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2008 TAX RELATED BUDGET PROPOSALS

The following is a summary of the tax related budget proposals announced by the Minister of Finance on 20 February 2008.

HIGHLIGHTS

- Personal income tax relief for individuals amounting to R7.7 billion
- A reduction in the headline corporate tax rate by one percentage point from 29 to 28 per cent
- The second phase of reforms to the secondary tax on companies (STC), culminating in the introduction of a final withholding dividend tax at shareholder level in 2009
- A simplified tax package for very small businesses with an annual turnover up to R1 million
- An increase in the compulsory VAT registration threshold from an annual turnover of R300 000 to R1 million
- Incentives to encourage venture capital equity investments in small and medium sized businesses
- R5 billion in tax subsidies over the next three years to support the emerging industrial policy
- A review of learnership allowances to encourage apprenticeships
- Measures to encourage private land owners to protect biodiversity
- The introduction of an electricity levy of 2 cents per kilowatt hour.

INDIVIDUALS

Income tax tables and rebates

The tax brackets have been adjusted to provide relief across all levels of income for the year of assessment ending 28 February 2009.

- The 2008 Budget proposes direct tax relief to individual taxpayers amounting to R7.2 billion. This will compensate taxpayers for the impact of wage inflation, also known as “bracket creep”.

- Taxpayers with an annual taxable income of up to R150 000 will receive 33.2 per cent of this relief, those with an annual taxable income between R150 001 and R250 000 receive 27.6 per cent, those between R250 001 and R500 000 receive 25.6 per cent and those with taxable income more than R500 000 per year receive 13.6 per cent of the proposed personal income tax relief.

- The primary rebate is increased to R8 280 a year for all individuals.

- The secondary rebate is increased to R5 040 a year for individuals age 65 and over.

- The maximum rate remains at 40% and will apply to taxable income exceeding R490 000 a year (previously R450 000 a year).

- The tax threshold for taxpayers younger than 65 increases from R43 000 to R46 000. The tax threshold for taxpayers aged 65 and over increases from R69 000 to 74 000.

Tax-free interest, dividend income

An increase in the interest and dividend income tax-free threshold for individuals under 65 years from R18 000 to R19 000, and for individuals 65 years and over from R26 000 to R27 500 per year. It is similarly proposed to increase the threshold for the tax-free income of foreign dividends and interest from R3 000 to R3 200 per year.

Retirement savings

Major reforms to social security and retirement savings are being studied. A number of interim reforms related to retirement savings will help facilitate this process. The taxation of lump sum payments on retirement was simplified during 2007. It is now proposed to also simplify the taxation of other withdrawals from retirement funds. It is also proposed that divorce settlement payments made by retirement funds will be taxable in the hands of the non-member spouse. In addition, consideration will be given to consolidating the various tax-relief related monetary thresholds and percentage contributions, by both employees and employers, towards the various retirement saving vehicles. An overall monetary cap to limit the tax benefits of such contributions will also be considered.

Medical aid contributions and medical expenses

It is proposed that the monthly monetary caps for tax-free medical scheme contributions be increased with effect from 1 March 2008 from R530 to R570 (by 7.6 per cent) for each of the first two beneficiaries and from R320 to R345 (7.8 per cent) for each additional beneficiary.

Definition of disability

The provisions contained in the Income Tax Act (1962) defining disabled persons are outdated. The definitions will be reviewed. Consideration will also be given to limiting the types of expenses that may be deducted where they do not reasonably relate to a disability.

Standard income tax on employees

The "broken period" principle that forms part of the SITE system assumes that a SITE taxpayer will work for a full tax year. This can result in a taxpayer paying income tax, even though he or she may earn below the tax threshold for a given tax year. It is proposed that SITE payments should become refundable in such instances.

Bursaries for relatives of employees

If an employer grants a bursary to the relative of an employee, that grant results in a taxable fringe benefit. However, for employees earning up to R60 000 per year, this fringe benefit, up to R3 000 per year, is tax-free. To facilitate employer sponsored education and training of the dependants of low-and middle-income workers, it is proposed that this tax-free fringe benefit be increased to R10 000 per year for employees earning up to R100 000 per year.

Travelling allowances

The deemed cost tables for travelling allowances will be updated for inflation, including higher interest rates and fuel prices.

COMPANIES

Corporate tax rate reduces from 29% to 28%

The corporate tax rate reduces from 29% to 28% and the STC rate of 10% remains unchanged.

The second phase of STC reform is announced. The main purpose of this reform is to switch this tax charge from a company-level to a shareholder-level tax, consistent with international practice. It is proposed that the new rate remain at 10%, that no dividend withholding tax be applied to income tax-exempt entities and that all STC credits will expire.

Other rates linked to the corporate rate are as follows:

- The tax rate for foreign resident companies which earn income from a source in South Africa is accordingly reduced from 34% to 33%.
- The tax rate for employment companies is reduced from 34% to 33%.

SMALL BUSINESSES

Small business corporations

The turnover limit for eligible companies remains at R14 million for years of assessment ending on or after 1 April 2008.

Tax rates for qualifying small business corporations for years of assessment ending between 1 April 2008 and 31 March 2009 will be as follows:

Taxable income		**Tax rate**
R0 – R46 000	-	0%
R46 001 – R300 000	-	10%
R300 001 and over	-	28%

A simplified tax regime for very small businesses

The 2008 Budget proposes a simplified tax regime that will reduce paperwork related to income tax and VAT for small sole proprietors, partnerships and incorporated businesses.

Government proposes that a simplified, turnover-based tax system be implemented for businesses with a turnover up to R1 million per year. In addition, it is proposed to increase the compulsory VAT registration threshold to R1 million per year.

The table below is a summary of the proposed simplified (presumptive) tax regime for small businesses. The rates and technical aspects will be refined after consultation.

Proposed presumptive tax for very small businesses:

Turnover	**Tax liability**
0 - R100 000	0%
R100 001 - R300 000	2% of each R1 above R100 000
R300 001 - R500 000	R4 000 + 4% of the amount above R300 000
R500 001 - R750 000	R12 000 + 5.5% of the amount above R500 000
R750 001 - R1 000 000	R25 750 + 7.5% of the amount above R750 000

Venture capital tax incentive

To meet the challenge of access to venture capital for small and medium-sized enterprises, government proposes tax incentives for investors in qualifying small enterprises and start-ups. In general, the targeted enterprises are high growth and high-tech companies with an annual turnover of up to R14 million or gross assets of up to R7 million. For junior mining and exploration companies, a different threshold – gross assets of R30 million to R50 million – will be considered. The proposed tax incentives will target individual investors, corporate investors and venture capital funds.

It is proposed that general venture capital investments (non-mining) qualify for a 30 per cent up-front deduction, with annual deductions to be capped at R500 000 for individuals, R750 000 for corporations and R7.5 million for venture capital funds. Junior mining exploration investments would qualify for a 50 per cent upfront deduction, with annual deductions capped at R1 million for individuals and R10 million for corporations and venture capital funds. This incentive mechanism is also proposed in the place of the flow-through share incentive mechanism for junior mining exploration companies mentioned in the 2007 Budget Review.

PUBLIC BENEFIT ORGANISATIONS

Restrictions on PBOs

PBOs are required to conduct 85 per cent or more of their activities in South Africa. It is proposed that this restriction on PBOs be dropped.

Donations to multilateral humanitarian organisations

Multilateral humanitarian organisations offering developmental assistance in South Africa are exempt from income tax here. However, donations made to such organisations for activities that otherwise might qualify in terms of section 18A of the Income Tax Act are not deductible for income-tax purposes. The Act requires that an organisation be registered in South Africa in order for donors to be able to deduct donations to such entities. Where it might be impractical for such organisations to register here, a legislative exception will be considered.

Extending tax-exempt status to PBOs providing student loans

To support the activities of PBOs that provide bursaries and loans to needy students, it is proposed that the provision of student loans by PBOs should be included in the list of public benefit activities.

Cap for PBO-provided housing

The Income Tax Act makes provision for the tax exemption of PBOs that provide housing for the benefit of the poor. In order for a PBO to qualify for this concession, the legislation prescribes that the intended beneficiaries must have a maximum monthly household income of R3 500. It is proposed that this be increased to R7 000 per month.

OTHER

Value-Added Tax (VAT)

The VAT rate remains unchanged at 14%.

It is proposed that the compulsory VAT registration threshold be increased from an annual turnover of R300 000 to R1 million.

It is also proposed to increase, from R1.2 million to R1.5 million, the thresholds applicable to farmers (Category D) who submit VAT returns every six months and businesses that submit VAT returns every four months (Category F).

Capital gains tax (CGT)

The following monetary limits will be increased for tax years commencing on or after 1 March 2008:

- The annual exclusion will increase from R15 000 to R16 000.
- The annual exclusion in the year of death remains unchanged at R120 000.
- The primary residence exclusion remains unchanged at R1,5 million.

Learnership allowances for apprenticeships

It is proposed that the allowance be amended to take into account longer-term apprenticeships, focusing on those of a technical nature, such as electricians, welders, plumbers, mechanics and so on.

Tax incentives to support industrial policy

Carefully designed tax incentives that encourage higher levels of investment in labour intensive or strategic sectors will be considered. It is proposed that R5 billion be set aside for tax incentives to be used over three years in support of sectors identified as key to the emerging industrial strategy. The design of this programme will be finalised in consultation with the Department of Trade and Industry and other interested parties over the next few months.

Housing for low-income workers

The existing monetary threshold limits for low-cost housing allowances, such as the R6000 deductible limit per dwelling for employer-provided housing (section11(*t*)), will be revised. The depreciation allowances for the construction of low-cost houses and associated public infrastructure that employers and developers may claim will be reviewed and enhanced. In the case of employer-provided low-cost housing, further relief with respect to fringe benefit taxation in the hands of the employee will be considered.

An electricity levy to support efficiency

Recent electricity shortages suggest a need for interventions to support demand-side management while encouraging long-term protection of the environment. Government proposes to impose a 2 c/kWh tax on electricity generated from non-renewable sources, to be collected at source by the producers/generators of electricity. This measure will serve a dual purpose of helping to manage the current electricity supply shortages and protecting the environment. This measure is expected to raise about R4 billion per year.

Biodiversity conservation and management

Tax reforms to encourage biodiversity conservation by private landowners will be considered. Landowners will receive an income tax deduction for preserving habitats and biodiversity on their land. The deduction will cover expenses incurred in developing and implementing an approved conservation management plan under either the National Biodiversity Act (2004) or the Protected Areas Act (2003). The deductions contemplated would be limited to income derived from the land.

The existing PBO framework will be reviewed for impediments to tax deductions for property donated to a PBO or parastatal conservation agency where that property is declared a nature reserve or national park under the Protected Areas Act (2003). A similar review will be conducted for estate duty, transfer duty, or donations tax exemptions for properties bequeathed, sold or donated to a PBO for declaration as a protected area under that act.

Fuel levies – general fuel levy

It is proposed that the general fuel levy on petrol and diesel be increased by 6 c/l to 127 c/l and 111 c/l respectively with effect from 2 April 2008. This constitutes an increase of 5 per cent for petrol and 5.7 per cent for diesel respectively.

Fuel levies – Road accident fund levy

It is proposed to increase the Road Accident Fund (RAF) levy on petrol and diesel by 5 c/l from 41.5 c/l to 46.5 c/l. This adjustment will further seek to stabilise the financial position of the RAF. These increases will come into effect on 2 April 2008.

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INCOME TAX RATES: NATURAL PERSONS AND SPECIAL TRUSTS
YEAR OF ASSESSMENT ENDING 28 FEBRUARY 2009

Taxable income R				**Tax rates**	
0	-	122 000		18% of each R1	
122 001	-	195 000	21 960 +	25% of the amount above	122 000
195 001	-	270 000	40 210	+ 30% of the amount above	195 000
270 001	-	380 000	62 710	+ 35% of the amount above	270 000
380 001	-	490 000	101 210 +	38% of the amount above	380 000
490 001	and above		143 010 +	40% of the amount above	490 000

Natural persons:

Tax thresholds

	2008 R	**2009** R
Below 65 years of age	43 000	46 000
Aged 65 and over	69 000	74 000

Tax rebates

		2008 R	**2009** R
Primary	- All natural persons	7 740	8 280
Secondary	- Persons aged 65 and over	4 680	5 040

CORPORATE TAX RATES
YEARS OF ASSESSMENT ENDING BETWEEN 1 APRIL 2008 AND 31 MARCH 2009

NORMAL TAX		**2008**	**2009**
Non-mining companies	Basic rate	29%	28%
Close corporations	Basic rate	29%	28%
Employment companies	Basic rate	34%	33%
Other companies	Basic rate	29%	28%

Tax rates for qualifying small business corporations will be as follows:

R0	– R46 000 of taxable income	- 0%
R46 001	– R300 000 of taxable income	- 10%
R300 000	+ of taxable income	- 28%

SECONDARY TAX ON COMPANIES (STC)

The STC rate remains unchanged at 10%.

TRUSTS

The tax rate on trusts (other than special trusts) remains unchanged at 40%.

EFFECTIVE CGT RATES

Taxpayer	Inclusion Rate (%)	Statutory Rate (%)	Effective Rate (%)
Individuals	25	0 – 40	0 – 10
Trusts			
Unit	-	28	-
Special	25	18 – 40	4,5 – 10
Other	50	40	20
Companies			
Ordinary	50	28	14
Small business corporation	50	0 – 28	0 – 14
Permanent establishment	50	33	16,5
Employment company	50	33	16,5

20 February 2008