# 2017 BUDGET SAICA TAX COMMENTARY AND SUMMARY

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## 1. INTRODUCTION

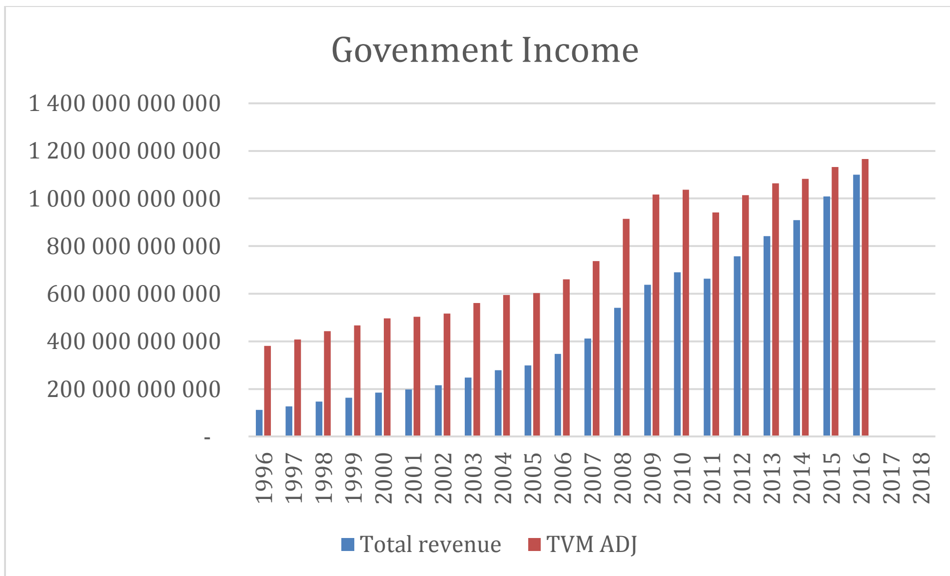
The following is a summary of the tax related budget proposals announced by the Minister of Finance on 22 February 2017.

For the first time, we have included commentary on the various aspects of the budget from a tax perspective.

## 2. BUDGET REVIEW 2017 – OVERVIEW

The 2017/2018 Budget Review was preceded by the Minister already preparing public expectations in the October 2016 Medium Term Budget Policy Statement (MTBPS) for what was expected not to be good news, including that tax increases would be a foregone conclusion. However, the budget is more than just about the income items, but also how the money is appropriated and how we fund things we cannot raise enough money for through taxes, i.e. debt.

However, government's ever growing need to fund itself seems to merely increase rather than stabilise. As seen in the graph below governments income has exponentially increased in the last 22 years and even when adjusted for inflation has grown nearly 400%. Even on a per person basis adjustment for inflation (i.e. in today's money) the amount to be spent by the government increased from about R9 000 to R21 000 per person.




** TVM – time value of money adjusted*

The most significant number in the budget was probably the substantial increase in total expenditure to R1.56 trillion, up from R1.45 trillion which is a 7.5% increase, significantly above inflation. This seemingly represents a vote of no confidence in the private sector by government in achieving the country's political goals. It also reiterates the government's belief that its investment in the country will produce better economic returns than what the private sector can achieve and thus a policy of greater public sector involvement.

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Economic growth is estimated to be 0.5% and increasing to 2.2% by 2019. The World Bank however estimates growth to only accelerate to 1.8% by 2019 and it has been the more accurate estimate over the last few years.

Income from Taxes

As predicted, the Minister has been loathe to implement a VAT increase, notwithstanding his concession that this is the only tax that is not highly taxed as compared to African and other global countries. The Minister has again relied on the general fuel levy as part of collections through a 30c increase, notwithstanding that this levy is substantially more regressive than VAT and far greater affects the poor through increased transport costs than VAT would. Furthermore, it is proposed that in 2018 VAT be introduced on fuel and though this may lead to a reduced fuel levy, it still targets the poor more.

As expected, the funding burden will mainly be addressed by a new 45% marginal tax bracket for individuals and trusts, which together with limited inflation relief, the Minister believes will collect R16.5 billion of his now adjusted R30 billion shortfall. Tax buoyancy of personal income taxes will again be a matter of discussion during 2017 as highlighted in the 2016 MTBPS and were below collections again in the current period. This is especially important if the negative employment numbers continue. Therefore this tax may not, in a struggling economy, be as buoyant as SARS and the Minister expects and the 2017 MTBPS and 2017 Tax Statistics will provide more clarity during the year.

To ensure that there is no arbitrage between salaries and trade income distributions, dividends tax is increased to 20% which increases the effective tax rate of profit distributions to 42.4% from 38.8%, taking us into the top 10 in the world. Though the Minister estimates that more than R6.5 billion will be raised (i.e. 25% increase from the initial R27 billion), caution should thus be expressed that dividend flow increases do not increase in times of economic hardship.

Taxes and decreased incentives on the horizon include the carbon tax, sugar sweetened beverage tax, gambling tax, acid mine drainage, the latter probably being the most concerning. These taxes will result in the tax to GDP ratio ballooning over 30% and moving South Africa into the top 10 of highest taxed countries in the world.

The sustainability of this approach will be debated and questioned by many and the 1 March 2017 parliamentary public consultations will probably have a lot more heated debate than previous years.

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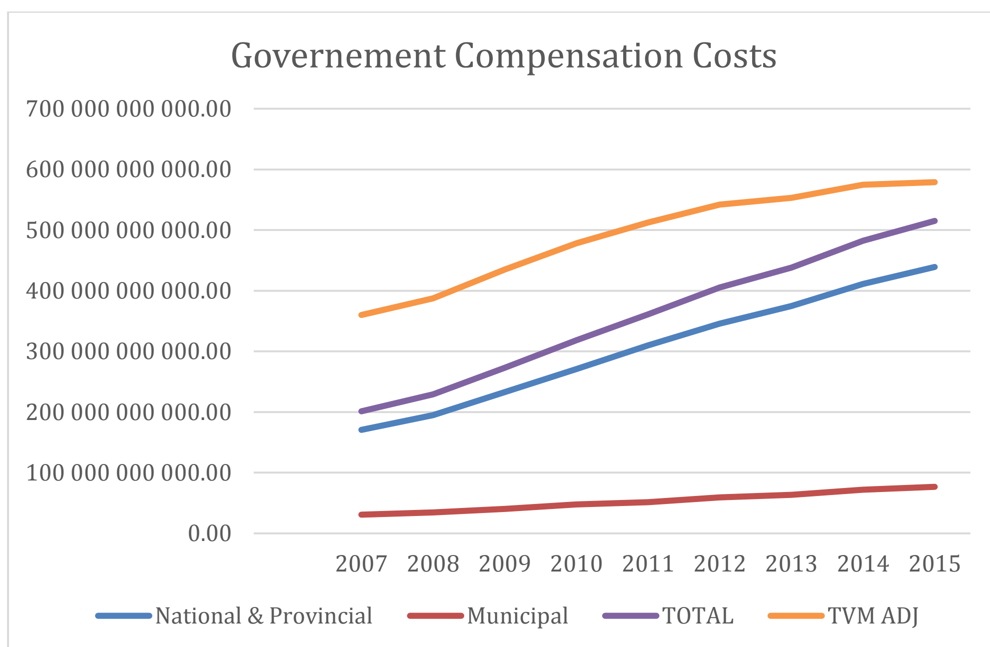
Expenditure

The Minister has tried to appease the public by announcing token decreases in spending ceilings of R10 billion. However, given the extreme increase in the overall budget this will do little to demonstrate that government is really serious about tightening its belt like it expects of the nation.

As in recent budgets, the two most watched expenditure line items are staff costs and cost of debt i.e. interest.

Government employment costs are revised downward from R551 billion to R471 billion which is most welcome. However, as seen in previous years this proposal will most likely be resisted and Treasury has not historically been successful in containing compensation cost agreements. As seen in the graph below, the salary bill already exceeds 50% of collections and even when adjusted for inflation to represent comparable monetary value has increased 61% from 2007 – 2015. The Minister noted that the salary bill is stabilising, but is unfortunately not decreasing in real terms as required.

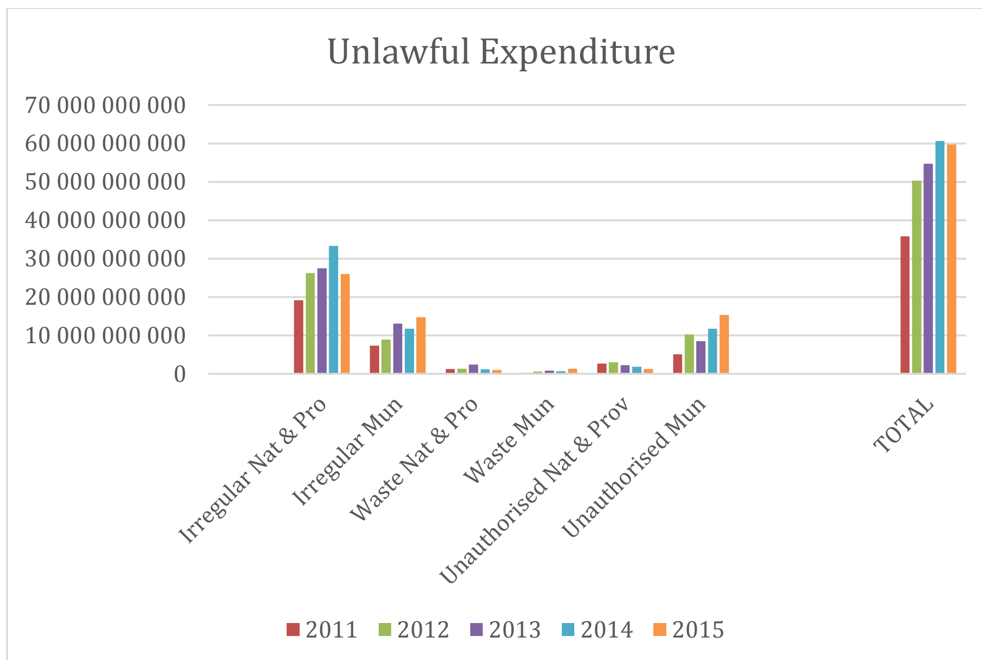



Debt and interest

Interest expenditure continues to remain a concern and again the Minister has not been able to control government's need to borrow to fund its running costs. For the fourth year in a row the borrowings estimation has been adjusted upwards. Gross loan debt is now at 49.2% of GDP (47.6% in 2015 budget) and increasing to 52.4% in 2019, the latter up from 50.5% in the 2016 budget. Also concerning is that the Minister is continually pushing out the date when debt will stabilise which will now, per the estimation, only be in 2021. Debt service cost is estimated to double between 2014 and 2020 to R197 billion. This means we will be spending more on debt service cost than on policing, housing and nearly as much on health at R215 billion by 2020. Political uncertainty and ratings reviews also pose a significant risk to these estimates.

Unlawful expenditure

A statistic that has to be mentioned is the movement in unlawful expenditure (i.e. irregular, unapproved and wasteful expenditure). As seen in the below graph, this has ballooned from R35 billion in 2013 to R59 billion in 2015.



The data for municipalities is not yet available for 2016, but the Auditor General has already reported that national and provincial unlawful expenditure has escalated 80% to R48 billion, up from R28 billion the previous year. This means the Minister could have funded R20 billion of the R30 billion required just from this increase. This unlawful expenditure is going to pose quite a challenge for both SARS and the Minister to convince the public that the tax increases and significant increased spending will in fact result in the changes we so desperately need as a country.

Wait and see

The Minister noted that they will closely monitor the effects of the proposal which indicates he is patently aware that some of the proposals may cause more harm than good. Whether government has been prudent in its funding plans in these difficult times will be a matter of much debate in the coming weeks though the overall conclusion will probably be that citizens will have less expendable income and merely a hope that government spending will be directed as planned to result in what the Minister has outlined.

## 3. BUDGET HIGHLIGHTS

The main tax proposals include the following:

- A new top personal income tax (PIT) rate of 45% for individuals with a taxable income above R1.5 million.
- The tax rate on trusts (other than special trusts which are taxed at rates applicable to individuals) will increase from 41% to 45%.
- An increase in the dividend withholding tax rate from 15% to 20%, effective from 22 February 2017.
- The general fuel levy will increase by 30 cents per litre on 5 April 2017 and 9 cents per litre on the road accident fund levy. This is likely to have an inflationary effect on the economy given the knock on effect on the cost of transport which will translate into an increase in the cost of goods to the consumer.

- A 6% to 10% increase in excise duties on alcoholic beverages and tobacco products.
- Reiterating the introduction of tax on sugary beverages during the course of this year. The proposed design has been revised to include both intrinsic and added sugars.
- The National Gambling Tax Bill will be taken to Cabinet in 2017

## 4. INDIVIDUALS AND TRUSTS

### Personal income tax

As noted above, a new PIT rate of 45% is proposed for individuals with a taxable income exceeding R1.5 million.

It is notable that the dividends withholding tax rate also increased from 15% to 20%, no doubt to ensure that whether an individual business owner earns dividends or a salary, there is limited arbitrage opportunity to reduce the overall tax payable by such individual. Similarly the rate of tax applicable to trusts has also increased to 45% to avoid the use of trusts to reduce an individual's tax liability.

Apparently, only 100 000 individuals will be affected by the introduction of this new tax bracket. However, in addition to this higher tax rate, there is also almost no relief provided for 'bracket creep', with the only adjustment being a 1% increase in the tax thresholds across the board. The additional tax expected from this lack of relief due to bracket creep, coupled with the new 45% PIT rate, is R16.5 billion, with R6.8 billion expected from the increased dividends withholding tax rate.

The primary tax threshold has increased from R75 000 in 2016/17 to R75 750 in 2016/17.

Whilst we agree that a tax system should be equitable and it is expected that those earning a higher income would contribute higher taxes, there are concerns regarding the reaction to this increasingly excessive burden on this category of taxpayer, coupled with frustrations regarding the wastage of public funds and lack of service delivery. It is notable that only a small percentage of the population is contributing to more than 50% of the total personal income tax (PIT) collections in South Africa. One should also bear in mind that these taxpayers are also contributing to indirect 'taxes' in the form of VAT, fuel levies, tyre levies, RAF levies, e-tolls and vehicles emissions tax, to name a few.

The question is, how much more of a burden can one bear before there is actually a decline in tax paid due to a decline in the tax morality of affected taxpayers? And how much longer will these taxpayers remain in South Africa before some highly skilled individuals choose to exit to countries where their tax contribution are either lower than South Africa's or better utilised by the governments of those other countries?

Whilst it is acknowledged that the Minister is faced with some very tough decisions, these are some unfortunate realities our nation is faced with.

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**Exemption for interest and dividend income**

The annual exemption on interest earned by individuals younger than 65 years (R23 800) for individuals 65 years and older (R34 500) remains the same.

This is in line with the National Treasury policy to encourage the use of Tax Free Investment and to phase out the interest exemption. This is further supported by the increase in the annual threshold.

The lifetime threshold has however not been increased and we hope to see some inflationary increases on this as well as a simple increase in the annual threshold means that individuals will now meet the lifetime threshold in a shorter period of time.

**Contributions**

*Medical tax credits*

Monthly medical scheme fee tax credit will from, 1 March 2017 be increased in line with inflation from R286 to R303 per month for the first two beneficiaries. For each additional beneficiary, the increase will be from R192 to R204.

It was noted that it is being considered to reduce this subsidy in future, as part of the financing framework for National Health Insurance.

**Retirement reforms**

*Preservation of benefits after reaching normal retirement dates*

Currently, where an individual elects to retire prior to the normal retirement date (as provided for in terms of 2014 tax amendments), the Income Tax Act, 1962 (the ITA) does not provide for the tax-free transfer of lump sum benefits from one retirement fund to another. It is proposed that transfers of retirement interests be allowed from a retirement fund to a retirement annuity fund, subject to fund rules.

While this is welcomed it is limited in effect as the portability of funds to provident funds is still prohibited until the finalisation of the retirement reform relating to provident fund annuitisation.

*Tax-exempt status of pre-March 1998 build-up in public-sector funds*

The ITA currently allows the tax-free transfer of pre-March 1998 lump sum benefits from a public-sector fund to a pension fund. It is proposed that subsequent transfers of these lump sum benefits to another pension fund be tax free.

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*Removing time limit to join an employer umbrella fund*

Existing employees who do not join a newly established employer umbrella fund have 12 months within which to join the fund, after which they are unable to join. To encourage employees to contribute towards their retirement and remove practical difficulties, it is proposed that the 12-month limit be removed

and that employees be allowed to join without time restriction, subject to the rules of the fund.

*Application of the cap on deductible retirement fund contributions*

It is currently not clear how the overall annual cap of R350 000 on contributions to pension, provident and retirement annuity funds should be applied when determining monthly employees' tax. It is proposed that the amount of R350 000 be spread over the tax year, which is a more prudent approach.

This clarity is welcomed as it created many practical difficulties for administration by employers.

**Other tax proposals affecting individuals**

*Foreign employment income-tax exemption in respect of South African residents*

Currently, if a South African resident works in a foreign country for more than 183 days in a 12 month period, foreign employment income earned is exempt from tax, subject to certain conditions. It is proposed that such foreign employment income will only be exempt from tax if it is subject to tax in the foreign country, to address the issue of double non-taxation.

It is hoped that consultation on the broad impact of this proposal will be held prior to implementation and drafting of the legislation. A large number of corporates have outbound expatriates and ensuring the tax equality and compliance on both sides of the border is already highly complex so the input from these employers can add value to the final solution that National Treasury is considering.

*Refining measures to prevent tax avoidance through the use of trusts*

The Taxation Laws Amendment Act, 2016 introduced section 7C into the ITA with a view to curbing the tax-free transfer of wealth to trusts through the use of low-interest or interest-free loans. This section deems any interest foregone in respect of low-interest or interest-free loans to a trust to be a donation that is subject to donations tax at a rate of 20%. However, some taxpayers have already attempted to circumvent the anti-avoidance measure by making such loans to companies owned by a trust. To counter abuse, it is proposed that the scope of this anti-avoidance measure be extended to cover these avoidance schemes.

In addition, it is proposed that the anti-avoidance rule should not apply to trusts that are not used for estate planning, for example, employee share scheme trusts and certain trading trusts. These proposed amendments will no doubt be welcomed by those affected and were the subject of much debate between National Treasury, SAICA and other stakeholders on initial introduction of section 7C.

*Clarifying the rules relating to the taxation of employee share-based schemes*

In 2016, amendments were made to the ITA to introduce anti-avoidance measures dealing with schemes where restricted shares are allocated to

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employees through employee share-based incentive schemes. The shares are then liquidated in return for an amount qualifying as a dividend. However, the 2016 changes did not fully address the interaction between section 8C and the provisions of the Eighth Schedule that exclude gains arising from the vesting or disposal of a restricted equity instrument from capital gains tax. It is proposed that the interaction be clarified.

We hope that consultation on this aspect will be robust in order to ensure that the amendments are effective once implemented. The initial changes created much uncertainty and the industry is more than willing to assist National Treasury to curb the envisaged gap.

*Increasing the fringe-benefit exemption for employer-provided bursaries*

Government proposes to increase the income eligibility threshold for employees from R400 000 to R600 000, and the monetary limits for 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. We welcome these increases in the limits, which are in line with submissions made by SAICA, with a view to addressing the issue of a skills shortage in South Africa. We note that a higher limit may apply to learners with disabilities – this has been something that SAICA has been lobbying for given that such learners may have increased costs due to their special needs.

We are hopeful that these efforts, coupled with the extension of the learnership allowance and employment tax incentive, will lead to improved skills and encourage employment.

*Employees' tax and reimbursement of travel expenses*

To facilitate and simplify the calculation and administration of employees' tax, it is proposed that only the portion of the travel expenses reimbursed by an employer that exceeds the rate or distance fixed by the Minister of Finance by notice in the Gazette in terms of the current law should be regarded as remuneration for purposes of determining employees' tax.

Currently the reimbursement of travel expenses is not taxable on the payroll.

The proposal indicates that once the employer reimburses at the higher rate or the distance exceeds the fixed distance, the excess will be taxable on payroll.

**Tax-free investments**

Tax-free investments were introduced from 1 March 2015 to encourage individuals to save. An increase on the annual allowance for tax fee savings accounts will be increased from R30 000 to R33 000, effective from 1 March 2017.

This is welcomed as it is necessary to encourage savings in these tough economic times. As mentioned above we are envisaging a future increase in the lifetime limit of R500 000 in order to ensure that individuals are still able to use these vehicles in the long term.

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### Tax on sugar-sweetened beverages

Obesity stemming from overconsumption of sugar is a global concern and South Africa is no exception. Following global trends, government proposed to introduce a tax on sugary beverages as soon as the necessary legislation is approved and signed, to help reduce excessive sugar intake.

It was noted that further consultations are currently taking place on the tax on sugar beverages. The proposed design has been revised to include both intrinsic and added sugars. The sugar content will remain the base on which the tax is applied as it is well suited to public health goals. The proposed tax rate will be 2.1c/gram for sugar content in excess of 4g/100ml. Of the proposed rate, 50 per cent will apply to concentrated beverages.

It is proposed that the legislation will be passed during this year after the details have been finalised. The tax will be implemented later this year and administered through Customs and Excise.

It was noted that some of the revenue will be used to support health-promotion interventions as part of a strategy to fight non-communicable diseases.

## 5. COMPANIES

### Corporate tax rates

No change is proposed to corporate tax rates.

### Relief for companies in tough economic times

Over the past few years, we've seen a trend in terms of providing relief to take into account the tough economic times South African companies and individuals are facing. In the prior year, we saw amendments to section 8F, whereby loans subject to subordination agreements are no longer considered hybrid debt instruments.

Prior to this amendment, in the circumstances, 'interest' on the debt was not allowed as a deduction for the borrower and the interest was treated as a dividend *in specie* for both the borrower and the lender and was potentially subject to dividends tax. This has changed in terms of the 2016 Tax Amendment Bill, subject to certain conditions being met and the 2016 amendment provided for relief for those companies who have subordinated their debt due to liquidity/solvency problems.

SAICA has recently seen many enquiries regarding the waiver of debt where companies are no longer in the position to repay such debt due to the decline in the economy. For those who have dealt with this, you will know that waiver of debt brings with it possible recoupments, reduction in assessed losses and/or capital gains. In the 2017 Budget, it was proposed that recoupment of debt used to finance tax-deductible expenditure will no longer apply in the case of dormant group companies or companies under business rescue. Similarly, it is proposed that the provision related to recoupment of debt that is cancelled, waived, forgiven or discharged, by mining companies, without reducing their tax-deductible capital expenditure, will fall away.

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A further proposal will allow for the conversion of debt-to-equity with the only tax implication being recoupment of capitalised interest which was previously claimed as a deduction.

Those who find themselves having to waive debt in the above-mentioned circumstances will no doubt welcome the relief anticipated in light of these proposals.

**Addressing the circumvention of anti-avoidance rules**

There are a number of proposals to introduce countermeasures to address the issue of tax avoidance with respect to specifically-identified avoidance transactions. Some of these were noted in the 2016 Budget Review, but no such measures were introduced in the 2016 tax amendments. The 2017 proposals are summarised below.

*Disguised sale of shares using share buybacks*

As was the case in the 2016 Budget Review, it is proposed that specific countermeasures be introduced to address tax avoidance via share buyback schemes – i.e. those schemes whereby payment for the shares is in the form of dividends that are exempt from normal tax and/or withholding tax.

*Addressing the abuse of artificial repayment of debt*

Since the introduction of the current tax rules for debt forgiveness, it has come to government’s attention that creditors and debtors are entering into short-term shareholding structures that attempt to circumvent income tax resulting from a recoupment triggered by the debt forgiveness rules. To achieve this, a creditor will subscribe for shares in its debtor and pay the debtor for those shares. The debtor will in turn use the subscription amount paid to settle its debt with the creditor. Soon after the payment is effected, the original shareholder of the debtor will buy the shares that the creditor subscribed for at a slight premium. This slight premium will cover the capital gains tax that the creditor will be liable for in respect of the shares in the debtor sold to the shareholder. This means the fiscus loses normal tax revenue on the recoupment and only receives the lower capital gains tax. It is proposed that measures be introduced to prevent these structures.

*Interaction between the “in duplum” rule and the statutory tax legislation*

It is proposed that all the tax rules dealing with low-interest or interest-free loans be amended to explicitly exclude the application of the *in duplum* rule* to ensure their efficacy. This, based on the perception that some taxpayers may be relying on this rule to distort the quantification of the tax benefit derived from low interest or interest free loans.

Note that SARS is of the view that the *in duplum* rule also does not apply to interest on debt owed to SARS.

* The *in duplum* rule provides that interest on debt stops accruing once the total amount of interest is equal to the outstanding amount.

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*Addressing the circumvention of dividend-stripping rules*

Currently, if a company borrows money from a party it is selling shares to and the company declares a dividend that is tax-free before the sale of the shares, an anti-avoidance rule provides that such dividends are subject to income tax or capital gains tax in the hands of the seller. However, this only applies if the debt funding for the shares was provided by the purchaser or guaranteed by any connected person in relation to the purchaser. It is proposed that this be extended to those instances where third party debt is used to fund the purchase of such shares as use of third party debt has been identified as circumvention of the anti-avoidance rule.

*Changes to the definition of contributed tax capital*

"Contributed tax capital" is defined in section 1 of the ITA. It is basically amounts contributed to the company, by shareholders on acquisition of shares. It is reduced by any capital that is subsequently transferred by the company to one or more of the shareholders and is commonly known as a capital distribution.

It has been identified that certain South African companies with foreign parents increase their contributed tax capital, thus arguably avoiding the payment of dividends tax through capital distributions. These capital distributions are not subject to capital gains tax in the hands of the foreign parent if the underlying investment is not in immovable property in South Africa. It is proposed that amendments be made in the tax legislation to prevent the abuse of the definition of contributed tax capital.

**Corporate reorganisation rules**

*Tax implication on the assumption of contingent debt*

The corporate reorganisation rules provides for the tax-free transfer of assets for corporate restructuring purposes, in instances where the transfer is funded by obtaining shares in the buyer of assets or the buyer assuming the debts of the seller. With respect to debt, only unconditional obligations are currently catered for. To align this to standard business practice, it is proposed that the assumption of future contingent liabilities also be considered as an acceptable consideration to facilitate tax-free transfers under the corporate reorganisation rules.

*Interplay between real estate investment trusts (REITs) and corporate reorganisation rules*

REITs are not entitled to claim certain capital allowances, because special rules allow them to deduct their shareholder distributions against rental income. As a result of this, when a REIT is party to a reorganisation transaction, an anomaly arises in that its assets would not qualify as allowance assets and therefore the rules on reorganisation do not apply to transactions involving REITs. It is proposed that the legislation be amended to make provision for corporate reorganisation rules to apply to transactions involving REITs.

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*Extension of collateral and securities lending arrangement provisions*

Government has been gradually introducing measures to address concerns about the limited scope of tax relief provisions dealing with collateral and securities lending arrangements. In 2016, legislative changes were made to include listed government bonds as allowable instruments for securities lending and collateral arrangements. In light of the ongoing review, it is proposed that changes be made to extend the current provisions of collateral and securities lending arrangements to include listed foreign government bonds.

*Amendments to third-party backed shares provisions*

Currently, all dividends arising directly or indirectly from transactions and arrangements involving preference shares guaranteed by third parties are deemed ordinary revenue, subject to "qualifying purpose" exemptions, to which the anti-avoidance rules do not apply. It has been identified that the qualifying purpose exemptions are too narrow, and may impede legitimate transactions. It is proposed that the current qualifying purpose exemption be extended to cover all qualifying purposes.

**Financial Sector**

*Consideration of the tax treatment of banks and other financial institutions due to International Financial Reporting Standard (IFRS) 9*

In 2018, the financial reporting of financial assets and liabilities will no longer be governed by International Accounting Standard (IAS) 39, but will be replaced by IFRS 9. Currently, section 24JB of the ITA, follows the accounting treatment contemplated in IAS 39. It is proposed that the tax treatment of the financial assets and liabilities of banks and other financial institutions, under section 24JB, be aligned with IFRS 9, except for the treatment of impairments.

*Exclusion of impairment adjustments from the determination of taxable income in section 24JB*

In 2012, SARS issued a directive for the tax treatment of doubtful debts for banks, based on and limited to the accounting treatment as contemplated in IAS 39. Given the imminent change to IFRS 9, it is proposed that the principles of the SARS directive be reviewed and incorporated in the ITA.

It is also proposed that section 24JB exclude impairment adjustments provided for under IFRS 9 as these impairment adjustments aim to provide for future risks instead of focusing solely on the current losses in the determination of taxable income as contemplated in section 24JB.

*Application of hybrid debt instrument rules in section 8F in respect of banks and other financial institutions that are taxed under section 24JB*

Section 8F of the ITA ensures that where debt exhibits certain equity-like features, interest on the debt is not allowed as a deduction for the borrower and the interest is treated as a dividend *in specie* for both the borrower and the lender and may be subject to dividends tax. If the borrower is a bank or financial institution, as contemplated in section 24JB, it is argued that the deduction of interest may still be allowed due to the application of section

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24JB, despite the current anti-avoidance provisions available in section 8F. It is proposed that it be clarified that section 8F overrides the provisions of section 24JB.

*Addressing the mismatch in the application of the provisions of paragraph 12A of the Eighth Schedule and section 24JB*

Under the debt reduction rules, a debtor must reduce the base cost of an asset that was funded with debt by any amount of that debt that is subsequently cancelled, waived, forgiven or discharged. In the case of debt that is cancelled, waived, forgiven or discharged within a group of companies, the ITA makes provision that the debtor will not be required to reduce the base cost of the asset. However, in instances where the debt is provided by a financial institution to its fellow group company and the loan is cancelled, waived, forgiven or discharged, an anomaly arises because the debtor will not be required to reduce the base cost of the asset while the financial institution may, in terms of section 24JB, still benefit from a deduction in respect of the amount of the loan forgiven. It is proposed that measures be introduced to prohibit mismatches on the tax treatment of reduced or waived loans between a financial institution and another company that is part of the same group of companies as that financial institution.

*Tax amendments due to the Solvency Assessment and Management framework for long-term insurers*

In 2016, amendments were made in the ITA as a result of the Solvency Assessment and Management reforms. It is proposed that amendments be made in the legislation to address concerns regarding the application and interpretation of the tax amendments.

**Incentives**

*Mining environmental funds*

Since 2006, contributions to mining rehabilitation trusts is tax deductible, subject to certain conditions. In November 2015, the Department of Environmental Affairs published regulations for financial provisioning for the rehabilitation, management and effects of mine closures for mining companies. Tax amendments are proposed to take into account these new regulations. In addition, it is proposed that the current provisions aimed at curbing abuse of the benefit of tax-deductible contributions (by using such funds for purposes other than rehabilitation) be strengthened.

*Partial ownership of land donated under land-reform initiatives*

In 2016, tax amendments provided for an exemption from donations tax and capital gains tax on land-reform initiatives, as outlined in the National Development Plan (NDP). These changes provide for an exemption where full ownership of the land is transferred. It is proposed that the current exemption be extended to allow partial ownership of land under appropriate circumstances, as envisaged by the NDP.

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*Refinement of the venture capital company regime*

Government has been gradually making changes to the venture capital company regime to encourage investment in small and medium-sized enterprises. It is proposed that further changes be made to the regime to remove impediments to investment, such as rules relating to investment returns and the qualifying company test.

*Clarifying the scope of relief for international donor funding organisations*

Currently, the ITA, special tax relief is available for international donor funding organisations providing development assistance to South Africa. However, the tax treatment of these donor organisations is not aligned. It is therefore proposed that changes be made to align the tax treatment of these organisations.

**Small business corporations (SBCs) and microbusinesses**

Qualifying micro businesses (with turnover up to R1 million a year) may choose to be subject to turnover tax, whilst qualifying SBCs (with gross income less than R20 million a year) are eligible for preferential corporate income tax rates on their taxable income. There are no transitional measures for micro businesses that grow sufficiently to migrate into the SBC. This can result in unforeseen tax liabilities and administrative penalties. Government proposes to reduce associated administrative penalties so that businesses can transition smoothly.

No change was made to the tax table applicable to micro businesses and a very minor amendment was made to the SBC tax table.

## 6. INTERNATIONAL TAX

*Tax treatment of foreign member funds*

The South African government will be establishing foreign member funds to enable local and foreign fund managers to establish and manage funds targeted for investments into the rest of Africa and the world. To make foreign member funds attractive, a special tax dispensation will be implemented, whereby foreign investors investing in the funds for onward investment into the rest of Africa or elsewhere will be exempt from withholding tax on interest. However, fees earned by local asset managers and collective investment scheme managers for investment management services will be subject to tax in South Africa.

*Changes to the tax treatment of domestic treasury management companies (DTMCs)*

In 2013, amendments were made in the ITA to make provision for qualifying DTMCs to be eligible for tax relief in respect of foreign currency gains and losses. The qualifying criteria for DTMCs in relation to tax residence will be reviewed as they are overly restrictive.

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*Tax implications of acquisition of foreign intellectual property by South African multinationals*

The ITA does not allow deductions for payments made to a foreign person in respect of the use or right to use tainted intellectual property. This is to prevent erosion of the tax base resulting from assigning South African intellectual property to foreign entities subject to lower effective tax rates in the foreign country, followed by the licensing of that intellectual property back to South African taxpayers.

As these anti-avoidance measures may affect legitimate commercial transactions and discourage the use of South African-based group infrastructure to further develop offshore intellectual property, relaxation of the policy will be considered without losing sight of the initial policy intent, which is to prevent tax base erosion.

*Tax implications of controlled foreign companies and offshore foreign trusts*

In 2015, the *Budget Review* announced that measures would be introduced on the treatment of foreign companies held by interposed trusts. However, no specific countermeasures were introduced in this regard.

It is therefore proposed that specific countermeasures be introduced to curb abuses.

## 7. ENVIRONMENTAL TAXES

### Carbon Tax

The draft carbon tax bill was published in November 2015. Following the comments received and additional public consultations, a revised Carbon Tax Bill will be published for public comment and tabled in Parliament by mid-year.

It was noted that Government will provide clarity by the end of 2017 on the alignment of the carbon tax and carbon budget after 2020. The price of electricity is not expected to be impacted until 2020.

### Tyre levy

The tyre levy was introduced to reduce waste, while encouraging reuse, recycling and recovery, and discouraging disposal into landfills.

The tyre levy is effective since 1 February 2017 and remains the same at a rate of R2.30/kg per tyre.

### Incandescent globe tax

An environmental levy on incandescent light bulbs was introduced in 2009 to encourage the use of more efficient compact fluorescent bulbs and reduce electricity demand.

This levy becomes remains unchanged being R6 per globe.

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### Plastic bag levy

The plastic bag levy counter the dispersion of plastic bags that end up as wind-blown litter or in waste facilities. The levy was introduced in 2003 and has not generally been considered effective in changing consumer behavior.

No adjustment has however been made to the levy of 8 cents per bag.

### Motor vehicle emissions tax

The motor vehicle emissions tax aims to encourage consumers to use more fuel-efficient, low-carbon-emitting vehicles, and manufacturers to improve fuel efficiency.

The rates remain the same, i.e. a tax rate of R100 for every gram of emissions/km above 120 g$CO_2$/km for passenger vehicles and R140 for every gram of emissions/km in excess of 175 g$CO_2$/km.

## 8. INDIRECT TAXES

### Value-added tax (VAT)

Despite many experts anticipating an increase in the VAT rate, as with prior years, this was not to be. Although this was potentially the most economically viable option to boosting revenue, given that the South African VAT rate is, on average, at least one percent lower than other African counterparts, there are also major concerns as to how this will affect poorer households, if not mitigated through specific public expenditure. Using a rough estimate, a 1% increase in the VAT rate could potentially increase revenue collections by R21 billion.

The prospect of expanding the VAT base in 2018/19 by removing the zero-rating on fuel is being considered, while counter-adjusting the fuel levy is also being considered.

*Clarifying the VAT treatment on leasehold improvements*

The Value-Added Tax Act, 1991 (the VAT Act) provide no guidelines in respect of the VAT treatment of leasehold improvements effected by the lessee, to the leasehold property, during the period of a lease agreement. It is proposed that amendments be made to the VAT Act to clarify the VAT treatment in respect of the time and value of supply of leasehold improvements on leasehold property.

*VAT vendor status of municipalities*

The local government elections of 3 August 2016 have led to the disestablishment or merger of certain municipalities. As a result, the affected municipalities had to either cancel their VAT registrations or apply for new VAT registrations. It is proposed that transitional measures be provided to address this.

*Amending the definition of “resident of the republic” for VAT purposes*

The VAT Act contains a definition of “resident of the republic” for VAT on cross-border supplies based on the definition of “resident” in the ITA. However, if a foreign company is effectively managed in South Africa, it will be regarded as a resident of South Africa. This implies that goods or services supplied by a South African company to such foreign company will be subject to VAT and no zero-rating provisions are applicable. If the foreign company is not required to register for VAT but bears South African VAT because it is a resident, the VAT that is borne will become a business cost, as that company is unable to deduct that VAT as input tax. The definition of “resident in the republic” in the VAT Act will be amended to provide for such situations.

*Repealing the 2011 amendment dealing with the value to be placed on inter-warehouse sales*

If goods are imported into South Africa and entered for home consumption, the goods are subject to VAT. The VAT is calculated by taking into account the value for customs duty purposes, plus any customs duty levied thereon, plus 10 per cent of the value of the goods. However, when goods are imported into the country and entered for storage in a licenced warehouse, but have not been entered for home consumption, and such goods are then sold from one warehouse to another, the value to be placed on such goods is the *higher* of the above calculation, or the actual amount in money paid, or the open market value of the goods.

This was determined in terms of a 2011 amendment to the VAT Act. Prior to 2011, the value was deemed to be the *lower* of these amounts. The 2011 amendment was never implemented due to administrative and compliance complexities and it is proposed that it should be repealed with retrospective effect.

*Postponing the 2015 amendment dealing with the VAT treatment of the national housing programme*

In 2015, amendments were made to the VAT Act to abolish the zero rating of the supply of goods and services for government’s national housing programme, with effect from 1 April 2017. However, neither the National Treasury nor municipalities are ready to make the VAT amendments. It is proposed that the effective date for this amendment be postponed for two years.

*Clarifying the zero rating of international travel insurance*

It is proposed that the zero-rating provision pertaining to international travel be clarified, including, for example, while the traveller is still in the country of departure, while the traveller is still being transported to or from the original point of departure in South Africa, and while the traveller is not actually travelling, but is in a hotel room.

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*Clarifying the VAT treatment of services supplied in connection with particular movable property situated in an export country*

The term “movable property” is not defined in the VAT Act. In terms of the Companies Act, movable property includes securities or shares. Securities or shares in a foreign incorporated company that is listed on the JSE could be interpreted to mean movable property that is situated in an export country. The VAT Act makes provision for the zero rating of services (fees charged) that are supplied directly in connection with movable property that is situated in an export country at the time the services are rendered. This implies that services supplied relating to securities or shares in a foreign incorporated company listed on the JSE should be subject to zero-rated VAT. It is proposed that changes be made to the VAT Act to clarify the tax treatment of these services.

**Customs and excise**

*Review of the diesel refund administration system*

The 2015 Budget announced a comprehensive review of the administration of the diesel refund, which requires the delinking of the diesel refund from the VAT system and the creation of a standalone diesel refund administration. A discussion paper outlining the options for a simplified administration system was published for public comment on 15 February 2017 and has been circulated to SAICA members for input. The legislative amendments to give effect to the separation of the diesel refund system will be developed following public consultations.

## 9. TAX ADMINISTRATION

*Approval of organisations receiving tax-deductible donations*

It is proposed that the ITA be amended to confirm the current approval process of public benefit organisations receiving tax-deductible donations. This is in addition to the approval of their tax exempt status.

*Transitioning interest calculation rules under the Tax Administration Act, 2011 (the TAA)*

It is proposed that amendments be made to further clarify the transitional rules for the calculation of interest on tax debts under the TAA to ensure that they do not result in inconsistencies, or the under- or over-accrual of interest.

*Tax Board*

It is proposed that clarification be made that the chairperson of the Tax Board has the final decision as to whether or not an accountant or commercial member must form part of the constitution of the Tax Board.

*Decisions by SARS*

It is proposed that all decisions of SARS that are not subject to objection and appeal should be subject to the remedies under section 9 of the TAA.

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*Accrual of interest payable by SARS*

Interest that is payable by SARS could accrue over a number of tax years. To avoid complications in taxing that interest or interest that is adjusted for previous tax years, it is proposed that interest payable by SARS should be deemed to accrue to the recipient on the date of payment thereof by SARS.

## 10. TAX GUIDE (including tables)

### Individuals and trusts

| **Income tax rates for natural persons and special trusts<br>Year of assessment ending 28 February 2018** | |
|---|---|
| **Taxable income (R)** | **Taxable rates** |
| 0 – 189 880 | 18% of each R1 |
| 189 881 – 296 540 | 34 178 + 26% of the amount above 189 880 |
| 296 541 – 410 460 | 61 910 + 31% of the amount above 296 540 |
| 410 461 – 555 600 | 97 225 + 36% of the amount above 410 460 |
| 555 601 – 708 310 | 149 475 + 39% of the amount above 555 600 |
| 708 311 – 1 500 000 | 209 032 + 41% of the amount above 708 310 |
| 1 500 001 and above | 533 625 + 45% of the amount above 1 500 000 |

***Natural persons***

| **Tax thresholds** | | |
|---|---|---|
| | **2017/18** | **2016/17** |
| | **R** | **R** |
| Below 65 years of age | 75 750 | 75 000 |
| Aged 65 and below 75 | 117 300 | 116 150 |
| Aged 75 and over | 131 150 | 129 850 |

| **Tax rebates** | | |
|---|---|---|
| | **2017/18** | **2016/17** |
| | **R** | **R** |
| Primary – all natural persons | 13 634 | 13 500 |
| Secondary – persons aged 65 and below 75 | 7 479 | 7 407 |
| Secondary – persons aged 75 above | 2 493 | 2 466 |

***Trusts***

The tax rate on trusts (other than special trusts which are taxed at rates applicable to individuals) will increase from 41% to 45%.

***Retirement fund lump sum withdrawal benefits***

| **Taxable income** | **Rate of tax** |
|---|---|
| **R** | **R** |
| 0 – 25 000 | 0% of taxable income |
| 25 001 - 660 000 | 18% of taxable income above 25 000 |
| 660 001 - 990 000 | 114 300 + 27% of taxable income above 660 000 |
| 990 001 and above | 203 400 + 36% of taxable income above 990 000 |

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Retirement fund lump sum withdrawal benefits consist of lump sums from a pension, pension preservation, provident, provident preservation or

retirement annuity fund on withdrawal (including assignment in terms of a divorce order).

Tax on a specific retirement fund lump sum withdrawal benefit (lump sum X) is equal to –

- the tax determined by the application of the tax table to the aggregate of lump sum X plus all other retirement fund lump sum withdrawal benefits accruing from March 2009, all retirement fund lump sum benefits accruing from October 2007 and all severance benefits accruing from March 2011; less
- the tax determined by the application of the tax table to the aggregate of all retirement fund lump sum withdrawal benefits accruing before lump sum X from March 2009, all retirement fund lump sum benefits accruing from October 2007 and all severance benefits accruing from March 2011.

***Retirement fund lump sum benefits***

| Taxable income | Rate of tax |
|---|---|
| **R** | **R** |
| 0 – 500 000 | 0% of taxable income |
| 500 001 – 700 000 | 18% of taxable income above 500 000 |
| 700 001 – 1 050 000 | 36 000 + 27% of taxable income above 700 000 |
| 1 050 001 and above | 130 500 + 36% of taxable income above 1 050 000 |

Retirement fund lump sum benefits consist of lump sums from a pension, pension preservation, provident, provident preservation or retirement annuity fund on death, retirement or termination of employment due to attaining the age of 55 years, sickness, accident, injury, incapacity, redundancy or termination of the employer's trade.

Severance benefits consist of lump sums from or by arrangement with an employer due to relinquishment, termination, loss, repudiation, cancellation or variation of a person's office or employment.

Tax on a specific retirement fund lump sum benefit or a severance benefit (lump sum or severance benefit Y) is equal to –

- the tax determined by the application of the tax table to the aggregate of amount Y, plus all other retirement fund lump sum benefits accruing from October 2007 and all retirement fund lump sum withdrawal benefits accruing from March 2009 and all other severance benefits accruing from March 2011; less
- the tax determined by the application of the tax table to the aggregate of all retirement fund lump sum benefits accruing before lump sum Y from October 2007 and all retirement fund lump sum withdrawal benefits accruing from March 2009 and all severance benefits accruing before severance benefit Y from March 2011.

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### *Dividends*

Effective from 22 February 2017, the dividend withholding tax rate will increase to 20% (previously 15%). Government increased the dividend withholding tax rate to reduce the difference between the top marginal personal income tax rate and the combined statutory tax rate.

It was noted that South Africa's combined statutory tax rate (i.e. 38.8%) on dividend income falls below the OECD average (above 40%). The increased dividend withholding tax rate will narrow opportunities for arbitrage.

### *Foreign Dividends*

Most foreign dividends received by individuals from foreign companies (shareholding of less than 10% in the foreign company) are taxable at a maximum effective rate of 15%. No deductions are allowed for expenditure to produce foreign dividends.

To align the inbound foreign dividends, the effective rate of 15% will be adjusted to 20%, effective for years of assessment commencing on or after 1 March 2017.

### *Withholding tax on immovable property sales*

Government has proposed to increase the withholding tax on immovable property sales by non-residents to align it with the increased effective capital gains tax rates.

The rates for individuals will increase from 5% to 7.5%. Similarly the rates for companies will increase from 7.5% to 10% and 10% to 15% for trusts.

### *Exemptions*

*Interest*

Interest from a South African source earned by any natural person under 65 years of age, up to R23 800 per annum, and persons 65 and older, up to R34 500 per annum, is exempt from taxation.

Interest is exempt where earned by non-residents who are physically absent from South Africa for at least 181 days during the 12 month period before the interest accrues or the debt from which the interest arises is not effectively connected to a fixed place of business in South Africa of that non-resident.

### *Deductions*

*Pension, provident and retirement annuity fund contributions*

Amounts contributed to pension, provident and retirement annuity funds during a tax year are deductible by members of those funds. Amounts contributed by employers and taxed as fringe benefits are treated as contributions by the individual employee. The deduction is limited to 27.5% of the greater of remuneration for PAYE purposes or taxable income (both excluding retirement fund lump sums and severance benefits).

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Furthermore, the deduction limit is unchanged at a maximum of R350 000. Any contributions exceeding the limitations are carried forward to the next tax year and are deemed to be contributed in that following year. The amounts carried forward are reduced by contributions set off when determining taxable retirement fund lump sums or retirement annuities.

*Donations*

Deductions in respect of donations to certain public benefit organisations are limited to 10% of taxable income (excluding retirement fund lump sums and severance benefits). The amount of donations exceeding 10% of the taxable income is treated as a donation to qualifying public benefit organisations in the following tax year.

### ***Allowances***

*Subsistence allowances and advances*

Where the recipient is obliged to spend at least one night away from his or her usual place of residence on business and the accommodation to which that allowance or advance relates is in the Republic of South Africa and the allowance or advance is granted to pay for—

- meals and incidental costs, an amount of R397 (previously R372) per day is deemed to have been expended;
- incidental costs only, an amount of R122 (previously R115) for each day which falls within the period is deemed to have been expended.

Where the accommodation to which that allowance or advance relates is outside the Republic of South Africa, a specific amount per country is deemed to have been expended. Details of these amounts are published on the SARS website under Legal Counsel / Secondary Legislation / Income Tax Notices / 2017.

*Travelling allowance*

Rates per kilometer which may be used in determining the allowable deduction for business travel, where no records of actual costs are kept are determined by using the following table.

| Value of the vehicle (including VAT) | Fixed cost | Fuel cost | Maintenance cost |
|---|---|---|---|
| **R** | **R per annum** | **c per km** | **c per km** |
| 0 – 85 000 | 28 492 | 91.2 | 32.9 |
| 85 001 – 170 000 | 50 924 | 101.8 | 41.2 |
| 170 001 – 255 000 | 73 427 | 110.6 | 45.4 |
| 255 001 – 340 000 | 93 267 | 118.9 | 49.6 |
| 340 001 – 425 000 | 113 179 | 127.2 | 58.2 |
| 425 001 – 510 000 | 134 035 | 146.0 | 68.4 |
| 510 001 – 595 000 | 154 879 | 150.9 | 84.9 |
| Exceeding 595 000 | 154879 | 150.9 | 84.9 |

*Note:*

- 80% of the travelling allowance must be included in the employee's remuneration for the purposes of calculating PAYE. The percentage is reduced to 20% if the employer is satisfied that at least 80% of the use of the motor vehicle for the tax year will be for business purposes.
- No fuel cost may be claimed if the employee has not borne the full cost of fuel used in the vehicle and no maintenance cost may be claimed if the employee has not borne the full cost of maintaining the vehicle (e.g. if the vehicle is the subject of a maintenance plan).
- The fixed cost must be reduced on a pro-rata basis if the vehicle is used for business purposes for less than a full year.
- The actual distance travelled during a tax year and the distance travelled for business purposes substantiated by a log book are used to determine the costs which may be claimed against a travelling allowance.

*Alternatively:*

- Where the distance travelled for business purposes does not exceed 12 000 kilometers (previously 8 000 kilometers) per annum, no tax is payable on an allowance paid by an employer to an employee up to the rate of 355 cents (previously 329 cents) per kilometer, regardless of the value of the vehicle.
- However, this alternative is not available if other compensation in the form of an allowance or reimbursement (other than for parking or toll fees) is received from the employer in respect of the vehicle.

***Other deductions***

Other than the deductions set out above an individual may only claim deductions against employment income or allowances in limited specified situations.

***Fringe Benefits***

*Employer contributions to retirement funds for employees' benefit*

- The taxable fringe benefit is equal to the actual contribution where the benefits payable to the employee consists solely of defined contribution components.
- Where the benefits payable to the employee do not consist of defined contribution components, the taxable fringe benefit is calculated in terms of a formula.

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*Employer-owned vehicles*

- The taxable value is 3.5% of the determined value (retail market value) per month of each vehicle. Where the vehicle is–

- the subject of a maintenance plan when the employer acquired the vehicle the taxable value is 3.25% of the determined value; or
- acquired by the employer under an operating lease the taxable value is the cost incurred by the employer under the operating lease plus the cost of fuel.

- 80% of the fringe benefit must be included in the employee's remuneration for the purposes of calculating PAYE. The percentage is reduced to 20% if the employer is satisfied that at least 80% of the use of the motor vehicle for the tax year will be for business purposes;
- On assessment the fringe benefit for the tax year is reduced by the ratio of the distance travelled for business purposes substantiated by a log book divided by the actual distance travelled during the tax year;
- On assessment further relief is available for the cost of licence, insurance, maintenance and fuel for private travel, if the full cost thereof has been borne by the employee and if the distance travelled for private purposes is substantiated by a log book.

*Interest-free or low-interest loans*

The difference between interest charged at the official rate and the actual amount of interest charged, is to be included in gross income.

*Residential accommodation*

The fringe benefit to be included in gross income is the rental value thereof, which must be determined in terms of a formula as set out in paragraph 9 of the Seventh Schedule. If the employee is paying any consideration for the use of the accommodation and/or household goods, the rental value calculated must be reduced by this consideration.

Where the rental value of the accommodation is lower than that calculated in terms of the formula (due to the situation, nature or condition, etc of the accommodation), the Commissioner may determine such rental value at a lower amount which to him appears fair and reasonable. The value determined in terms of the formula will apply if the accommodation is owned by the employer, by an associated institution in relation to the employer, or under certain limited circumstances where it is not owned by the employer. Where the employer or associated institution is paying an arm's length rental to a non-connected person for use of the accommodation, the fringe benefit value in the hands of the employee will be the lower of the formula value or the actual rental paid.

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## Corporate tax rates

### *Companies, PSPs and foreign resident companies*

| YEARS OF ASSESSMENT ENDING BETWEEN 1 APRIL 2017 AND 31 MARCH 2018 | | |
|---|---|---|
| **Normal tax** | | |
| Companies and close corporations | Basic rate | 28% |
| Personal service provider companies | Basic rate | 28% |
| Foreign resident companies which earn income from a SA source | Basic rate | 28% |

### *Small business corporations*

Financial years ending on any date between 1 April 2017 and 31 March 2018

| Taxable income | Rate of tax |
|---|---|
| **R** | **R** |
| 0 – 75 750 | 0% of taxable income |
| 75 751 – 365 000 | 7% of taxable income above 75 750 |
| 365 001 – 550 000 | 20 248 + 21% of taxable income above 365 000 |
| 550 001 and above | 59 098 + 28% of the amount above 550 000 |

### *Micro businesses*

Financial years ending on any date between 1 March 2017 and 28 February 2018

| Taxable turnover | Rate of tax |
|---|---|
| **R** | **R** |
| 0 – 335 000 | 0% of taxable turnover |
| 335 001 – 500 000 | 1% of taxable turnover above 335 000 |
| 500 001 – 750 000 | 1 650 + 2% of taxable turnover above 500 000 |
| 750 001 and above | 6 650 + 3% of taxable turnover above 750 000 |

### *Effective capital gains tax rates*

Capital gains on the disposal of assets are included in taxable income.

| Maximum effective rate of tax | | |
|---|---|---|
| | **2017/18** | **2016/17** |
| Individuals and special trusts | 18% | 16.4% |
| Companies | 22.4% | 22.4% |
| Other trusts | 36% | 32.8% |

## Other taxes, duties and levies

### *Value-added Tax (VAT)*

VAT is levied at the standard rate of 14% on the supply of goods and services by registered vendors. A vendor making taxable supplies of more than R1 million per annum must register for VAT. A vendor making taxable supplies of more than R50 000 but not more than R1 million per annum may apply for voluntary registration. Certain supplies are subject to a zero rate or are exempt from VAT.

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### *Transfer duty*

Government proposed to raise the duty-free threshold on the purchase of a residential property from R750 000 to R900 000, in order to provide relief for lower- and middle-income households.

Transfer duty is payable at the following rates on transactions in respect of acquisition of property on or after 1 March 2017 which are not subject to VAT.

| Value of property (R) | Rate |
| --- | --- |
| 0 – 900 000 | 0% |
| 900 001 – 1 250 000 | 3% of the value above 900 000 |
| 1 250 001 – 1 750 000 | 10 500 + 6% of the value above 1 250 000 |
| 1 750 001 – 2 250 00 | 40 500 + 8% of the value above 1 750 000 |
| 2 250 001 – 10 000 000 | 80 500 + 11% of the value above 2 250 000 |
| 10 000 001 and above | 933 000 + 13% of the value above 10 000 000 |

### *Estate duty*

Estate duty is levied at a flat rate of 20% on property of residents and South African property of non-residents. A basic deduction of R3.5 million is allowed in the determination of an estate's liability for estate duty as well as deductions for liabilities, bequests to public benefit organisations and property accruing to surviving spouses.

### *Donations tax*

- Donations tax is levied at a flat rate of 20% on the value of property donated;
- The first R100 000 of property donated in each year by a natural person is exempt from donations tax;
- In the case of a taxpayer who is not a natural person, the exempt donations are limited to casual gifts not exceeding R10 000 per annum in total;
- Dispositions between spouses and South African group companies and donations to certain public benefit organisations are exempt from donations tax.

### *Securities transfer tax*

The tax is imposed at a rate of 0.25% on the transfer of listed or unlisted securities. Securities consist of shares in companies or member's interests in close corporations.

### *Tax on International Air Travel*

The tax amounts to R190 per passenger departing on international flights, excluding flights to Botswana, Lesotho, Namibia and Swaziland, in which case the tax is R100 per passenger, remains unchanged.

### *Skills Development Levy*

A skills development levy (SDL) is payable by employers at a rate of 1% of the total remuneration paid to employees. Employers paying annual remuneration of less than R500 000 are exempt from the paying the levy.

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### *Unemployment Insurance Contributions*

Unemployment insurance contributions are payable monthly to SARS by employers on the basis of a contribution of 1% by employers and 1% by employees, based on employees' remuneration below a certain amount. Employers not registered for PAYE or SDL purposes must pay the contributions to the Unemployment Insurance Commissioner.

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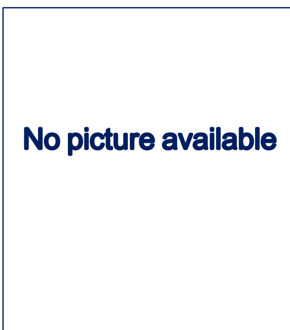


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