- **Clause 10**
  - Increase in the withholding tax for immovable property sales by non residents

Summary of the Rates Bill

- **Clause 11**
  - Increase in the withholding tax rate for dividends from 15% to 20%
- **Clause 12**
  - Amendment to section 107 of the Income Tax Act to improve reporting on tax collection
- **Clause 13**
  - Adjusting the formula (remuneration) for calculation of fringe benefit tax for residential accommodation
- **Clause 14**
  - Amending customs and excise duty to include health promotion levy on sugary beverages
- **Clause 15**
  - Insertion of the new chapter dealing with health promotion levy in the Customs and Excise Act
- **Clause 16**
  - Amendment of customs and excise Act to include the excise schedule dealing with increase in alcohol and tobbaco and health promotion levies
- **Clause 17**
  - Amendment to section 174 of the VAT Act to improve reporting on tax collection
- **Clause 18**
  - Minor amendments to the 2016 Rates Bill
- **Clause 19&20&21**
  - Minor amendment to the 2015 TLAB regarding the effective date
- **Clause 22**
  - Short title of the Act

Summary of Annexure C Tax Proposals

- **Individual Tax & Savings**
  - Remedial action for Bargaining Council
  - Amending foreign employment income tax exemption in respect of SA residents
  - Refinement of measures to prevent tax avoidance through the use of trusts
  - Clarifying the rules relating to taxation of employee share based schemes
  - Retirement Reforms
- **Business Tax (General)**
  - Tax implications of debt forgone
  - Addressing circumvention of anti-avoidance rules
  - Corporate Re-organisation rules
  - Extension of collateral and securities lending arrangements provisions
  - Amendments to third-party backed share provisions
- **Business (Financial Services & Products)**
  - Changes in the tax the treatment of banks and financial institutions
  - Solvency Assessment and Management framework for long-term insurers
- **Business (Incentives)**
  - Mining environmental funds
  - Partial ownership of land donated under land reform initiatives
  - Refinement of venture capital regime
  - Clarifying the scope of relief for international donor funding organisations
  - Assisting Micro Businesses growing into Small and Medium Enterprise
  - Clarifying the scope of relief for International Donor Funding Organisations

Summary of Annexure C Tax Proposals

- **International Tax**
  - Tax treatment of Foreign Member Funds
  - Changes to the tax treatment of Domestic Treasury Management Company Regime
  - Tax implications of acquisition of foreign intellectual property by SA multinationals
  - Tax implications of Controlled Foreign Companies and offshore trusts
- **Value Added Tax**
  - Clarifying the VAT treatment on leasehold improvements
  - VAT vendor status of municipalities
  - Amending the definition of "resident in the Republic" for VAT purposes
  - Repealing the 2011 VAT amendment dealing with the value to be placed on inter-warehouse sales
  - Postponing the 2015 VAT amendment dealing with VAT treatment of National Housing Programme
  - Clarifying the zero rating of international travel insurance
  - Clarifying the VAT treatment of services supplied in connection with particular movable property situated in export country

Summary of Annexure C Tax Proposals

- **Customs and Excise**
  - Disclosure of trade statistics
  - Marking, tracking and tracing of tobacco products
  - Review of the diesel refund administration system
- **Tax Administration**
  - Approval of organisations receiving tax deductible donations
  - Transitioning interest calculation rules under Tax Administration Act
  - Employees' tax and reimbursement of travel expenses
  - Application of the cap on deductible retirement fund contributions
  - Provisions relating to Tax Board