**2. Report of the Standing Committee on Finance on the Taxation Laws Amendment Bill [B18 - 2019] (National Assembly- section 77), dated 20 November 2019**

The Standing Committee on Finance, having considered and examined **the Taxation Laws Amendment Bill [B18 - 2019] (**National Assembly- section 77), referred to it, and classified by the JTM as a Money Bill, reports the Bill with amendments [B18B– 2019]:

1. The Minister of Finance’s tax proposals were part of the 2019 Budget announcements on 20 February 2019. Owing to the change of government administration, which mainly affected the operations of the Executive and the Legislative arms of government, as a result of the National Elections in May this year, the Standing Committee on Finance, jointly with Select Committee of Finance, held its public hearings on the draft tax bills late in the year on 10 September, after being briefed on the draft tax bills by the National Treasury and SARS on 03 September. The National Treasury and SARS responded to the public submissions on 18 September 2019.
2. The 2019 Draft TLAB were further published on 21 July 2019, containing more complex, technical and administrative tax proposals announced in the 2019 Budget. The Minister introduced the Bill formally with the Medium Term Budget Policy Statement on 30 October 2019.
3. On 15 November, the Minister of Finance addressed a letter to the Chairperson of the Committee on further technical corrections to clause 8 of the Taxation Laws Amendment Bill for consideration in terms of section 14 of the Money Bills and Related Matters Act, 2009 (Money Bills Act). In this letter the Minister alerted the Committee on a technical error that was brought to the attention of National Treasury in relation to clause 8, relating to the definition of “hybrid equity instrument, which is aimed at clarifying the scope of that definition. He assured the Committee that this technical amendment did not involve any changes in tax policy. He said that the intention of the amendment was to prevent an unintended effect of covering all dividends received in respect of preference shares which are regarded and taxed as income, instead of being taxed as dividends under specific circumstances.
4. The Committee considered this request and deliberated on this letter. It was advised in respect of these technical corrections and the procedures envisaged by the Money Bills Act when the Minister requests to correct a technical error. The Committee was advised that these technical corrections to the definition in clause 8 of the Bill was revenue/budget neutral and the Committee needed not open public hearings for them. The Committee accordingly adopted these technical corrections as requested by the Minister of Finance.
5. TLAB contains several proposals ranging from individual, savings and employment tax, business tax, the Value Added Tax and the Customs and Excise Act-- covering a range of amendments. This report will deal with three key proposals which are: the reviewing of the tax treatment of the surviving spouses’ pension, the reviewing of allowable deductions for investors in a venture capital company (VCC), and the refinement of the Employment Incentive Scheme.

**REVIEWING THE TAX TREATMENT OF THE SURVIVING SPOUSES’ PENSIONS**

1. This amendment sought to relieve the surviving spouses of additional tax liability and to alleviate the financial burden when calculating taxes to be withheld by the retirement funds on spousal pensions. This amendment was accepted, although its effective date was postponed, for administrative reasons, from 1 March 2020 to 1 March 2021 to enable both SARS and taxpayers more time to ready their systems for the changes.

**REVIEWING THE ALLOWABLE DEDUCTION FOR INVESTORS INVESTING IN A VENTURE CAPITAL COMPANY**

1. The Venture Capital Company (VCC) tax incentive was introduced through section 12J of the Income Tax Act, 1962, in 2008 with the aim of raising equity funding in support of socio-economic development of small businesses which would not have had access to market funding due to size or inherent risk. This allowed investors in an upfront tax deduction that is equivalent to the expenses incurred in acquiring shares in a VCC. This deduction would then be reversed and included as a recoupment in a taxpayer’s income should that taxpayer dispose of those shares in a VCC within 5 years after acquiring them.
2. Changes were made to the VCC regime in 2015 in order to broaden its scheme and allow more uptake. A huge uptake followed as a result of these changes after 2015. However National Treasury and SARS noticed that high-net worth individuals (and corporates) were disproportionately investing in the VCC scheme towards the end of each financial year, thereby reducing their taxable income and undermining the progressivity of South Africa’s income tax system. The proposal in the draft 2019 TLAB were to introduce a limit/cap to the amount to be deducted in respect of investing in VCC shares to R2,5 million per annum in order to curb the perceived abuse.
3. This proposal was met with resistance and a lot of submissions were received by National Treasury and also the Committee. The main issues raised in the submissions were, among others, that:
	1. the proposed cap would limit the viability of VCC funds through the now required increased number of investors to get viable fund size;
	2. The proposed cap makes it an undesirable investment for corporate investors;
	3. The calculation of the proposed cap was flawed;
	4. There should be a difference between the cap on natural persons and corporate investors.
4. Through deliberation and consultation, some middle-ground has been reached between industry and government. The proposal now distinguishes deduction amounts between natural persons (including trusts), which will be capped at R2,5 million per annum and corporate investors, which will be capped at R5 million per annum.
5. The Committee requires National Treasury and SARS to conduct a study on whether the VCC regime is achieving its intended objectives that it was established for given that the funding of small business still remain a huge issue in this country.

**REFINEMENT OF THE EMPLOYMENT INCENTIVE SCHEME**

1. . The Employment Tax Incentive (ETI) was introduced in January 2014 to promote the employment of young workers without work experience. It aims to reduce the cost of hiring young people (qualifying employees) between the ages of 18 and 29 through a cost sharing mechanism with government. It affords employers who are registered for Pay As You Earn (PAYE) to hire qualifying employees through reducing their PAYE liability.
2. The TLAB amendment on this scheme is aimed at ensuring that the ETI minimum wage is aligned with the National Minimum Wage Act of 2018. This proposal is accepted and became effective on 1 August 2019 following the effective date of the National Minimum Wage Act which came into effect on 01 January 2019.
3. The Committee requires that a study be conducted by SARS and National Treasury on the successes and challenges of the ETI.
4. The Committee supports this Bill and the technical corrections introduced by the Minister of Finance to clause 8 of the Bill on 15 November 2019 and asks the House to approve it.

The Economic Freedom Fighters (EFF) abstained from voting on the Bill

Report to be considered.