5

Revenue trends and tax proposals

Overview

Raising sufficient revenue to support projected expenditure on government's economic and social priorities will require adjustments to the tax and expenditure framework over the medium to long term. This framework should contribute towards sustainable economic growth and job creation, while addressing the significant disparities in South African society.

Medium- to long-term spending priorities require adjustments to tax and expenditure framework

The 2009 recession sharply reduced the income available for public expenditure, with nominal tax revenues declining in 2009/10. Revenues have improved in 2010/11 and are expected to track modest real economic growth over the medium term. Recent data suggests a strong recovery in customs duties and value-added tax (VAT) revenues during 2010/11, but the recovery in corporate income tax revenue is lagging behind.

The 2011 Budget tax proposals are intended to broaden the tax base in support of inclusive growth. Businesses will receive tax breaks to support skills development and job creation, particularly for young workers. Various loopholes will be closed and tax equity will be improved by reforming the tax treatment of contributions to medical schemes and contributions to retirement funds. The new dividends tax will be implemented, replacing the secondary tax on companies. Consumption-related taxes, which also address environmental and health concerns, will be increased.

Businesses to receive tax breaks to support job creation and skills development

The main tax proposals include:

- Personal income tax relief of R8.1 billion
- A third rebate for individuals 75 years and older
- Conversion of medical tax deductions to tax credits

- Transfer duty relief
- Higher taxes on fuel
- Higher taxes on alcohol and tobacco
- Taxation of gambling winnings.

Budget revenue – revised estimates

Table 5.1 highlights budget estimates and revenue outcomes of the major tax instruments for 2009/10, and revised projected revenue outcomes for 2010/11. Tables 2 and 3 in Annexure B set out these trends in more detail.

Outcome for 2009/10 and revised estimates for 2010/11

2009/10 revenue of R598.7 billion was R26.4 billion lower than the prior year

Audited results show that tax revenue for 2009/10 of R598.7 billion was R26.4 billion or 4.2 per cent lower than for 2008/09. Lower corporate income tax (18.5 per cent down from the previous year), customs duties (13.6 per cent down) and VAT (4.1 per cent down) accounted for this overall decline.

Tax revenues recovered during 2010/11, with revised estimates R73.5 billion or 12.3 per cent higher than in 2009/10. This was the result of strong recoveries in personal income tax (11.1 per cent), VAT (22.6 per cent) and customs duties (34.9 per cent). However, nominal corporate income tax revenue declined by 1.8 per cent, an indication of the lag effect of the 2009 recession.

Tax expenditure statement

This *Budget Review* includes, for the first time, a tax expenditure statement. The statement, found in Annexure C, is a summary of tax revenues that were foregone as a result of various tax incentives to help achieve government's social and economic objectives. Such forms of indirect expenditure are often hidden. Government is committed to transparency in the budget process, and publication of the tax expenditure statement promotes that objective.

The conservative estimate of total tax expenditure in 2008/09 was R78.1 billion, or 3.4 per cent of GDP.

Table 5.1 Budget estimates and revenue outcome, 2009/10 and 2010/11

	2009/10			2010/11			2009/10 – 2010/11
R million	Budget	Outcome	Deviation	Budget	Revised	Deviation	% change[1]
Taxes on income and profits	**389 040**	**359 045**	**-29 995**	**377 716**	**380 080**	**2 364**	***5.9%***
Persons and individuals	207 450	205 145	-2 305	224 676	228 000	3 324	*11.1%*
Companies	160 000	134 883	-25 117	133 650	132 500	-1 150	*-1.8%*
Secondary tax on companies	19 000	15 468	-3 532	16 500	16 500	–	*6.7%*
Tax on retirement funds	–	43	43	–	–	–	*0.0%*
Other taxes on income and profits [2]	2 590	3 506	916	2 890	3 080	190	*-12.1%*
Taxes on payroll and workforce	**7 750**	**7 805**	**55**	**8 424**	**8 420**	**-4**	***7.9%***
Taxes on property	**10 420**	**8 826**	**-1 594**	**9 960**	**9 365**	**-595**	***6.1%***
Domestic taxes on goods and services	**226 757**	**203 667**	**-23 090**	**230 880**	**247 540**	**16 660**	***21.5%***
Value-added tax	168 807	147 941	-20 866	164 000	181 335	17 335	*22.6%*
Specific excise duties	22 600	21 289	-1 311	24 250	22 900	-1 350	*7.6%*
Ad valorem excise duties	1 350	1 276	-74	1 200	1 900	700	*48.9%*
General fuel levy	30 090	28 833	-1 257	34 600	34 300	-300	*19.0%*
Other domestic taxes on goods and services[3]	3 910	4 328	418	6 830	7 105	275	*64.2%*
Taxes on international trade and transactions	**25 337**	**19 319**	**-6 018**	**20 850**	**26 790**	**5 940**	***38.7%***
Customs duties	24 635	19 577	-5 058	20 500	26 400	5 900	*34.9%*
Miscellaneous customs and excise receipts	702	-258	-960	350	390	40	*-251.0%*
Stamp duties and fees	**–**	**49**	**49**	**20**	**5**	**-15**	***-89.9%***
State miscellaneous revenue[4]	**–**	**-6**	**-6**	**–**	**–**	**–**	***0.0%***
Total tax revenue	**659 304**	**598 705**	**-60 599**	**647 850**	**672 200**	**24 350**	***12.3%***
Non-tax revenue[5]	11 602	8 889	-2 713	10 380	12 254	1 874	*37.9%*
of which:						–	*0.0%*
Mining royalties	–	–	–	*3 540*	*3 712*	*172*	*0.0%*
Mining leases and ownership	*325*	*633*	*308*	–	*900*	*900*	*42.2%*
Less: SACU payments	-27 915	-27 915	-0	-14 991	-14 991	–	*-46.3%*
Other adjustment[6]	–	–	–	–	-2 900	-2 900	*0.0%*
National budget revenue	**642 990**	**579 679**	**-63 312**	**643 239**	**666 563**	**23 324**	***15.0%***
Provinces, social security funds and selected public entities.	88 245	85 162	-3 083	95 165	88 460	-6 704	*3.9%*
Budget Revenue	**731 235**	**664 840**	**-66 395**	**738 404**	**755 023**	**16 619**	***13.6%***

1. *Percentage change 2009/10 outcome versus 2010/11 revised estimate.*
2. *Includes interest on overdue income tax and small business tax amnesty levy.*
3. *Includes air departure tax, plastic bags levy, electricity levy and Universal Service Fund.*
4. *Revenue received by SARS that could not be allocated to a specific tax instrument.*
5. *Includes mineral royalities, mining leases and departmental revenue.*
6. *Payments to Southern African Customs Union (SACU) partners for a previous error in calculation of the 1969 agreement.*

Revenue estimates and 2011/12 tax proposals

Table 5.2 sets out the estimates of revenue before consideration of the tax proposals for 2011/12.

Table 5.2 Estimates of revenue before tax proposals, 2010/11

R million	2010/11 Revised	2011/12 Before tax proposals	2010/11–2011/12 % change
Taxes on income and profits	**380 080**	**426 695**	***12.3%***
Persons and individuals	228 000	261 600	*14.7%*
Companies	132 500	143 665	*8.4%*
Secondary tax on companies	16 500	18 100	*9.7%*
Tax on retirement funds	–	–	*0.0%*
Other taxes on income and profits[1]	3 080	3 330	*8.1%*
Taxes on payroll and workforce	**8 420**	**9 150**	***8.7%***
Taxes on property	**9 365**	**10 340**	***10.4%***
Domestic taxes on goods and services	**247 540**	**269 225**	***8.8%***
Value-added tax	181 335	200 880	*10.8%*
Specific excise duties	22 900	23 300	*1.7%*
Ad valorem excise duties	1 900	2 080	*9.5%*
General fuel levy	34 300	35 000	*2.0%*
Electicity levy	290	5 380	
Other domesic taxes on goods and services[2]	415	2 585	*522.9%*
Taxes on international trade and transactions	**26 790**	**30 325**	***13.2%***
Customs duties	26 400	29 860	*13.1%*
Miscellaneous customs and excise receipts	390	465	*19.2%*
Stamp duties and fees	**5**	**–**	***-100.0%***
State miscellaneous revenue	**–**	**–**	***0.0%***
Total tax revenue	**672 200**	**745 735**	***10.9%***
Non-tax revenue[3]	12 254	10 001	*-18.4%*
of which			*0.0%*
Mineral royalties	*3 712*	*4 890*	*31.7%*
Mining leases and ownership	*900*	–	*-100.0%*
Less: SACU payments	-14 991	-21 763	*45.2%*
Other adjustment[4]	-2 900		*-100.0%*
National budget revenue	**666 563**	**733 973**	***10.1%***
Provinces, social security funds and selected public entities.	88 460	94 609	*7.0%*
Budget Revenue	**755 023**	**828 581**	***9.7%***

1. *Includes interest on overdue income tax and small business tax amnesty levy.*
2. *Includes air departure tax, plastic bags levy and Universal Service Fund.*
3. *Includes mineral royalties, mining leases and departmental revenue. and sales of capital assets.*
4. *Payments to SACU partners for a previous error in calculation of the 1969 agreement.*

Revenue recovery expected to continue in line with improved economic growth

Tax revenue should continue to improve during 2011/12 in line with improved economic growth prospects. The total tax revenue before tax proposals is expected to increase by 10.9 per cent.

Actual revenue collections and medium-term estimates

Table 5.3 sets out actual revenue collections for 2007/08 to 2009/10, the revised estimate for 2010/11 and the estimates for 2011/12 to 2013/14.

Without any tax changes, tax revenue as a percentage of GDP is expected to increase from 25.2 per cent in 2010/11 to 26.2 per cent in 2013/14.

Table 5.3 Budget revenue, 2007/08 – 2013/14

R million	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
		Outcome		Revised		Medium-term estimates	
Taxes on income and profits[1]	332 058	383 483	359 045	380 080	418 345	469 709	533 561
Of which:							
Personal income tax	*168 774*	*195 115*	*205 145*	*228 000*	*252 750*	*292 710*	*337 970*
Coporate income tax	*140 120*	*165 378*	*134 883*	*132 500*	*144 165*	*161 350*	*178 230*
Taxes on payroll and w orkforce	6 331	7 327	7 805	8 420	9 150	9 610	10 130
Taxes on property	11 884	9 477	8 826	9 365	9 590	11 060	12 695
Domestic taxes on goods and services	194 690	201 416	203 667	247 540	274 210	302 880	333 170
of which:							
Value-added tax	*150 443*	*154 343*	*147 941*	*181 335*	*200 880*	*226 900*	*254 330*
Taxes on international trade and	27 082	22 852	19 319	26 790	30 325	34 050	38 404
Stamp duties and fees	557	572	49	5	–	–	–
State miscellaneous revenue[2]	212	-27	-6	–	–	–	–
Tax revenue	**572 815**	**625 100**	**598 705**	**672 200**	**741 620**	**827 310**	**927 960**
Non-tax revenue[3]	12 693	12 616	8 889	12 254	10 001	11 540	12 351
of which:							
Mineral and petroleum royalties	–	–	–	*3 712*	*4 890*	*5 150*	*5 430*
Less: SACU payments	-24 713	-28 921	-27 915	-14 991	-21 763	-32 432	-35 997
Other adjustment[4]				-2 900			
National budget revenue	**560 795**	**608 796**	**579 679**	**666 563**	**729 858**	**806 418**	**904 314**
Provinces, social security funds and selected public entities.	65 910	74 201	85 162	88 460	94 609	102 296	112 873
Budget Revenue	**626 705**	**682 997**	**664 840**	**755 023**	**824 466**	**908 714**	**1 017 187**
Tax revenue as a percentage of GDP	*27.6%*	*27.0%*	*24.5%*	*25.2%*	*25.4%*	*25.8%*	*26.2%*
Budget revenue as a	30.1%	29.5%	27.2%	28.3%	28.3%	28.4%	28.8%
GDP (R billion)	2 079	2 313	2 443	2 667	2 915	3 201	3 536
Tax/GDP multiplier	*1.05*	*0.81*	*-0.75*	*1.34*	*1.11*	*1.18*	*1.16*

1. Also includes secondary tax on companies and interest on overdue income tax and small business tax amnesty levy.

2. Revenue received by SARS in respect of taxation which could not be allocated to a specific tax instrument.

3. Includes mineral royalties, mining leases and departmental revenue.

4. Payments to SACU partners in respect of a previous error in calculation of the 1969 agreement.

Overview of tax proposals

Table 5.4 shows the expected impact of tax proposals on revenue collection in 2011/12, the net effect of which is to reduce the estimated total tax revenues by R4.1 billion

Income tax relief for individuals

Personal income tax relief of R8.1 billion

The Budget 2011 proposes direct tax relief to individuals of R8.1 billion through adjustments to personal income tax brackets and rebates. These adjustments compensate for the effects of inflation (fiscal drag).

In addition to the primary and secondary rebates, a third rebate of R2 000 per year is proposed for taxpayers 75 years and older, increasing the tax threshold for eligible individuals to R104 261.

Table 5.5 provides a summary of the 2011/12 income tax brackets, rates and rebates for individuals. Taxpayers with an annual taxable income of up to R270 000 will receive 50 per cent of this relief, those with an annual taxable income between R270 000 and R580 000 receive 33 per cent, those between R580 000 and R1 million receive 12 per cent and those with taxable income above R1 million receive 5 per cent.

Those with taxable income over R580 000 will account for 39 per cent of income tax revenue in 2011/12

Personal income tax provides the foundation for an equitable tax system. In 2011/12, 14.3 per cent of individual taxpayers – those with annual income between R270 000 and R580 000 – will account for 33 per cent of revenues from personal income taxes, and the 5.7 per cent of individuals with an annual taxable income above R580 000 will account for 39 per cent of personal income tax revenues.

Table 5.4 Impact of tax proposals on 2011/12 revenue

R million		Effect of tax proposals
Tax revenue		745 735
Non-tax revenue		10 001
Less: SACU payments		-21 763
National budget revenue		**733 973**
Provinces, social security funds and selected public entities.		94 609
Budget revenue (before tax proposals)		**828 581**
Budget 2011/12 proposals:		**-4 115**
Taxes on individuals and companies	**-8 350**	
Personal income tax	-8 850	
Adjustment in personal tax rate structure	*-8 100*	
Adjustment in monetary thresholds	*-750*	
Business taxes	500	
Closure of dividend cession schemes	*500*	
Taxes on property	**-750**	
Adjustment in transfer duties	-750	
Indirect taxes	**4 985**	
Increase in general fuel levy	1 900	
Increase in excise duties on tobacco	1 785	
Increase in Ad valorem excise duties	150	
Increase in electricity levy	1 150	
Budget revenue (after tax proposals)		**824 466**

Medical deductions and conversion to medical tax credits

Increases in monthly monetary caps for contributions to medical schemes

Taxpayer contributions to medical schemes up to a specified monetary threshold are tax deductible, as are qualifying out-of-pocket medical expenses. The 2011 Budget proposes to increase the monthly monetary threshold for tax-deductible contributions to medical schemes from R670 to R720 for the first two beneficiaries, and from R410 to R440 for each additional beneficiary. This will become effective on 1 March 2011.

The monthly deductions for contributions to medical schemes and for qualifying out-of-pocket medical expenses will be converted into tax credits effective 1 March 2012. A tax credit provides for more equitable tax relief, as the relative value of the relief does not increase as the marginal tax rate of the individual increases, as is currently the case. A discussion document on these credits will be published by the end of March 2011.

Table 5.5 Personal income tax rate and bracket adjustments, 2010/11 – 2011/12

2010/11		2011/12	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 - R140 000	18% of each R1	R0 - R150 000	18% of each R1
R140 001 - R221 000	R25 200 + 25% of the amount above R140 000	R150 001 - R235 000	R27 000 + 25% of the amount above R150 000
R221 001 - R305 000	R45 450 + 30% of the amount above R221 000	R235 001 - R325 000	R48 250 + 30% of the amount above R235 000
R305 001 - R431 000	R70 650 + 35% of the amount above R305 000	R325 001 - R455 000	R75 250 + 35% of the amount above R325 000
R431 001 - R552 000	R114 750 + 38% of the amount above R431 000	R455 001 - R580 000	R120 750 + 38% of the amount above R455 000
R552 001 and above	R160 730 + 40% of the amount above R552 000	R580 001	R168 250 + 40% of the amount above R580 000
Rebates		**Rebates**	
Primary	R10 260	Primary	R10 755
Secondary	R5 675	Secondary	R6 012
		Third rebate	R2 000
Tax threshold		**Tax threshold**	
Below age 65	R57 000	Below age 65	R59 750
Age 65 and over	R88 528	Age 65 and over	R93 150
		Age 75 and over	R104 261

National health insurance

Payroll tax, higher VAT and a surcharge on taxable income are under consideration to finance NHI

Government expects that national health insurance (NHI) will be phased in over 14 years. While initial allocations are made in the 2011 Budget, the NHI system will require funding over and above current revenues allocated to public health. Preliminary analysis indicates that the phasing in of a payroll tax (payable by employers), an increase in the VAT rate and a surcharge on individuals' taxable income could be considered as funding options. The feasibility and practicality of co-payments or user charges will also be explored. Announcements about specific funding instruments will be made in the 2012 Budget.

Savings

Interest income is not taxed up to a certain threshold. As from 1 March 2011, government will increase the tax-free interest-income annual threshold from R22 300 to R22 800 for individuals below 65 years, and from R32 000 to R33 000 for individuals 65 years and over. The foreign interest-income threshold will remain at R3 700.

Incentives to encourage savings for housing and higher education

Several countries use tax incentives to encourage people to save towards specific goals such as education, healthcare, housing or retirement, or to promote general savings. Government will explore two incentivised savings schemes – one for housing (deposit for first-time homeowners) and another for higher education – as alternatives to tax-free interest-income thresholds.

The possibility of a more consistent tax treatment of all forms of income from capital, such as interest, dividends and capital gains, will also be considered.

Social security and retirement reforms

Tax treatment of contributions to retirement funds

Reforms of the tax treatment of contributions to retirement funds

Taxpayers are allowed income tax deductions for contributions to pension and retirement annuity funds. In addition, employers may contribute to retirement funds on behalf of employees. These contributions by employers are not currently taxed in the hands of employees. Several changes are proposed to improve tax administration and promote greater equity in the income tax system. From 1 March 2012:

- An employer's contribution on behalf of an employee will be deemed a taxable fringe benefit in the hands of the employee. Individuals will be allowed to deduct up to 22.5 per cent of their taxable income for contributions to pension, provident and retirement annuity funds.
- To ensure greater equity, two thresholds will be established – a minimum annual deduction of R12 000 and an annual maximum of R200 000.
- The base on which contributions to retirement funds and other social security taxes is calculated will be streamlined.

To protect workers' savings, government proposes to subject lump-sum withdrawals from provident funds to the one-third limit applying to pension and retirement annuities. The implementation date of any changes in the rules governing provident funds will be subject to thorough consultation with trade unions and other interested parties, and vested rights will be protected.

Enhanced competition for provision of living annuities

Government will broaden the list of entities that can offer living annuities

Living annuities can only be provided by long-term insurers. To encourage competition, government proposes to broaden the list of service providers allowed to provide these annuities to include collective investment schemes and the National Treasury's retail savings bond scheme.

Review tax treatment of risk benefits

To ensure equity, the tax system should not treat lump-sum payments more favourably than annuity payments. Government proposes that any compensation from the Road Accident Fund and its no-fault successor, whether as a lump-sum payment or an annuity, be exempted from income tax. At the same time, alignment of the tax treatment of risk benefits paid by private-sector funds will be investigated.

Taxation of lump sum benefits upon retirement

As from 1 March 2011, government will increase the tax-free lump sum benefit upon retirement from R300 000 to R315 000. The revised tax table appears in Table C.7 of Annexure C.

Adjustment of monetary thresholds

Proposed increase in various monetary thresholds

In addition to the measures mentioned above, government proposes to increase capital gains exclusion amounts as follows as from 1 March 2011:

- For individuals and special trusts from R17 500 to R20 000 annually
- On death from R120 000 to R200 000
- On disposal of a small business when a person is over 55 years old from R750 000 to R900 000

The annual trading income exemption for public benefit organisations will increase from R150 000 to R200 000, and for recreational clubs from R100 000 to R120 000.

Gambling

All winnings over R25 000 to be subject to 15 per cent withholding tax

Government proposes that with effect from 1 April 2012 all gambling winnings above R25 000, including those from the National Lottery, be subject to a final 15 per cent withholding tax. Similar gambling taxes exist in India, the Netherlands and the United States.

Business taxes

Dividends tax

Introduction of dividends tax on 1 April 2012

The dividends tax will take effect on 1 April 2012, replacing the secondary tax on companies. The introduction of the tax should correct the impression that a tax on dividends is another tax on businesses: legally and economically, it will be a tax on individuals and non-resident shareholders.

Closure of dividend schemes

Several dividend schemes undermine the tax base. One method involves the use of dividend cessions, where taxpayers effectively purchase tax-free dividends without any stake in the underlying shares. Another scheme involves the receipt of dividends from shares in which the taxpayer has no meaningful economic risk (e.g. has an offsetting derivative position). Some arrangements make use of preference shares that generate allegedly tax-free dividends, while the dividends are indirectly generated from interest-yielding debt. All these schemes will be closed by treating the dividends at issue as ordinary revenue.

Internal company restructuring

Adjustments to tax rules to ensure appropriate tax relief for debtors in the event of debt cancellations

The Income Tax Act (1962) provides special rules for debt cancellation and similar adjustments. Government will consider exempting otherwise taxable gains or ordinary revenue imposed on the debtor if the debt is cancelled or reduced. Relief will be limited to insolvent debtors to ensure that this does not give rise to tax avoidance.

Venture capital company

Many small and medium-sized businesses find it difficult to access equity finance. This led government to introduce the concept of a venture capital company into the Income Tax Act. The response to this vehicle has been poor and the provisions will be reviewed.

Islamic finance

The 2010 Budget announced that the taxation of Islamic financial products would be aligned with conventional financial instruments. Provisions were introduced to cover several instruments. This year the rules will address *ijara* products, which act like commercial finance leases. Amendments to legislation will facilitate the issue of Islamic-compliant government bonds.

Research and development tax incentive

Proposed pre-approval process for research and development tax incentive

The research and development tax incentive is intended to encourage innovation and job creation. Government proposes to streamline the current incentive, introducing an approval process by the Department of Science and Technology before a taxpayer can claim this incentive. This should limit opportunities for retrospective reclassification of spending.

Promoting skills development and job creation

Learnership tax incentive

Five-year extension of learnership tax incentive pending outcome of review

The learnership tax incentive, designed to support youth employment, will expire in September 2011. The tax expenditure associated with this incentive is estimated to have amounted to R324 million in 2007/08, but its effectiveness is difficult to assess. Government proposes to extend the incentive for five years, subject to an analysis of its effectiveness by businesses, sector and training authorities, and the Department of Higher Education and Training. The review will take place during 2011.

Youth employment subsidy

To support job creation, a youth employment subsidy in the form of a tax credit costing R5 billion over three years will be introduced. It will be administered by the South African Revenue Service (SARS) through the PAYE system to limit abuse, ensure maximum liquidity and ease business compliance.

Industrial development zones

To support the objectives of the industrial policy action plan and the New Growth Path, businesses making greenfield and/or brownfield investments qualify for tax relief. Greenfield investments in industrial development zones (IDZs) qualify for additional relief. Government will consider expanding incentives for labour-intensive projects in IDZs.

Additional tax relief for businesses making greenfield investments in IDZs

International taxation

Gateway into Africa – headquarter regime

During 2010, tax rules were amended to enable regional investments to flow through South Africa without being taxed. These measures were intended to encourage the development of regional investment banks and holding companies in South Africa. However, current rules could lead to double taxation. There are also concerns about the manner of imposition of residence-based taxation. These concerns will be reviewed.

Refinement of controlled foreign company legislation

The main purpose of controlled foreign company rules is to prevent South African residents from shifting passive income offshore. Some provisions are overly complex and can interfere with normal business conduct, while others create unintended loopholes. Adjustments will focus the rules without compromising their purpose.

Controlled foreign company rules to be made more targeted

Transfer duty

Government proposes to increase the transfer duty exemption threshold from R500 000 to R600 000. A rate of 3 per cent will be applicable to the value from R600 001 to R1 000 000; an amount of R12 000 plus 5 per cent to the value between R1.0 and R1.5 million; and an amount of R37 000 plus 8 per cent to amounts above R1.5 million. This revised rate structure will apply to properties acquired under purchase agreements concluded on or after 23 February 2011. It will also be applicable to legal persons (close corporations, companies and trusts).

Transfer duty exemption threshold to increase from R500 000 to R600 000

Excise duties on tobacco and alcohol

The proposed adjustments to alcohol and tobacco taxes are as follows:

- The current indirect tax burden (excise duties plus VAT) as a percentage of the weighted average retail selling price for wine, clear beer and spirits at 23, 33, and 43 per cent respectively will be maintained for 2011/12. Excise duties on alcoholic beverages will be increased by between 4.5 and 10.0 per cent as shown in Table 5.6.
- The targeted total tax burden on tobacco products (excise duties plus VAT) is 52 per cent. Accordingly, the 2011 Budget proposes a 6 per cent increase on the excise duty for cigars, a 9 per cent increase for cigarettes, a 8.2 per cent increase for cigarette tobacco and a 10.3 per cent increase for pipe tobacco.

In the 2010 Budget, the Minister of Finance announced a review of the excise duty structure for alcoholic beverages. A discussion document will be published for public comment in July 2011.

Ad valorem excise duties

Excise tax rate on motor vehicles increases from 20 per cent to 25 per cent

Passenger cars and light commercial vehicles are subject to a "luxury" excise tax that increases with the price of the vehicle. Government proposes to increase the maximum nominal ad valorem excise tax rate on these vehicles from 20 per cent to 25 per cent.

Ad valorem excise duties on monitors were abolished in 2004 based on the assumption that they were used as computer screens. However, some monitors are also used as televisions, which are subject to ad valorem tax. Ad valorem excise duties on monitors will be reinstated at a flat rate of 7 per cent. These amendments will take effect on 1 April 2011.

Table 5.6 Changes in specific excise duties, 2011/12

Product	Current excise duty rate	Proposed excise duty rate	Percentage change Nominal	Real
Malt beer	R50.20 / litre of absolute alcohol	R53.97 / litre of absolute alcohol	7.51%	2.71%
Traditional African beer	7.82c / litre	7.82c / litre	0.00%	-4.80%
Traditional African beer powder	34.70c / kg	34.70c / kg	0.00%	-4.80%
Unfortified wine	R2.14 / litre	R2.32 / litre	8.41%	3.61%
Fortified wine	R4.03 / litre	R4.33 / litre	7.44%	2.64%
Sparkling wine	R6.67 / litre	R6.97 / litre	4.50%	-0.30%
Ciders and alcoholic fruit beverages	R2.52 / litre (85.69c / average 340ml can)	R2.71 / litre (92.14c / average 340ml can)	7.54%	2.74%
Spirits	R84.57 / litre of absolute alcohol	R93.03 / litre of absolute alcohol	10.00%	5.20%
Cigarettes	R8.94/ 20 cigarettes	R9.74/ 20 cigarettes	8.95%	4.15%
Cigarette tobacco	R9.73/ 50g	R10.53/ 50g	8.18%	3.38%
Pipe tobacco	R2.70/ 25g	R2.98/ 25g	10.25%	5.45%
Cigars	R47.66 / 23g	R50.52 / 23g	6.00%	1.20%

Fuel taxes

Fuel tax levy to increase by10 cents per litre

Government proposes to increase the general fuel levy by 10c/l on both petrol and diesel effective from 6 April 2011. The RAF levy will be increased by 8c/l to 80c/l on the same date. Table 5.7 provides a summary of the proposed fuel tax rates for 2011/12.

Table 5.7 Total combined fuel taxes on petrol and diesel, 2009/10 – 2011/12

c / litre	2009/10 93 Octane petrol	2009/10 Diesel	2010/11 93 Octane petrol	2010/11 Diesel	2011/12 93 Octane petrol	2011/12 Diesel
General fuel levy	150.00	135.00	167.50	152.50	177.50	162.50
Road Accident Fund levy	64.00	64.00	72.00	72.00	80.00	80.00
Customs and excise levy	4.00	4.00	4.00	4.00	4.00	4.00
Illuminating paraffin marker	0.00	0.01	0.00	0.01	0.00	0.01
Total	**218.00**	**203.01**	**243.50**	**228.51**	**261.50**	**246.51**
Pump price: Gauteng (as in February)[1]	643.00	649.35	785.00	701.85	884.00	814.05
Taxes as % of pump price	*33.9%*	*31.3%*	*31.0%*	*32.6%*	*29.6%*	*30.3%*

1. Diesel (0.05% sulphur) wholesale price (retail price not regulated.)

Environmental taxation

Carbon tax discussion paper

Work on a proposed carbon emission tax is under way

As part of its response to climate change, government is considering a carbon tax. A discussion paper entitled *Reducing Greenhouse Gas Emissions: The Carbon Tax Option* was published for public comment in December 2010. Comments are due by the end of February 2011. The design features of a proposed tax and a schedule for its introduction will be announced in the 2012 Budget.

Electricity levy

Increase in the electricity levy

Government proposes to increase the levy applied to electricity generated from non-renewable and nuclear energy sources by 0.5c/kWh to 2.5c/kWh from 1 April 2011. Some of this revenue will be set aside to fund the rehabilitation of roads damaged as a result of the haulage of coal for electricity generation. The increase should have no impact on electricity tariffs, because it has already been taken into account in the National Energy Regulator tariff structure.

International air passenger departure tax

From 1 October 2011, the air passenger departure tax on flights to Southern African Customs Union member states and other international destinations will increase from R80 and R150 per passenger respectively to R100 and R190 per passenger.

Tax administration

Review of the turnover tax for micro businesses

Turnover tax for micro businesses adjusted to encourage participation

The turnover tax was implemented in 2009 to broaden the tax base and simplify tax for micro businesses with annual turnover up to R1 million. Only about 7 700 businesses have registered for this approach, of which 88 per cent were previously registered for income tax. The tax rates will be adjusted from 1 March 2011 so that a micro business only becomes liable to pay turnover tax if its turnover exceeds R150 000 (currently R100 000) a year.

Micro businesses that register for VAT will no longer be barred from registering for turnover tax

From 1 March 2012, micro businesses that register for VAT will no longer be barred from registering for turnover tax. The three-year bar on voluntary deregistration from the turnover tax will also be lifted. SARS will be empowered to register unregistered micro businesses that it detects for the turnover tax.

Tax payments by individuals with more than one source of income

The Minister of Finance has received several letters from widows and widowers who have experienced increases in their tax liability subsequent to the death of a spouse. This happens in cases where the surviving spouse receives a pension from the pension fund of the deceased, from which little or no PAYE is deducted. SARS will contact such taxpayers and advise them to ask their insurance company or employer to deduct additional taxes.

Voluntary disclosure programme

Voluntary disclosure programme will remain open until 31 October 2011

To encourage taxpayers to come forward to regularise their tax affairs without the imposition of additional tax, penalties and interest, the voluntary disclosure programme that began in November 2010 will remain open until 31 October 2011. More than 1 200 applicants have already come forward under the programme.

Tax Administration Bill

The Tax Administration Bill, which incorporates several generic administrative provisions from different tax acts into one piece of legislation, will be introduced in the National Assembly during 2011.

Customs

SARS has launched its customs modernisation programme. Customs codes aligned with procedures prescribed in the Kyoto Convention have been introduced, and during 2011 automated inspection services and electronic acquittals will be implemented. Later this year, two bills will be introduced to Parliament to provide an internationally aligned legal framework that will support customs modernisation.

Audit

SARS plans to make greater use of data provided by credit bureaus to build detailed taxpayer profiles and identify non-compliance. SARS is also extending its cooperation with other tax administrations in the areas of information exchange, skills transfer and audit.

Tax policy research projects

The following tax policy research projects are under way:

- Taxation of financial derivatives.

- Taxation of long-term insurers.
- Housing tax incentive for developers. To increase the supply of affordable housing (below R300 000), the feasibility of an income tax credit for developers will be explored.
- Provincial motor vehicle licence fees. Minimum national standards to include an environmental tax component in provincial licence fee structures will be considered.
- VAT treatment of public passenger transport services. The VAT treatment of public passenger transport, rail, bus and taxi, will be reviewed with the objective to facilitate higher levels of investments in passenger transport infrastructure.
- VAT and educational accommodation. VAT treatment and apportionment rules concerning educational institutions that provide contract research and student accommodation will be reviewed.
- Estate duty. The effectiveness of estate duty (20 per cent on the net value of estates in excess of R3.5 million) is being reviewed, with several options under consideration.
- User charges and other fees. Mechanisms for the setting of user charges and administrative fees will be reviewed. The setting of such fees should be transparent and subject to public consultation, particularly where these are not regulated by an independent agency.

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