Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2022 BUDGET TAX PROPOSALS AND DRAFT RATES AND MONETARY AMOUNTS AND REVENUE LAWS AMENDMENT BILL

Presentation to Standing Committee on Finance

22 March 2022

National Treasury and the South African Revenue Service

Presenters

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- Franz Tomasek, SARS
- Members of the tax teams at National Treasury and SARS

Annual tax process

- Minister of Finance announced tax proposals in 2022 Budget on 23 February
  - Draft of Rates and Monetary Amounts and Amendment of Revenue Laws Bill (Rates Bill) published for public comment on Budget Day to deal with rates and threshold changes and urgent tax issues
  - Other more complex proposals left for Tax Laws Amendment Bill (TLAB) and Tax Admin Laws Amendment Bill (TALAB) to be published as drafts for public comment in July
    - Consultation process for drafting of TLAB and TALAB also commences immediately AFTER Budget
    - No consultation on tax proposals BEFORE Budget Day
- Tabling of Rates Bill as soon as SCOF commences and finalises hearings on the Bill, so tabling can be by May if done before TLAB/TALAB
- Tabling of TLAB and TALAB expected to be in October, following hearings on July draft, for adoption by Parliament by end-November

Context for 2022 Budget: Low growth, rising expenditure and stabilising debt

- Economic growth remains low, with NT projecting real economic growth of 2.1 per cent in 2022, the year in which the economy is expected to return to pre- COVID pandemic production levels.
  - GDP growth is expected to average 1.8 per cent over the next three years.
- Medium-term fiscal policy is focused on reducing the budget deficit and stabilising the debt-to-GDP ratio
  - Government will use a portion of higher-than-anticipated tax revenue to narrow the deficit while increasing non-interest expenditure to support economic growth, job creation and social protection.
- Government expects to realise a primary surplus by 2023/24, a year earlier than projected in the 2021 MTBPS.
- Over the medium term, restoring fiscal sustainability requires continued restraint in expenditure growth and reforms to raise economic growth. The 2022 Budget proposes:
  - Additional allocations to address immediate spending pressures, including extending the special COVID-19 social relief of distress grant for 12 months until March 2023, and bolstering provincial transfers for health and education.
  - Setting aside a portion of higher-than-expected revenue to narrow the budget deficit. This mitigates the impact of higher interest rates on debt-service costs and improves the longer-term debt outlook.
  - Supporting economic growth through a range of reforms, including the infrastructure build programme, financed through innovative funding mechanisms and supported by improved technical capabilities.
- Fiscal outlook is subject to significant risks. These include weakening of global or domestic economic growth, rising global borrowing costs, the possibility of higher public-service wage costs, and the poor financial condition of several major state-owned companies.
  - And all this before UKRAINE!
- Any large permanent increases in spending, such as a new social grant, cannot be accommodated without matching permanent increases in revenue.

Key considerations driving tax proposals

- Key and Primary objective of tax system is to raise REVENUE for the state
- BUT important SECONDARY objectives are ENVIRONMENTAL and HEALTH factors
  - CORRECTING MARKET FAILURES by dealing with EXTERNALITIES
  - TAXATION is a BLUNT TOOL, and needs COMPLEMENTARY measures to support secondary and other objectives
- TAXATION POLICY must ideally provide CERTAINTY and not more uncertainty
- What is the optimum level of revenue required for the next 3 years?
  - How does the tax system impact on economic growth?
- What type of expenditure is best funded from the tax system?
  - How best to fund recurrent expenditure vs capital expenditure?
  - What is the role of user charges?
  - How best to fund grants, education, health?
- When introducing new taxes, is it to raise revenue, or to address other problems?
  - Do we want a WEALTH tax to increase revenue or to ensure equity (btw rich and poor) or both?
- What is the INCIDENCE of any tax?
  - Who pays when there is an increase or decrease in a tax?
- EARMARKING of taxes is not optimal and weakens the Budget system

Important tax policy and administration issues not dealt with in this presentation

- TAX POLICY, COMPLIANCE and ADMINISTRATION are interconnected
  - SARS role and capability is CRITICAL for tax policy
  - We do not deal with capability of SARS, nor challenges it faces currently, in this presentation
- TAX MORALITY and INTEGRITY OF SPENDING and VALUE-FOR-MONEY
  - Taxpayers are more willing to pay all their taxes if they know the state will spend their tax money EFFICIENTLY, FREE OF CORRUPTION and get VFM
- IMPLEMENTATION OF NUGENT and ZONDO COMMISSION findings and recommendations
  - Nugent Commission proposals have been progressively implemented since Govt received its final report in December 2018
  - President has committed to responding to Zondo Commission findings once its final report is submitted (end-April 2022)
  - Since Zondo Commission also dealt with capture of SARS, Govt will need to ensure a harmonized approach to the findings of both commissions (but they appear to be consistent so far)
  - Legislative amendments to SARS Act will be necessary to strengthen governance proposals from the two Commissions
- TAX STATISTICS published annually, including 2021 edition on 25 Jan 2022, provides valuable statistics
- All the above are important issues, and can be dealt with in dedicated presentations on request

Overview of the 2022 tax process

- SUBSTANTIVE TAX POLICY and REVENUE proposals are presented in Chapter 4 of Budget Review (BR)
- More TECHNICAL TAX proposals are presented in Annexure C of Budget Review
    - Correction of unintended anomalies, revenue leakages, loopholes and tax administration
- The 2022 Draft Rates and Monetary Amounts and Amendment of Revenue Laws Bill (draft Rates Bill) was published for comment on Budget Day: 23 February 2022.
- The draft Rates Bill contains tax announcements made in Chapter 4 of the 2022 Budget, dealing with changes in rates and monetary thresholds and increases of the excise duties on alcohol and tobacco.
- The more complex, technical and administrative tax proposals announced in Chapter 4 and Annexure C of the 2022 Budget will be dealt with in the 2022 Taxation Laws Amendment Bill (TLAB) and 2022 Tax Administration Bill (TALAB) and will be published for public comment in late July 2022.
- After the 2022 TLAB and 2022 TALAB have been published for public comment in July, the National Treasury and SARS will brief the SCOF on the more complex, technical and administrative tax proposals contained in these two tax bills.

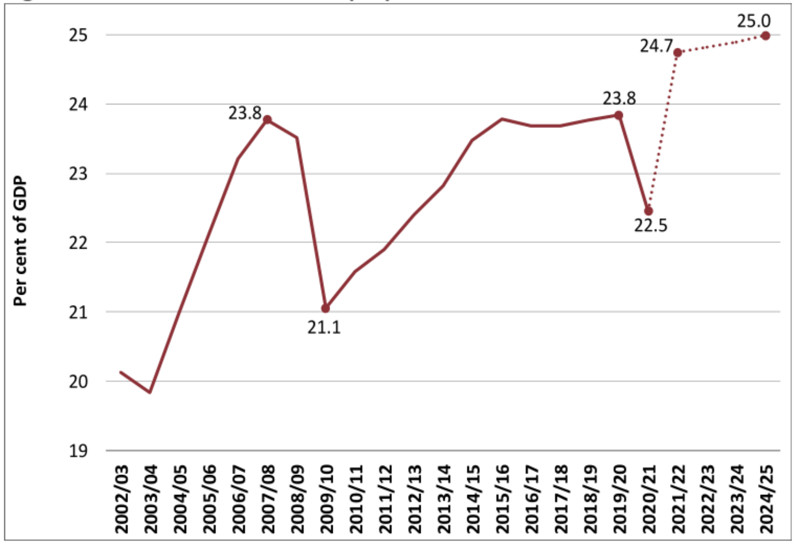
Large revenue surplus expected for 2021/22

- Budget 2022 revenue estimates for 2021/22 are R182 billion higher than the 2021 Budget, and R62 billion higher than the 2021 MTBPS
- Expected increase in tax revenue estimates comes from corporate income tax (R105 billion), with the second largest increase from personal income tax (R38 billion) and then value-added tax (R13.5 billion).
- Additional revenue expected to result in a record tax-to-GDP ratio

Table 1: Gross tax revenue

R billion	2021/22				
	2021 Budget	2021 MTBPS	Revised	Deviation from Budget	Deviation from MTBPS
Persons and individuals	516.0	542.1	**553.5**	37.6	11.4
Companies	213.1	288.6	**318.4**	105.3	29.7
Value-added tax	370.2	373.6	**383.7**	13.5	10.1
Dividends tax	26.1	29.9	**32.1**	5.9	2.2
Specific excise duties	43.7	42.3	**48.2**	4.5	5.9
Fuel levy	83.1	89.2	**89.9**	6.7	0.6
Customs duties	53.1	54.7	**55.8**	2.7	1.1
Ad-valorem excise duties	3.5	4.4	**4.3**	0.7	-0.1
Other	56.2	60.5	61.2	5.0	0.7
Gross tax revenue	**1,365.1**	**1,485.4**	**1,547.1**	**181.9**	**61.7**

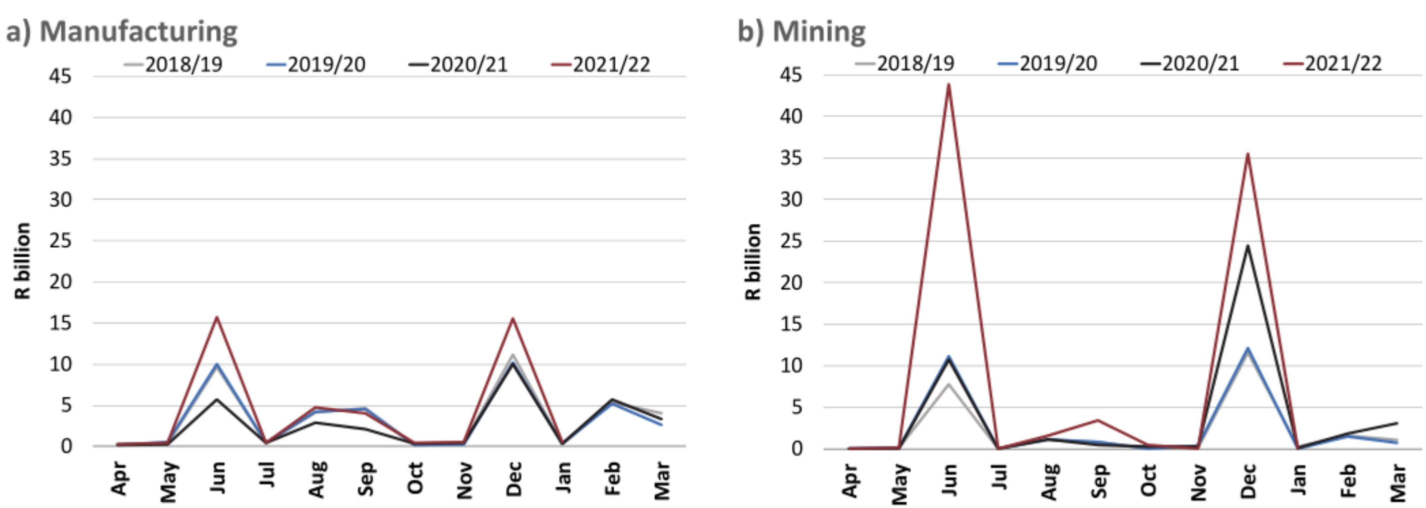
Figure 4.1 Gross tax revenue as a proportion of GDP



Majority of revenue increase in CIT from mining

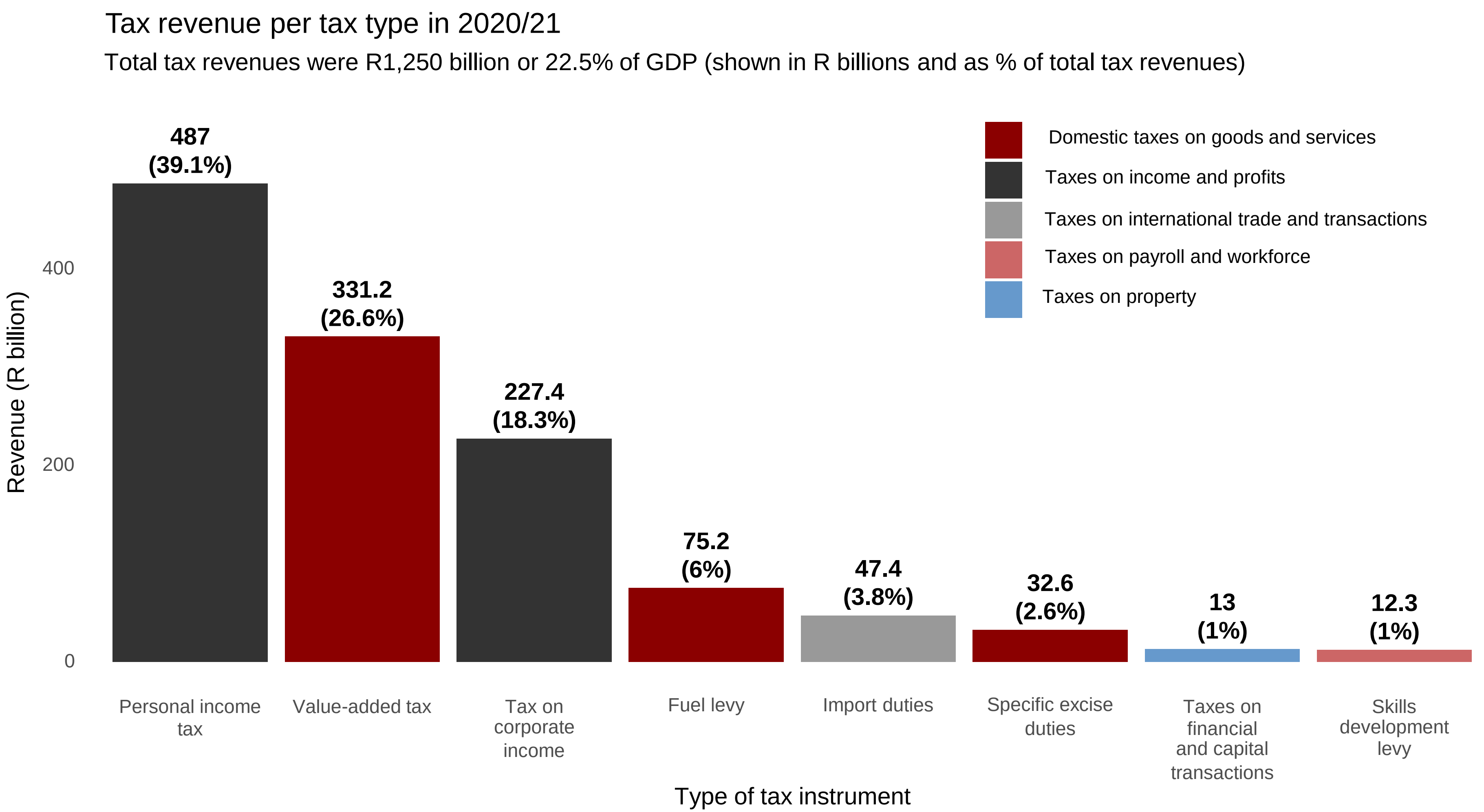
- Provisional tax payments from mining were exceptionally large due to persistently high commodity prices. The 2021 Budget assumed that commodity prices would soften and reduce mining revenue. There has also been a broader recovery from both the manufacturing and finance sectors.
- It was assumed earnings would underperform as the unemployment rate remained high after the pandemic, but incomes remained robust bringing in additional personal income tax revenue
- Improvements in SARS efficiencies also contributed to an increase in revenue

Figure 4.2 Provisional corporate income tax collections by sector

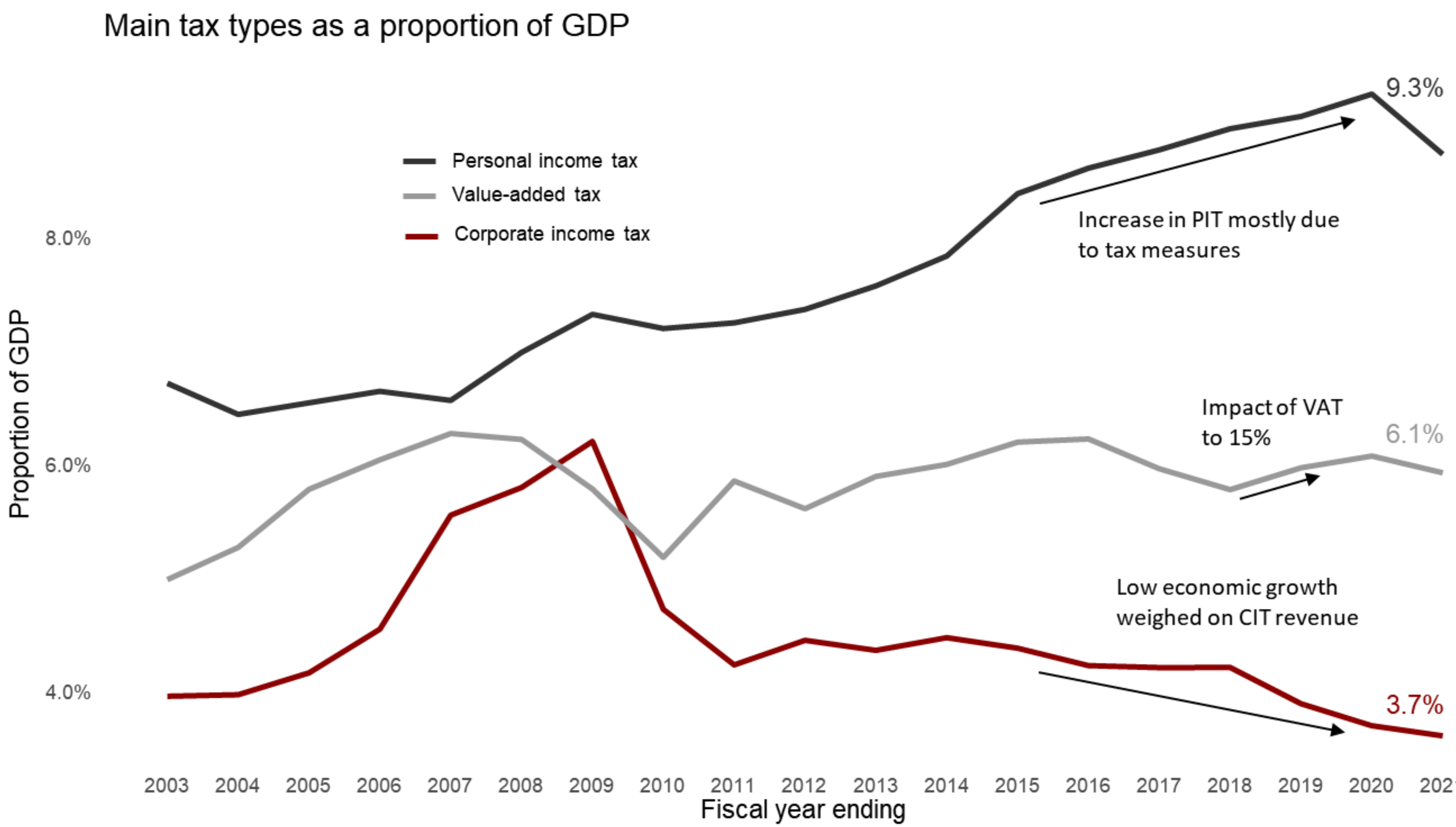


Source: National Treasury and SARS

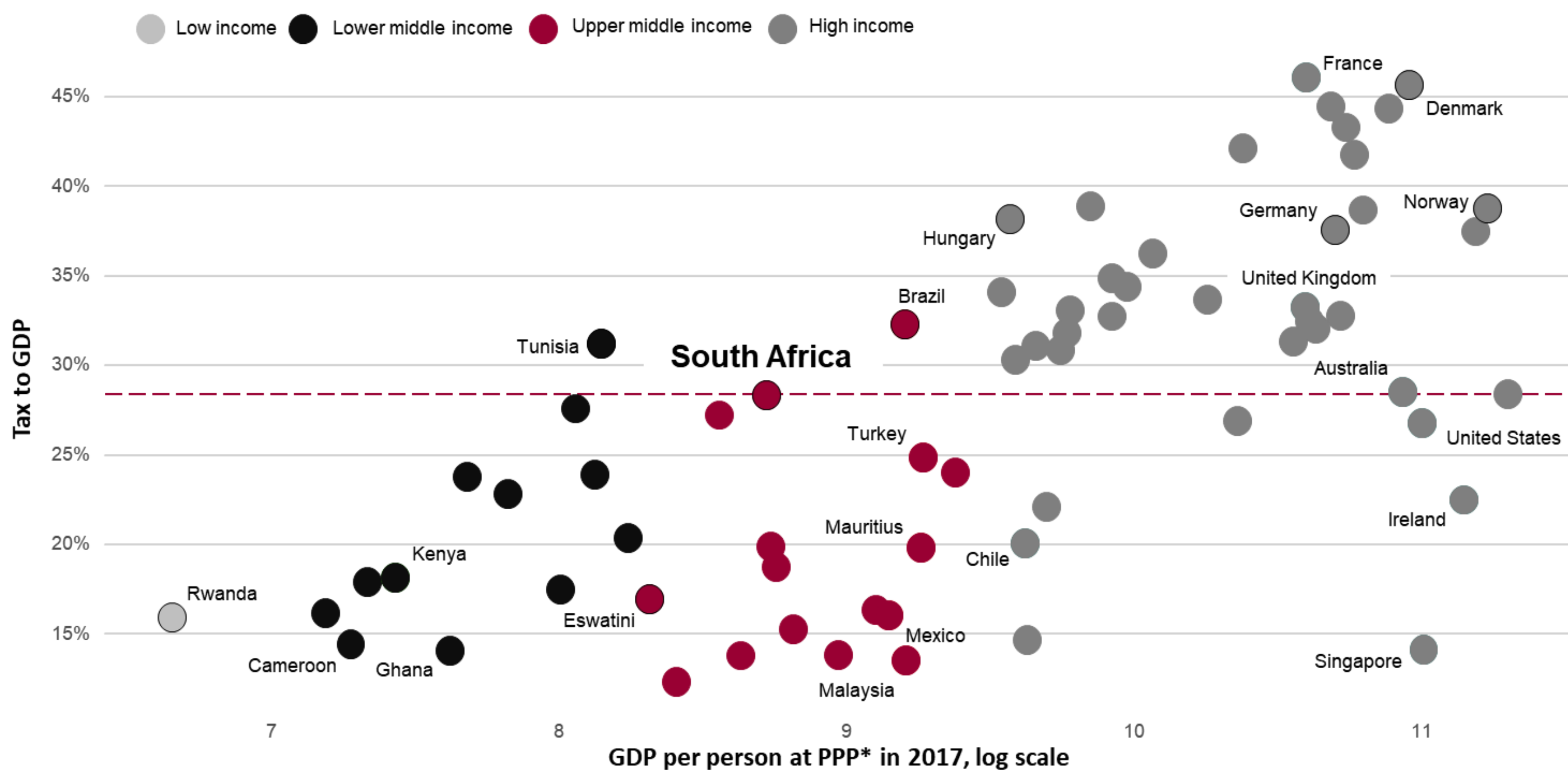
Personal income tax, value-added tax and corporate income tax make up 80% of tax revenue



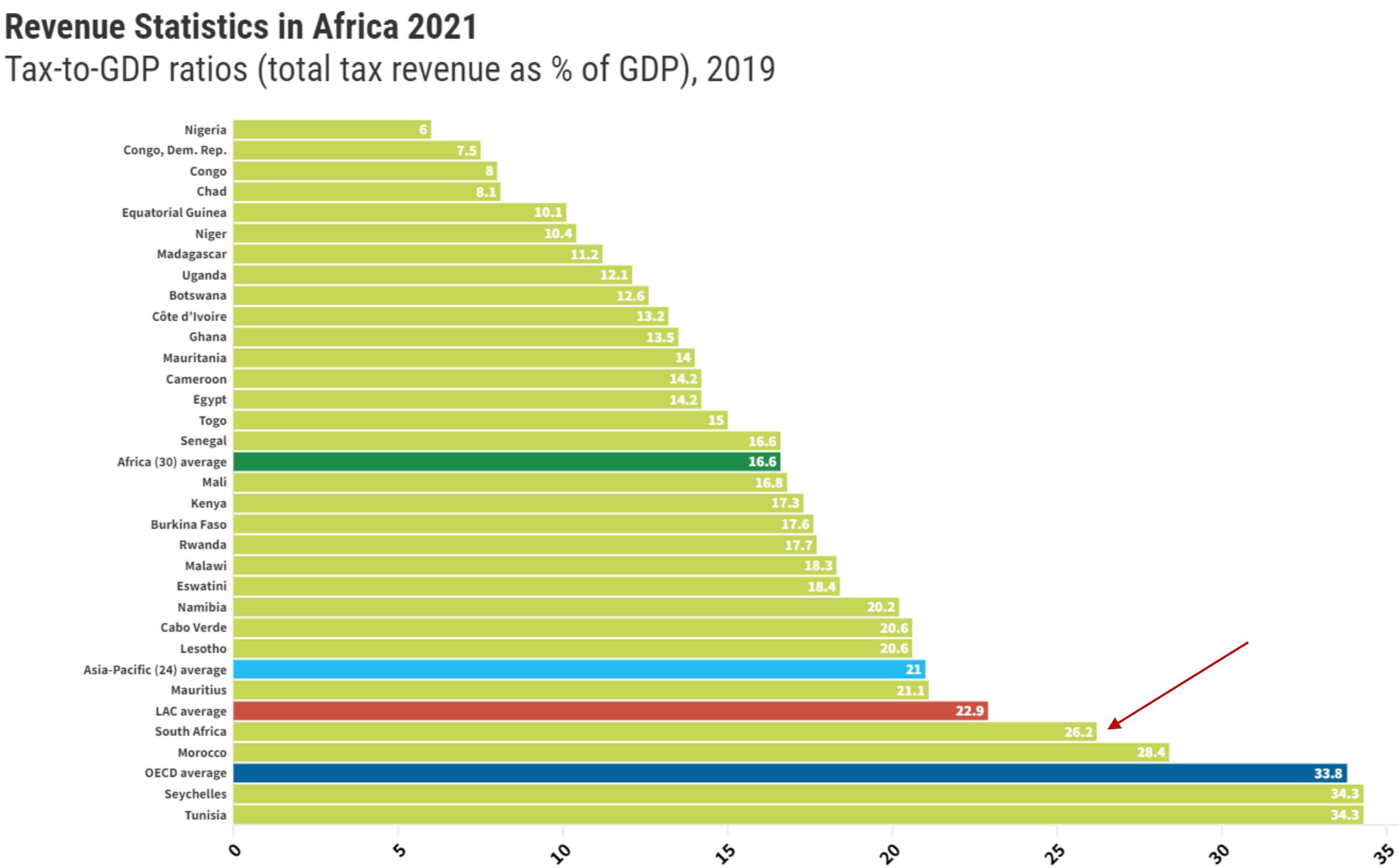
Revenues have been increasingly relying on personal income taxes



SA has relatively high level of tax-to-GDP compared to other upper middle income countries

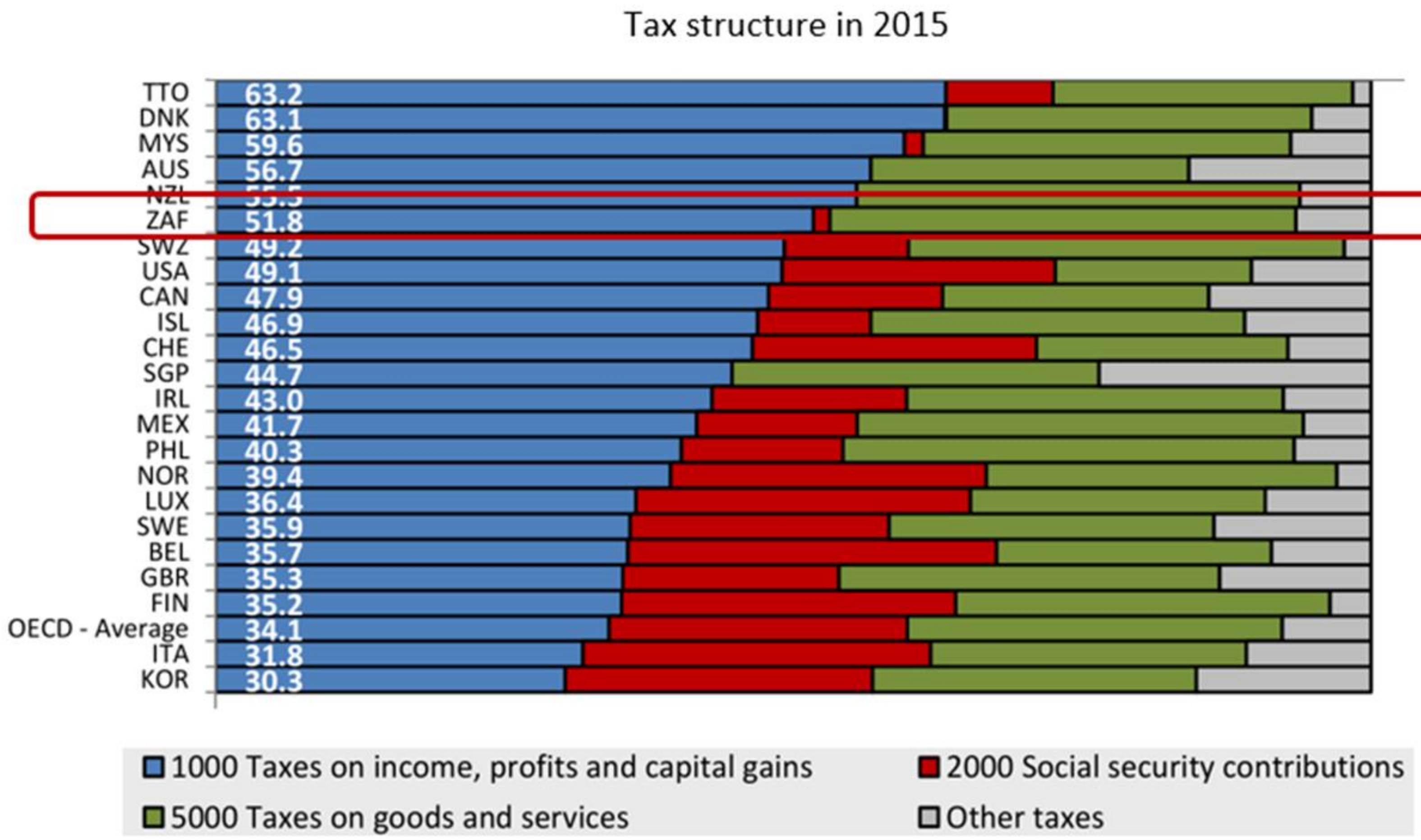


And compared to other African countries



Source: [OECD/ATAF/AUC(2021), Revenue Statistics in Africa 2021]

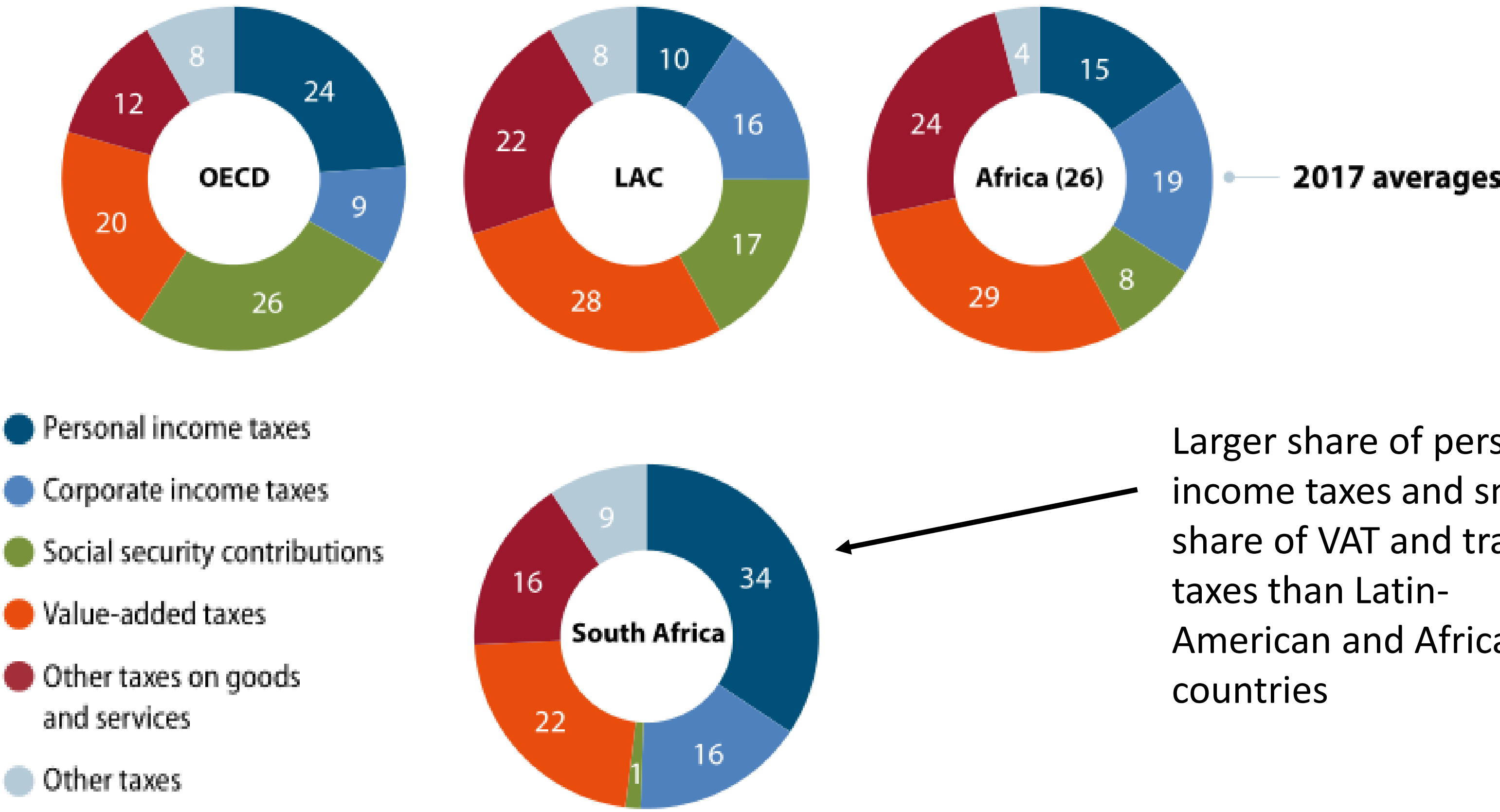
South Africa is unique amongst developing countries in relying so heavily on taxes on income



Source: OECD

Other emerging markets rely more on VAT and trade taxes

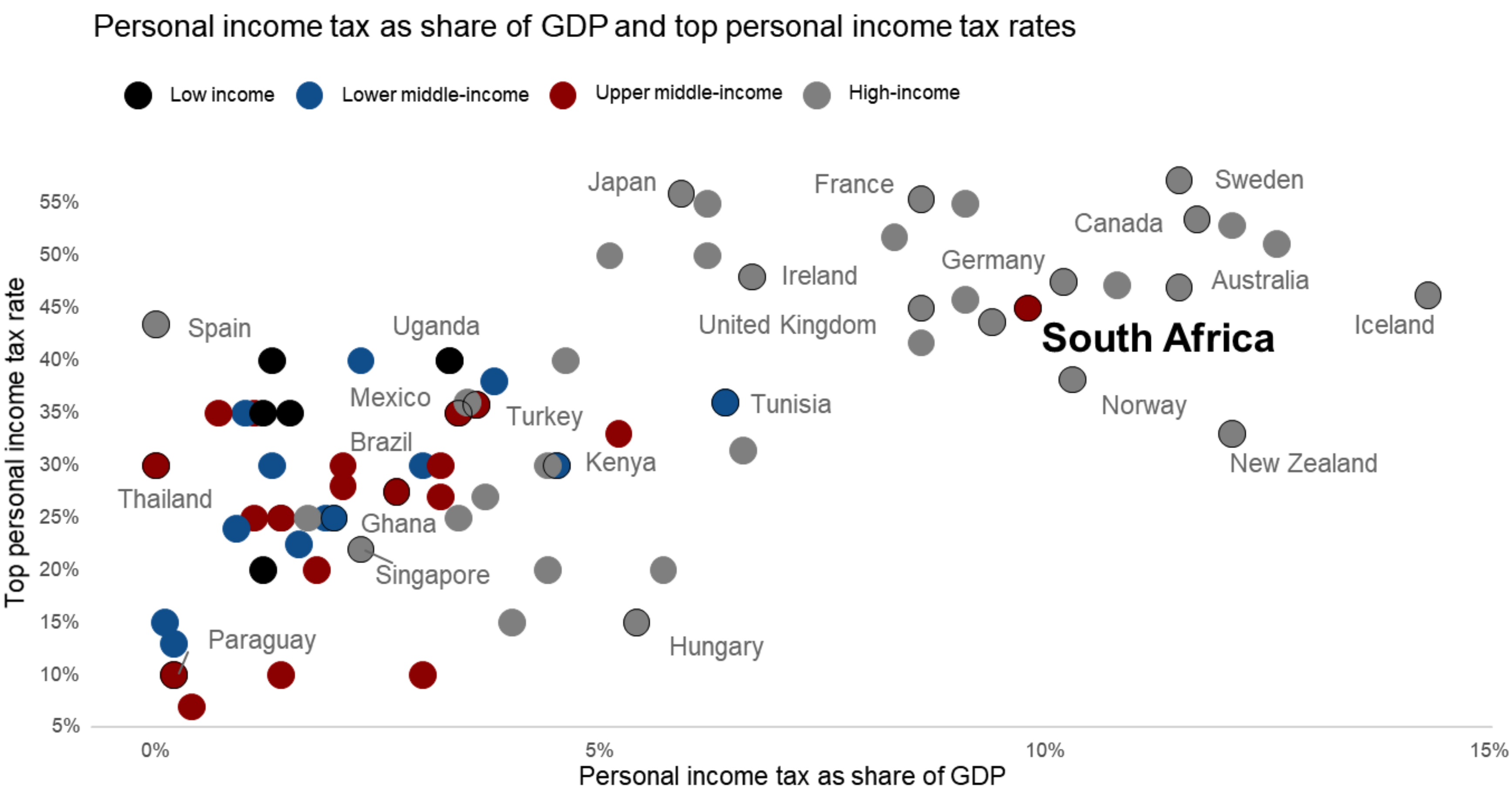
Tax structures for the OECD, LAC and Africa (26) averages in 2017 and for selected countries (%)



Larger share of personal income taxes and smaller share of VAT and trade taxes than Latin-American and African countries

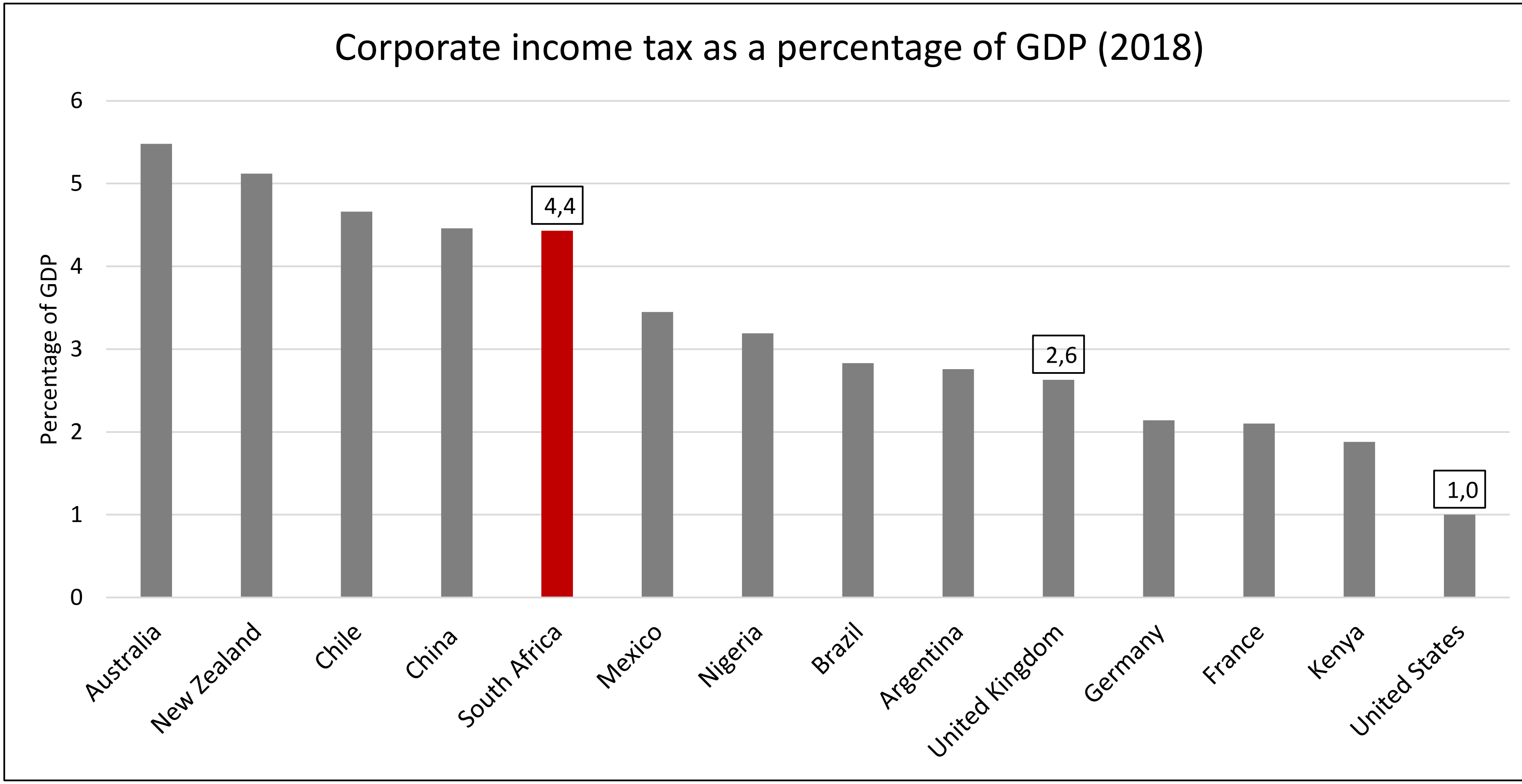
Source: OECD

Top personal income tax rate is high at 45% and SA gets more from PIT than peers



Source: OECD, IMF

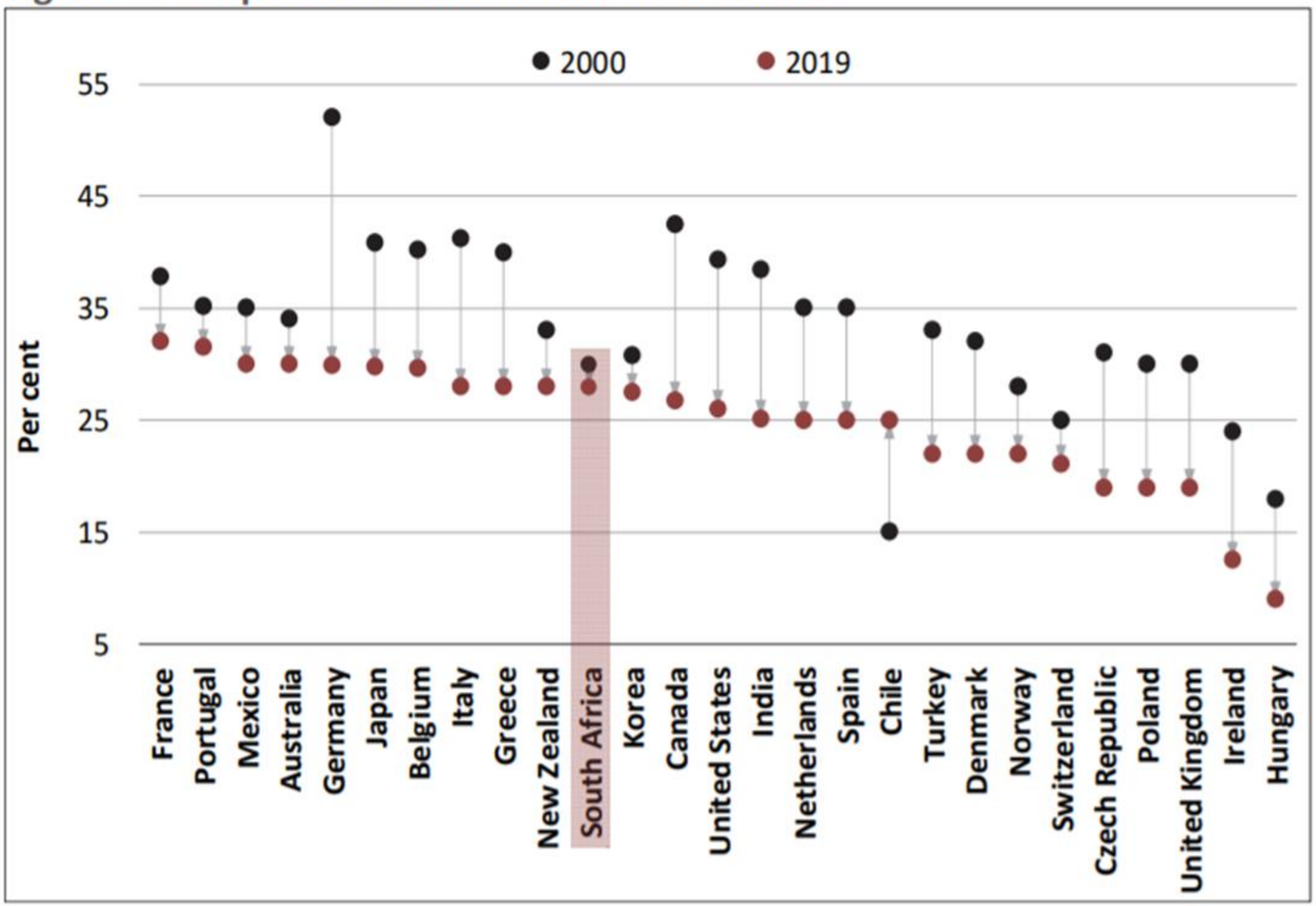
SA's CIT/GDP ratio one of highest globally



Source: OECD (2021) Global Revenue Statistics Database

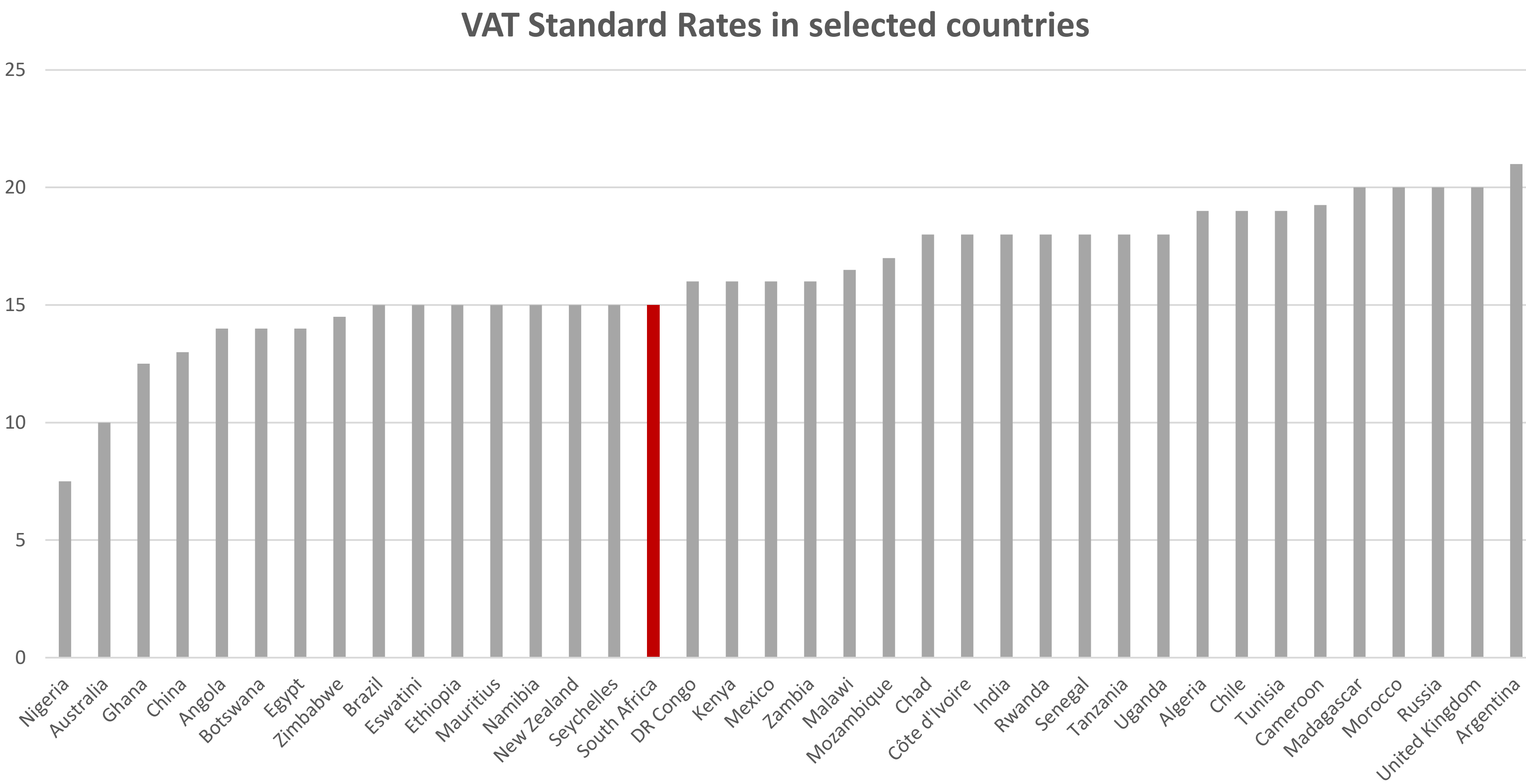
CIT rates have fallen across most countries, but had remained unchanged in South Africa

Figure 4.2 Corporate income tax rate movements



Source: OECD

VAT rate remains relatively low compared to other developing economies



Tax proposals in the 2022 Budget

- Tax revenue collections for 2021/22 are expected to be R182 billion above the 2021 Budget estimates due to elevated commodity prices, a recovery in earnings and consumption and improved efficiencies at SARS.
- Given the solid revenue performance and the continuing economic impact of the pandemic, the 2022 Budget proposed tax relief of R5.2 billion to support households and businesses
- The proposals adjust personal income tax brackets and medical tax credits for inflation, avoid increases in the general fuel levy and Road Accident Fund levy to assist consumers facing sharply rising fuel prices and increase incentives for youth employment
- There are also increases in excise duties of between inflation and 2 percentage points above inflation
- The corporate income tax package that was announced in the 2021 Budget to reduce the headline tax rate and broaden the will be effective for companies with a years of assessment ending on or after 31 March 2023

Overall impact is tax relief of R5.2 billion

Table 4.3 Impact of tax proposals on 2022/23 revenue[1]

R million		Effect on tax proposals
Gross tax revenue (before tax proposals)		**1 603 647**
Budget 2022/23 proposals		**-5 200**
Direct taxes		**-2 200**
Personal income tax		
Increasing brackets by inflation	–	
Revenue if no adjustment is made	*13 500*	
Increase in brackets and rebates by inflation	*-13 500*	
Expansion of the employment tax incentive	-2 200	
Corporate income tax		
Reform package	–	
Reduction in corporate income tax rate to 27 per cent	*-2 600*	
Restriction of assessed losses	*1 100*	
Additional interest limitation	*1 500*	
Indirect taxes		**-3 000**
Fuel levy		
Not adjusting the general fuel levy	-3 500	
Specific excise duties		
Increase in excise duties on alcohol	400	
Increase in excise duties on tobacco	100	
Gross tax revenue (after tax proposals)		**1 598 447**

1. Revenue changes are in relation to thresholds that have been fully adjusted for inflation
Source: National Treasury

- Personal income tax change should not impact tax revenue
- Expansion of the employment tax incentive should cost R2.2 billion
- Freezing general fuel levy to cost R3.5 billion
- Offset by R0.5 billion in extra revenue from excise duty increases
- Impact of CIT package expected to be revenue-neutral

Personal income tax changes

- Brackets and rebates increased by 4.5 per cent (in line with expected inflation)
- This lowers the effective tax rate for individuals who have increases in taxable income below inflation
- Tax free threshold for those below the age of 65 increases from R87 300 to R91 250
- Medical tax credits were also increased by 4.5 per cent, to R334 per month for the first two members and R234 for additional members

Table 4.4 Personal income tax rates and bracket adjustments

2021/22		2022/23	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 - R216 200	18% of each R1	R0 - R226 000	18% of each R1
R216 201 - R337 800	R38 916 + 26% of the amount above R216 200	R226 001 - R353 100	R40 680 + 26% of the amount above R226 000
R337 801 - R467 500	R70 532 + 31% of the amount above R337 800	R353 101 - R488 700	R73 726 + 31% of the amount above R353 100
R467 501 - R613 600	R110 739 + 36% of the amount above R467 500	R488 701 - R641 400	R115 762 + 36% of the amount above R488 700
R613 601 - R782 200	R163 335 + 39% of the amount above R613 600	R641 401 - R817 600	R170 734 + 39% of the amount above R641 400
R782 201 - R1 656 600	R229 089 + 41% of the amount above R782 200	R817 601 - R1 731 600	R239 452 + 41% of the amount above R817 600
R1 656 601 and above	R587 593 + 45% of the amount above R1 656 600	R1 731 601 and above	R614 192 + 45% of the amount above R1 731 600
Rebates		**Rebates**	
Primary	R15 714	Primary	R16 425
Secondary	R8 613	Secondary	R9 000
Tertiary	R2 871	Tertiary	R2 997
Tax threshold		**Tax threshold**	
Below age 65	R87 300	Below age 65	R91 250
Age 65 and over	R135 150	Age 65 and over	R141 250
Age 75 and over	R151 100	Age 75 and over	R157 900

Source: National Treasury

Distributional impact of PIT changes

- Expect that there will be 7.4 million personal income taxpayers in 2022/23 who will contribute around R588 billion to the fiscus
- Personal income tax system is highly progressive – expect that 42 per cent of personal income tax will be paid by the 333 000 individuals with taxable incomes above R1m
- Majority of tax relief falls in the middle of the distribution, where there are the most taxpayers

Table 4.5 Estimates of individuals and taxable income, 2022/23

Taxable bracket	Registered individuals		Taxable income		Income tax payable before relief		Income tax relief after proposals		Income tax payable after proposals	
R thousand	Number	%	R billion	%	R billion	%	R billion	%	R billion	%
R0 - R91[1]	7 700 135	–	272.9	–						
R91 - R150	1 973 185	26.5	227.5	8.2	15.8	2.6	-1.2	8.7	14.6	2.5
R150 - R250	1 717 760	23.1	338.6	12.2	28.4	4.7	-1.6	12.0	26.8	4.6
R250 - R350	1 231 672	16.5	363.6	13.1	50.2	8.3	-1.9	14.2	48.3	8.2
R350 - R500	1 158 117	15.6	478.2	17.3	86.4	14.4	-2.8	20.5	83.6	14.2
R500 - R750	756 629	10.2	456.7	16.5	107.4	17.9	-2.8	20.5	104.6	17.8
R750 - R1 000	274 963	3.7	237.7	8.6	67.6	11.2	-1.3	9.7	66.3	11.3
R1 000 - R1 500	199 837	2.7	238.1	8.6	76.3	12.7	-1.0	7.3	75.3	12.8
R1 500 +	133 230	1.8	425.0	15.4	169.4	28.2	-1.0	7.1	168.4	28.7
Total	**7 445 393**	**100.0**	**2 765.3**	**100.0**	**601.4**	**100.0**	**-13.5**	**100.0**	**587.9**	**100.0**
Grand total	**15 145 528**		**3 038.2**		**601.4**		**-13.5**		**587.9**	

1. Registered individuals with taxable income below the income-tax threshold

Analysis of historical data suggests taxpayer numbers are not decreasing

- The table below shows the number of individuals who had taxable incomes above the tax free threshold in each year according to their taxable income group, using micro data from the South African Revenue Service
- The total number of taxpayers has been increasing over the ten years that are included, up until just before the COVID-19 pandemic
- There has been an apparent drop in taxpayers in the bottom taxable income group, but the number of taxpayers in all the other groups has increased over time.

Table 1: Taxpayer numbers per taxable income group (in 000's)

	Tax year ending									
Taxable income group	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Tax free threshold - R150k	3,580	3,297	2,991	2,836	2,651	2,487	2,505	2,443	2,253	2,252
R150k - R250k	1,520	1,539	1,659	1,718	1,774	1,858	1,934	1,908	1,807	1,802
R250k - R350k	530	582	756	856	958	1,052	1,130	1,173	1,196	1,238
R350k - R500k	337	370	452	512	582	675	769	865	943	1,024
R500k - R750k	197	219	270	314	368	424	469	531	600	630
R750k - R1m	65	76	93	111	132	158	179	202	231	246
R1m - R1.5m	42	48	60	70	85	102	115	131	149	165
R1.5m and above	31	35	44	52	65	73	83	91	100	108
Total	**6,302**	**6,166**	**6,324**	**6,470**	**6,615**	**6,830**	**7,185**	**7,344**	**7,279**	**7,463**

Table is calculated using merged data from IRP5 tax certificates and ITR12 returns submitted to SARS. Taxable income groups are not adjusted for inflation.

Two-pots retirement reform – impact on PIT?

- During last year's MTBPS (on 11 November 2021), the Minister of Finance announced that Government would consider a 2 pot retirement reform
- Changes to retirement policy will require changes to tax legislation on PIT
- A discussion paper was published for public comment on 14 December 2021
  - The purpose of the paper was to solicit public comments on the various alternatives being considered by Government as relates to the reform
  - The initial closing date for public comments was 31 January 2022. However, given requests for more time to submit public comments, an extension was granted and the closing date for public comments was extended to 10 February 2022
- Government will hold public workshops with stakeholders to discuss the comments received (an invitation will be sent to all the stakeholders who submitted written comments).
- Thereafter, draft legislation, which will take into consideration written comments received and comments raised during public workshops will be published for public comment.
  - First draft of legislation expected to be published in May, with a second draft incorporated into July TLAB and other legislation

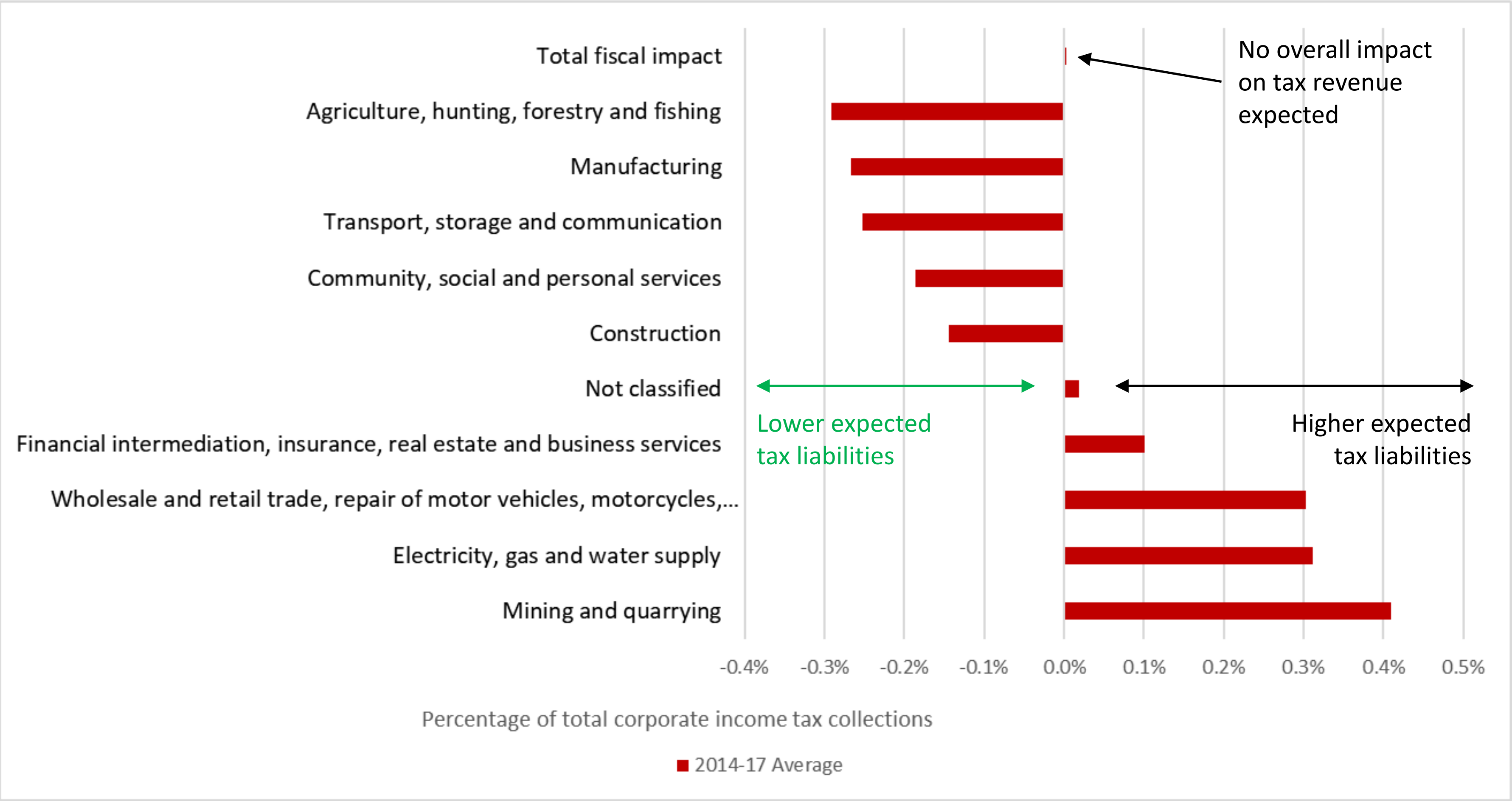
Expansion of the employment tax incentive

- Youth unemployment is one of the worst structural faults in the South African economy, and has been made worse due to the pandemic. Over half of all youth between the ages of 20-29 are unemployed.
- The employment tax incentive was introduced in 2014 after a lengthy consultation period, and the extension of the incentive was discussed and debated in NEDLAC in 2018. The NEDLAC report recommended an extension until 2029 and stated that
  - *"Most of the research has demonstrated positive effects directly related to the objectives of the ETI and in line with national priorities on sustainable youth employment creation."*
- To assist businesses employ more youth, the monthly value of the incentive increases by 50 per cent, from a maximum of R1 000 per month to R1 500 per month for employees in their first year of employment, and from R500 per month to R750 per month for employees in their second year of employment.

Restructuring of corporate income tax

- The 2021 Budget announced a restructuring of the corporate income tax to broaden the base while reducing the headline rate to 27 per cent.
- The two base broadening measures, to further restrict interest deductions to combat base erosion and profit shifting and a restriction of assessed losses, were legislated through the SCOF last year and the effective date of the amendments were dependent on an announcement by the Minister of Finance.
- The Minister stated in the 2022 Budget that both the base broadening measures and the reduction in the corporate income tax rate to 27 per cent would proceed for companies with years of assessment ending on or after 31 March 2023.
- The revenue impact of the base broadening measures are expected to offset the reduction in the tax rate so that there is no impact on the fiscus.

Impact of corporate income tax package per sector, based on micro data from SARS



Excise duties on tobacco and alcohol

Table 4.7 Changes in specific excise duties, 2022/23

Product	Current excise duty rate	Proposed excise duty rate	Percentage change Nominal	Percentage change Real
Malt beer	R115.08 / litre of absolute alcohol (195,64c / average 340ml can)	R121.41 / litre of absolute alcohol (206,40c / average 340ml can)	5.5	1.0
Traditional African beer	7,82c / litre	7,82c / litre	–	-4.5
Traditional African beer	34,70c / kg	34,70c / kg	–	-4.5
Unfortified wine	R4.74 / litre	R4.96 / litre	4.5	–
Fortified wine	R7.92 / litre	R8.36 / litre	5.5	1.0
Sparkling wine	R15.51 / litre	R16.52 / litre	6.5	2.0
Ciders and alcoholic fruit beverages	R115.08 / litre of absolute alcohol (195,64c / average 340ml can)	R121.41 / litre of absolute alcohol (206,40c / average 340ml can)	5.5	1.0
Spirits	R230.18 / litre of absolute alcohol (R74.23 / 750ml bottle)	R245.15 / litre of absolute alcohol (R79.06 / 750ml bottle)	6.5	2.0
Cigarettes	R18.79 / 20 cigarettes	R19.82 / 20 cigarettes	5.5	1.0
HTPs sticks	R14.09 / 20 sticks	R14.87 / 20 sticks	5.5	1.0
Cigarette tobacco	R21.12 / 50g	R22.28 / 50g	5.5	1.0
Pipe tobacco	R6.26 / 25g	R6.63 / 25g	6.0	1.5
Cigars	R104.16 / 23g	R110.93 / 23g	6.5	2.0

Source: National Treasury

- Government has a guideline to direct excise duty policy where duty should be 11, 23 and 36 per cent of weighted average retail price for wine, beer and spirits and 40 per cent of price of most popular brand for cigarettes
- Excise duty changes of between 4.5 per cent (inflation) and 6.5 per cent, guided by tax burdens, which are generally above the policy after many years of increases

Health promotion levy (HPL)

- The HPL was introduced on 1 April 2018 at 2.1 cents per gram of sugar, with a tax free threshold of 4 grams of sugar per 100ml
- The rate was increased to 2.21c/g on 1 April 2019, but was not changed for the next three years until the 2022 Budget increased the rate to 2.31c/g from 1 April 2022. This is a 4.5 per cent increase – in line with inflation.
- Two recent studies* on the effectiveness of the HPL showed that the prices of sugary beverages that were impacted by the levy increased and that consumption of these beverages fell due to the price increase, where the impact was larger amongst lower income households. Industry have also reformulated their products, by reducing the amount of sugar in their drinks, reducing the size of their sugary beverages and promoting more drinks with less or no sugar.
- The policy appears to be going some way to achieving its objective of reducing consumption of these products to improve health and reduce the prevalence of non-communicable diseases

*Stacey, N., Mudara, C., Ng, S. W., van Walbeek, C., Hofman, K., & Edoka, I. (2019). Sugar-based beverage taxes and beverage prices: Evidence from South Africa's Health Promotion Levy. Social Science & Medicine, 238, 112465.

Stacey, N., Edoka, I., Hofman, K., Swart, E. C., Popkin, B., & Ng, S. W. (2021). Changes in beverage purchases following the announcement and implementation of South Africa's Health Promotion Levy: an observational study. The Lancet Planetary Health, 5(4), e200-e208.

A tax on vaping

- National Treasury published a discussion document in December 2021 on the "Taxation of Electronic Nicotine and Non-Nicotine Delivery Systems" (vaping)
- There is currently no excise duty on these products, in contrast to other close substitutes such as heated tobacco products. The proposals in the discussion paper seek to introduce a tax on these products and provided various policy design options that would either tax the liquid based on nicotine content, or on the solution or as a hybrid approach that caters for both the nicotine content and the non-nicotine solution.
- After receiving comments on the discussion paper, the 2022 Budget proposed that a levy based on the solution alone at a rate of R2.91/ml be introduced, to simplify the administration of the new tax instrument.
- Public workshops will still be held on the proposal and consultations on the policy will continue before draft legislation is published in June.

Carbon tax and other environmental levies

- As per the requirement in the Carbon Tax Act (2019), the carbon tax rate increases from R134 per tonne of carbon dioxide equivalent emissions to R144 per tonne from 1 January 2022.
- In line with this increase, the carbon fuel levy increases by 1c to 9c/litre for petrol and 10c/litre for diesel from 1 April 2022.
- The carbon tax cost recovery amount for the liquid fuels sector increases from 0.56c/l to 0.63c/l from 1 January 2022.
- The plastic bag levy is increased from 25c/bag to 28c/bag, to adjust for inflation from 1 April 2022.
- The motor vehicle emissions tax on passenger cars increases from R120 per gram of CO_2 per kilometer to R132 per gram from 1 April 2022.
- The incandescent bulb levy increases from R10 to R15 per globe from 1 April 2022.

Future path for the carbon tax

- 2022 Budget extends the first phase of the carbon tax until 31 December 2025, but increases the rate of the tax to reach at least $20 per tonne of carbon dioxide equivalent emissions by 2026
  - Stringency of the tax has also increased due to the removal of the carbon budget allowance
- Second phase of the carbon tax will have a much faster increase in the effective tax rate, to at least $30 by 2030 and removal/reduction in allowances and exemptions
  - Rate is proposed to go progressively higher to $120 by 2050.
- Approach is consistent with SA national determined commitments (NDCs) and in line with global recommendations to push behavioural changes in companies to reduce their emissions.
- Carbon tax increases need to be seen in context of carbon border adjustments from other countries on our exports if local carbon emissions are not taxed
  - Carbon border adjustments will negatively impact exports and competitiveness.
- Consultations on the second phase of the carbon tax will begin this year.

General fuel levy and Road Accident Fund (RAF) Levy

- The general fuel levy and RAF levy were not adjusted to provide some relief to households and businesses from the rapid increase in petrol and diesel prices over the last few months.

Table 4.6 Total combined fuel taxes on petrol and diesel

Rands/litre	2020/21 93 octane petrol	2020/21 Diesel	2021/22 93 octane petrol	2021/22 Diesel	2022/23 93 octane petrol	2022/23 Diesel
General fuel levy	3.70	3.55	3.85	3.70	3.85	3.70
Road Accident Fund levy	2.07	2.07	2.18	2.18	2.18	2.18
Customs and excise levy	0.04	0.04	0.04	0.04	0.04	0.04
Carbon tax[1]	0.07	0.08	0.08	0.09	0.09	0.10
Total	**5.88**	**5.74**	**6.15**	**6.01**	**6.16**	**6.02**
Pump price[2]	14.44	12.75	18.29	16.02	19.89	18.05
Taxes as percentage of pump price	*40.7%*	*45.0%*	*33.6%*	*37.5%*	*31.0%*	*33.4%*

1. The carbon tax on fuel became effective from 5 June 2019

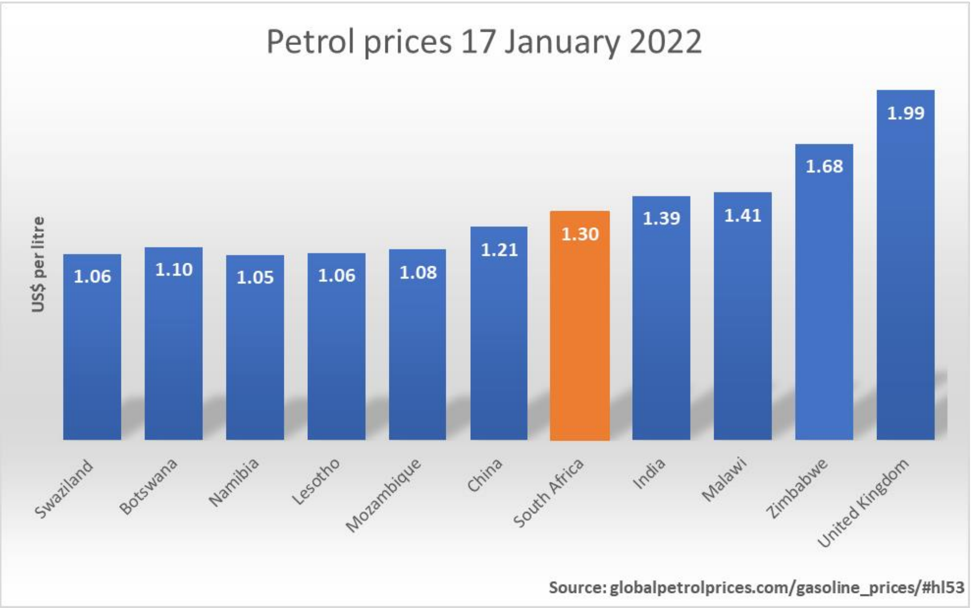
2. Average Gauteng pump price for the 2020/21 and 2021/22 years. The 2022/23 figure is the Gauteng pump price in February 2022. Diesel (0.05% sulphur) wholesale price (retail price not regulated)

Source: National Treasury

Fuel levies

- The fuel levy also seeks to internalise the negative externality costs of climate change, local air pollution, congestion and other environmental externalities to ensure that these costs are more fully reflected in fuel prices. This aims to promote behaviour change of both producers and consumers towards cleaner, low carbon fuels and encourage demand for fuel efficient hybrid and zero carbon vehicles.
- The general fuel levy is expected to raise R89 billion in 2022/23 and is the fourth largest revenue item in the tax system, behind PIT, VAT and CIT.

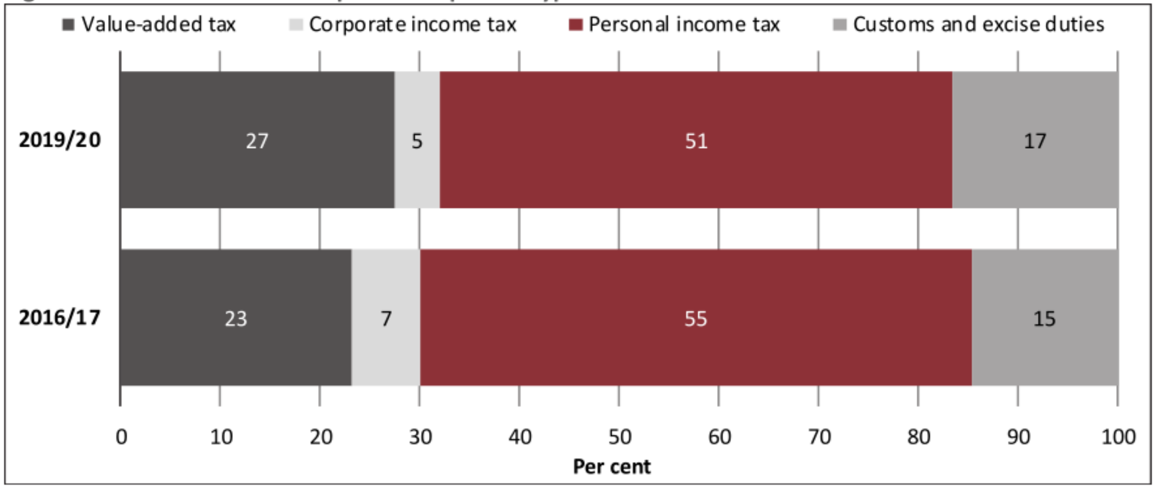
- Developed countries generally have higher fuel prices than South Africa (except for the US).
- Neighbouring countries have lower prices due to lower levies on the price of fuel.
- SA also dependent on fuel levy from a revenue objective



ANNEXURE B: TAX EXPENDITURE STATEMENT

- Annexure B of the Budget includes estimates of tax expenditures, which is the revenue foregone from providing preferential tax treatment (such as tax exemptions, deductions or credits).
- The total value of the estimated tax expenditures comes to around R268 billion, or 4.7 per cent of GDP in 2019/20.
- The largest tax expenditures are for retirement fund contributions (R94 billion), medical tax credits (R34 billion), the Automotive Production Development Programme (R34 billion) and zero-rating of goods for VAT (R31 billion).

Figure B.1 Share of total tax expenditure per tax type



Summary of the 2022 Draft Rates Bill

- **Clause 1**
  - Fixing of rates of normal tax, as detailed in Schedule I
- **Clause 2**
  - Increase in primary, secondary and tertiary rebates
- **Clause 3**
  - Increase values of medical tax credits
- **Clause 4**
  - Adjustment of the formula for calculation of the value fringe benefit for employer provided accommodation in line with new tax free threshold
- **Clause 5**
  - Amendment of Customs and Excise Act (1964) to make the amendments set out in Schedule II dealing with increases in alcohol and tobacco excise, plastic bag levy, incandescent globe levy, motor vehicle emissions levy, health promotion levy, carbon fuel levy and carbon emissions levy.
- **Clause 6**
  - Increase in the value of Employment Tax Incentive
- **Clause 7**
  - Increase in carbon tax rate
- **Clause 8**
  - Increase in carbon tax cost recovery quantum for the liquid fuels refinery sector

Summary of the 2022 Draft Rates Bill

- **Clause 9**
  - Effective date for the CIT rate reduction, Assessed loss limitation & Interest limitation: Years of assessment ending on 31 March 2023
- **Clause 10**
  - Effective date for the CIT rate reduction, Assessed loss limitation & Interest limitation: Years of assessment ending on 31 March 2023
- **Clause 11**
  - Short title

- **PROCESS FOR THE DRAFT RATES BILL**
- **Process to have hearings and introduction of Bill can be delinked from TLAB and TALAB**
- **SCOF has the power to request public comments and consider the Bill**

Tax proposals in Annexure C of the 2022 Budget

- Key tax proposals contained in Annexure C of the 2022 Budget, that will be dealt with in the 2022 Draft TLAB & TALAB and published for public comment late July 2022, include the following:
  - ***Individuals, employment & Savings***
    - Reviewing the timing of accrual and incurral of variable remuneration
    - Clarifying the compulsory annuitisation and protection of vested rights when transferring to a public-sector fund
    - Clarifying the applicability of tax-neutral transfers from a pension to a provident fund
  - ***Business (General)***
    - Clarifying the tax treatment of collateral arrangements provisions
    - Clarifying the definition of contributed tax capital
    - Reviewing the debtor's allowance provisions to limit the impact on lay-by arrangements
  - ***Business (Financial)***
    - Impact of IFRS17 insurance contracts on the taxation of insurers

Tax proposals in Annexure C of the 2022 Budget

- Some of the key tax proposals contained in Annexure C of the 2022 Budget, that will be dealt with in the 2022 Draft TLAB & TALAB and published for public comment late July 2022, include the following:
  - ***Business (Incentives)***
    - Interaction between the application of the assessed loss restrictions rules and capital expenditure regime for mining operations
    - Interaction between the application of the interest limitation rules and capital expenditure regime for mining operations
  - ***International Tax***
    - Clarifying the treatment of amounts from hybrid equity instruments deemed to be income under CFC rules
    - Clarifying the exclusion of participatory interest in foreign collective investment scheme from the definition of foreign dividend
  - ***VAT***
    - Reviewing section 72 arrangements and decisions
    - Clarifying the treatment of amounts from hybrid equity instruments deemed to be income under CFC rules

Tax proposals must be read with Annexure F proposals on financial sector regulatory reforms

SUSTAINABLE FINANCE and BETTER CLIMATE CHANGE disclosures

- The Climate Risk Forum (established through the NT Technical Paper) will launch a Green Finance Taxonomy. It is a voluntary system to label what constituents ''green'' investment (to avoid 'green washing') and describes technical standards for projects and assets. The taxonomy is critical for facilitating green investment by domestic and foreign institutional investment for the just transition.

- **RETIREMENT AND SAVINGS REFORMS**
- November 2021 papers focused on TWO-POT retirement system, including on encouraging households to Save More for Retirement, by ensuring better preservation before retirement, and widening coverage through the introduction of automatic enrolment, leading to mandatory enrolment, of employed individuals (including those who are self- employed) who are not members of a retirement fund.
- Improving Governance of Retirement Fund, especially of Umbrella Funds, enabling members of a commercial umbrella fund to elect at least 50 per cent of the members of the board of trustees.

Other Key Annexure F proposals

- Legislation to be tabled later this year to strengthen anti-money laundering system following FATF Mutual Evaluation Review, to prevent greylising but also to improve capability to fight financial crimes and bolster the fight against corruption
- Finalising draft policy paper An Inclusive Financial Sector for All, to better promote financial inclusion in South Africa
- Financial Sector Transformation Council expected to conclude review of transformation targets in the Financial Sector Code
- Promoting long-term investments by modernising capital flow management framework and harmonisation of offshore limits
- Regulatory reforms related to Regulation 28 of the Pensions Fund Act, to allow for greater investment in infrastructure by retirement funds
- Supporting small businesses affected by Covid/July unrest affected businesses through guarantees.
  - Loan: R15bln, collateral requirement dropped (up to lenders), NT to take first loss, facilitated through participating banks and non-bank SME finance and DFI enabled participation. The loan mechanism will be launched by end March.

CONCLUSION

- Tax proposals for the Budget to be found in Chapter 4 and Annexure C of Budget Review
  - Annexure B and F also relevant
- Key proposals are a reduction of CIT, increase in carbon tax, tax on vaping products
- Overall tax policy proposals driven by state of economy, need for growth, revenue and expenditure levels and secondary objectives linked to environment and health externalities
  - BUT tax is a BLUNT tool and needs to promote CERTAINTY for the long-term
  - Importance of USER CHARGES where appropriate
- Tax consultation process starts on Budget Day, and whilst more complex proposals are finalized in June (via TLAB and TALAB), Draft Rates Bill is already published on Budget Day, and can be processed by SCOF
- Future course of PIT and VAT will be determined by key expenditure decisions on grants, health, education and other priorities