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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 R 7.7 billion
- A reduction in the headline corporate tax rate by one percentage point from 29 to 28 percent
- 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 R 1 million
- An increase in the compulsory VAT registration threshold from an annual turnover of R 300 000 to R 1 million
- Incentives to encourage venture capital equity investments in small and medium sized businesses
- R 5 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 R 7.2 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 R 150 000 will receive 33.2 percent of this relief, those with an annual taxable income between R 150 001 and R 250 000 receive 27.6 percent, those between R 250 001 and R 500 000 receive 25.6 percent and those with taxable income more than R 500 000 per year receive 13.6 percent of the proposed personal income tax relief.
- The primary rebate is increased to R 8 280 a year for all individuals.
- The secondary rebate is increased to R 5 040 a year for individuals age 65 and over.
- The maximum rate remains at 40% and will apply to taxable income exceeding R 490 000 a year (previously R 450 000 a year).
- The tax threshold for taxpayers younger than 65 increases from R 43 000 to R 46 000. The tax threshold for taxpayers aged 65 and over increases from R 69 000 to R 74 000.

Tax-free interest, dividend income

An increase in the interest and dividend income tax-free threshold for individuals under 65 years from R 18 000 to R 19 000, and for individuals 65 years and over from R 26 000 to R 27 500 per year. It is similarly proposed to increase the threshold for the tax-free income of foreign dividends and interest from R 3 000 to R 3 200 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 R 530 to R 570 (by 7.6 percent) for each of the first two beneficiaries and from R 320 to R 345 (7.8 percent) 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 R 60 000 per year, this fringe benefit, up to R 3 000 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 R 10 000 per year for employees earning up to R 100 000 per year.

Travelling allowances

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

COMPANIES

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 R 14 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
R 0 – R 46 000	- 0%
R 46 001 – R 300 000	- 10%
R 300 001 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 R 1 million per year. In addition, it is proposed to increase the compulsory VAT registration threshold to R 1 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 – R 100 000	0%
R 100 001 – R 300 000	2% of each R 1 above R 100 000
R 300 001 – R 500 000	R 4 000 + 4% of the amount above R 300 000
R 500 001 – R 750 000	R 12 000 + 5.5% of the amount above R 500 000
R 750 001 – R 1 000 000	R 25 750 + 7.5% of the amount above R 750 000

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 R 14 million or gross assets of up to R 7 million. For junior mining and exploration companies, a different threshold – gross assets of R 30 million to R 50 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 percent up-front deduction, with annual deductions to be capped at R 500 000 for individuals, R 750 000 for corporations and R 7.5 million for venture capital funds. Junior mining exploration investments would qualify for a 50 percent upfront deduction, with annual deductions capped at R 1 million for individuals and R 10 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 percent 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 R 3 500. It is proposed that this be increased to R 7 000 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 R 300 000 to R 1 million. Effective date to be advised.

It is also proposed to increase, from R 1.2 million to R 1.5 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 R 15 000 to R 16 000.
- The annual exclusion in the year of death remains unchanged at R 120 000.
- The primary residence exclusion remains unchanged at R 1,5 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 R 5 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 R 6 000 deductible limit per dwelling for employer-provided housing (section 11(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 R 4 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 percent 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.

INCOME TAX RATES: NATURAL PERSONS AND SPECIAL TRUSTS

YEAR OF ASSESSMENT ENDING 28 FEBRUARY 2009

Taxable income		Tax rates	
R			
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	2009
	R	R
Below 65 years of age	43 000	46 000
Aged 65 and over	69 000	74 000

Tax rebates

	2008	2009
	R	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 (%)
<i>Individuals</i>	25	0 - 40	0 - 10
<i>Trusts</i>			
Unit	-	28	-
Special	25	18 - 40	4,5 - 10
Other	50	40	20
<i>Companies</i>			
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