

## **2015 TAX RELATED BUDGET PROPOSALS**

The following is a summary of the tax related budget proposals announced by the Minister of Finance on 25 February 2015.

### **BUDGET HIGHLIGHTS**

The main tax proposals include the following:

- The marginal personal income tax rates will be increased by one percentage point for all taxpayers earning more than R181 900. Tax brackets and rebates to account for fiscal drag will be adjusted.
- The general fuel levy will increase by 30.5 cents per litre and the Road Accident Fund levy increases by 50 cents per litre on 1 April 2015. The total increase of 80 cents per litre.
- Provide a more generous turnover tax regime for small businesses.
- Change the transfer duty rates and brackets.
- Increase excise duties on alcoholic beverages by between 4.8 and 8.5 per cent and on tobacco products by between 5 and 7 per cent.

Other proposals:

- Change to a self -assessment system for income tax.
- Taking further steps to combat base erosion and profit shifting such as improved transfer pricing documentation and reporting.
- Delinking the diesel refund system from the VAT system from 1 April 2016 and limiting diesel refunds for land mining activities and the generation of electricity.
- Consider increasing the electricity levy by 2 cents per kWh as a temporary measure until carbon tax is introduced.

### **INDIVIDUALS**

#### **Relief for individuals**

##### **Personal income tax**

To raise additional tax revenues the marginal personal income tax rates will be increased by one percentage point for all income tax brackets except the lowest, which will remain at 18%. This also means a one percentage point increase in the tax rate for trusts.

To provide relief for inflation-related earnings increases (fiscal drag), all income tax brackets and rebates will be increased by 4.2%. The tax-free threshold for individual taxpayers below 65 years will increase from R70 700 to R73 650.

### **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. The tax free investments become effective 1 March 2015 and apply to approved investments of up to R30 000.

### **Contributions**

#### **Medical tax credits**

Monthly medical scheme fee tax credit will from, 1 March 2015 be increased from R257 to R270 per month for the first two beneficiaries. In respect of each additional beneficiary from R172 to R181.

#### **Employees' tax**

Employees over 65 are experiencing a decrease in their take-home pay as a result of the move to medical tax credits, although they may claim back some of these amounts on assessment after the end of the tax year. To alleviate this burden, it is proposed that medical tax credits related to medical scheme contributions be taken into account for both PAYE and provisional tax purposes.

### **Other tax proposals affecting individuals**

#### **Employee share schemes**

The interrelationships in the application of section 8C of the Income Tax Act, including the taxation of directors and employees on vesting of equity instruments; the attribution of capital gains to beneficiaries; the income tax exemption of dividends; and the employees' tax provision related to the return of capital, will be reviewed to remove anomalies.

#### **Income and disposal to and from deceased estates**

Section 25 of the Income Tax Act provides that no income or disposal is triggered in the deceased's hands upon death, but that income may be recognised in the hands of the deceased estate, heir or legatee. Paragraph 40 of the Eighth Schedule, however, recognises capital gains and losses upon death. To address the anomalies created when the two regimes interact, the provisions will be examined and amendments may be proposed.

#### **Withdrawal from retirement annuity funds by non-residents**

Non-residents who move to South Africa for a fixed term of employment often contribute to a retirement annuity fund to continue saving for retirement in a tax-efficient manner. The current definition of "retirement annuity fund" does not allow these individuals to withdraw the amounts they have saved over this fixed term if they return to their home countries. In contrast, if South Africans emigrate, they are allowed to withdraw their retirement annuity interest. The mismatch in treatment will be reviewed.

#### **Harmonisation of the treatment of retirement funds**

The taxation of contributions and the rules on compulsory annuitisation for pension funds, provident funds and retirement annuity funds will change from 1 March 2016. The level of deductible contributions will be limited to 27.5 per cent of the greater of taxable income or

remuneration per year. An additional amendment will be investigated to correct an omission in 2013 that inadvertently excludes some retirement funds that enjoy the benefit of higher deductions without being subject to the uniform annuitisation rules.

### **A maximum age for the preservation of retirement assets**

From 1 March 2015, a retirement fund member may defer the drawing of their retirement income until after their retirement date (if the retirement fund allows). This will provide greater flexibility for retirement fund members and encourage the preservation of retirement assets. However, to limit tax planning opportunities, it is proposed that a maximum age at which withdrawals must be taken be introduced. This is in line with other countries that have similar retirement funding arrangements.

### **Estate duty and retirement funds**

Amendments in 2008 removed the upper age limit at which an individual was required to purchase an annuity if they had an interest in a retirement annuity fund, and excluded retirement fund benefits from the dutiable estate when a member passed away. These two amendments have made it possible for some individuals to avoid estate duty by transferring their assets into a retirement annuity fund before their death. In the deceased's tax calculation, lump sums paid to the estate are subject to the lump sum retirement taxable. However, lump sums equal to amounts above the allowable deduction (non-deductible contributions) are not subject to the lump sum tax table or estate duty.

To eliminate the potential to avoid estate duty, government proposes that an amount equal to the nondeductible contributions to retirement funds be included in the dutiable estate when a retirement fund member passes away.

## **COMPANIES**

### **Corporate tax rates**

No change is proposed to corporate tax rates.

### **Turnover tax for micro businesses**

The turnover tax regime was introduced to limit the compliance burden on micro businesses with annual turnover of up to R1 million. These rules eliminate the need for a great deal of paperwork and compliance expenses. The Davis Tax Committee recommended that this incentive be made more generous to improve the participation of small businesses in the economy and the tax system. Government proposes to adjust the rates and thresholds to make the turnover tax more attractive.

### **Bus rapid transit payments to affected taxi operators**

In 2010, government introduced the bus rapid transit system, which resulted in the compensation of affected taxi operators for the loss of potential earnings. It is proposed that the tax treatment of such payments to affected taxi operators be reviewed.

### **Corporate reorganisation rules**

*Township developer allowance:* Section 45 of the Income Tax Act makes provision for allowances on capital assets to be transferred in a group. However, the definition of a capital asset in section 41 excludes trading stock. The township developer allowance covers assets that qualify as trading stock, so it cannot be transferred in terms of this section. Government proposes to amend the wording of the section to include the allowance.

*Asset-for-share transaction:* The current anti-avoidance measure in section 42(5) of the Income Tax Act is creating anomalies and needs to be clarified.

*Cross-border intra-group transactions:* Section 45(3A) of the Income Tax Act also applies to cross-border intra-group transactions. However, subparagraph (c) of this section creates anomalies. It is proposed that this subparagraph be amended to clarify that the provisions of this section refer to the same group of companies as defined in section 1(1) of the Act.

### **Distribution and issue of shares for no consideration**

The current wording in section 40C of the Income Tax Act creates anomalies when a company distributes shares internally. It is proposed that changes be made to clarify that the section's provisions only apply to the issue of shares, not their distribution.

### **Amounts from disposal of shares**

Government will consider the provisions of section 9C of the Income Tax Act to address the problem of return of capital after a taxpayer has held a share for a period of three years, as well as the meaning of the term "disposal" for the purpose of this section.

### **Cancellation of contracts**

If a contract is cancelled, it is expected that the parties will be restored to the status quo before the transaction. However, it is argued that the cancellation of contracts results in the rebasing of the asset's base cost, leading to zero capital gain or capital loss. This is prevalent between connected persons. It is proposed that this potential anomaly be removed.

### **Third-party-backed shares**

In 2014, changes were made in the Income Tax Act regarding the refinancing of third-party-backed shares for qualifying transactions and limited pledges. Further refinements are needed to clarify the requirements or meaning of "qualifying purpose" to further the provisions' objectives.

### **Sharia-compliant financing arrangements**

Tax legislation recognises certain forms of Islamic finance as equivalent to traditional finance entailing interest. In 2014, changes were made in the Income Tax Act to include public entities in the Islamic finance arrangements and to extend the definition of *sukuk* to include other entities. To create a more enabling environment for Islamic finance, it is proposed that the *murabaha* and *sukuk* financing arrangements be extended to listed entities and that section 8A of the Securities Transfer Tax Act be amended to cater for *murabaha* transactions.

## **REAL ESTATE INVESTMENT TRUSTS (REITS)**

In 2012, a special tax dispensation for listed REITS was introduced in the Income Tax Act. The provisions of section 25BB will be refined to remove anomalies.

### **Unlisted property-owning companies**

Unlisted property-owning companies marketed to the general public or held by institutional investors do not qualify for the same special tax dispensation as listed REITS. Government proposes that unlisted property-owning companies should qualify for the same tax treatment if they become regulated. A regulatory framework for unlisted property-owning companies will be developed.

### **Hedge funds**

Government proposes that hedge funds be declared as collective investment schemes, subjecting them to similar rules as other collective investment schemes in terms of the Collective Investment Schemes Control Act (2002). Tax amendments will be considered to minimise any inadvertent tax consequences that may arise from the restructuring of regulated hedge funds.

### **Securities lending arrangements**

The transfer of collateral in a securities lending arrangement provides the lender with confidence that they will not lose the underlying value of the securities lent, which increases liquidity in this market.

Government proposes to review the tax treatment of the transfer in beneficial ownership of collateral to reduce any negative effects on acceptable business practices and limit the use of collateral in possible tax avoidance arrangements. In addition, the current tax treatment of securities lending arrangements will be reviewed to account for corporate actions during the term of such arrangements.

### **Introduction of the SAM basis of regulating long-term insurers**

In 2016, the Financial Services Board intends to implement Solvency Assessment and Management (SAM), a risk-based supervisory regime for long- and short-term insurers. The SAM basis of valuing policyholder liabilities is not in line with the current tax treatment. To take account of SAM, government proposes a new valuation method for the policyholder liabilities of long-term insurers. The new approach will be based on an adjusted International Financial Reporting Standards method of valuation.

### **Research and development incentive**

The research and development (R&D) tax incentive was introduced to boost R&D as a percentage of gross domestic product, and to encourage knowledge transfer and skills development. For expenditure to qualify for the tax incentive in terms of the Income Tax Act, the taxpayer must submit an application for approval to the adjudication committee. However, the backlog in the approval process is creating difficulties, especially for smaller businesses, which have to wait months for approval. Measures will be considered to ensure

that taxpayers are not disadvantaged by undue delays by the adjudication committee. The issue of third-party funding for R&D activities will also be considered.

### **Government grants**

Government will review the tax treatment of government grants to remove unintended anomalies, as well as the regulatory mechanism relating to these grants. Government aims to address anomalies related to grants that were not previously listed, the claiming of deductions on tax-exempt grants, and grant relationships with public-private partnerships.

### **Revision of manufacturing assets deduction**

Section 12C of the Income Tax Act makes provision for an accelerated depreciation deduction for manufacturing assets, provided that the assets are directly used by the taxpayer for the purposes of his or her trade. Due to changes in the business models of some manufacturing activities, government will review the conditions of the granting of this allowance without undermining the current limitation provisions in section 23D of the Income Tax Act.

### **Film incentives**

Government will refine film incentives in section 12O of the Income Tax Act to remove anomalies arising as a result of the interaction of its provisions with other provisions in the Income Tax Act.

## **INTERNATIONAL**

### **Withdrawal of special foreign tax credits for service fees sourced in South Africa**

The special foreign tax credit for withholding taxes imposed on South African residents by foreign countries for services rendered in South Africa for clients who were residents in those countries resulted in a significant compliance burden to both taxpayers and SARS. Some taxpayers are also exploiting this relief. As a result, it is proposed that the special foreign tax credits for services be withdrawn.

### **Capital gains tax implications on cross-issue of shares**

In 2013, government amended the Income Tax Act to counter base erosion and profit shifting. If a South African resident company issues shares as a consideration for an acquisition of shares in a foreign company, it will result in a capital gain for the resident company. Although the concerns that led to the changes in tax legislation are understood, these changes may affect legitimate commercial transactions, curtailing the growth and expansion of South African multinationals. Government will consider relaxing the provision's requirements, without losing sight of the initial policy intent, which is to counter untaxed corporate migration out of South Africa.

### **Controlled foreign company rules**

The controlled foreign company (CFC) diversionary rules to prevent the shifting of income offshore through the sale of goods by a CFC to a connected resident were removed in 2011. CFC rules have proven less effective in immediately addressing profit shifting by South

African resident companies. Although transfer pricing rules can be applied in these circumstances, the CFC diversionary rules are more effective in taxing profits from these transactions. It is proposed that diversionary rules applicable to the sale of goods by a CFC to a connected resident be reinstated. In addition, consideration will be given to allowing CFCs held by interposed trusts to be subject to tax in South Africa.

### **Sale of immovable property by non-residents**

*Withholding on disposal of immovable property by non-residents:* Section 35A of the Income Tax Act states that a purchaser does not need to withhold tax from a deposit “until the agreement for that disposal has been entered into”. It is proposed that the wording should be amended to clarify the timing of the withholding.

*Definition of immovable property:* The definition of immovable property in paragraph 2(2) of the Eighth Schedule will be aligned with the definition in the Organisation for Economic Cooperation and Development’s model tax treaty, specifically the definition related to the right to work mineral deposits.

### **Withholding tax on interest**

*(SAICA comment: the withholding tax becomes effective 1 March 2015)*

*Definition of interest:* It is proposed that interest for withholding tax purposes be defined. This will ensure that there is no confusion with other definitions related to interest in the Income Tax Act.

*Alignment of section 50B(1) with section 9(2)(b) of the Income Tax Act:* The provisions of these sections should be aligned to provide for exemption for interest paid to a non-resident for debt owed by another non-resident, unless the other non-resident was present in South Africa for a period exceeding 183 days or the debt claim is effectively connected to a permanent establishment in South Africa.

### **Withholding tax on service fees**

The section will be reviewed to clarify definitions and remove any anomalies.

### **Excise duty**

Customs and excise duties in the Customs and Excise Act (part 1 and section A of part 2 of schedule 1) will be amended with effect from 25 February 2015.

## **ENVIRONMENTAL TAXES**

### **Carbon Tax**

Two discussion documents were published in 2013 and 2014 and the proposed carbon tax has been further refined after a review of the comments received. The potential use of carbon offsets was well received as a cost-effective mechanism to reduce greenhouse gas emissions and taxpayers’ carbon tax liabilities. The tax design seeks to minimise potential adverse effects on low-income households and industry competitiveness. The publication of the draft carbon tax bill later in 2015 will allow for a further period of consultation. This will also

allow for the tax to be aligned with the proposed carbon budgets. Amendments to the customs and excise act will be effected to provide for the administration of the carbon tax.

### **Energy-efficiency savings tax incentive**

The energy-efficiency savings tax incentive will be increased from 45 c/kWh to 95 c/kWh and extended to cogeneration projects. This incentive was introduced in November 2013 to complement the proposed carbon tax. It encourages firms to support a greener economy. Businesses can claim deductions based on energy saved. In future, this allowance will be funded through a recycling of revenues from the carbon tax.

### **Tyre levy**

South Africa generates an estimated 108 million tonnes of waste each year, of which only 10 per cent is recycled. Government has designed additional environmental levies on a range of waste streams to help divert waste away from landfills towards reuse, recycling and recovery. Government proposes a tyre levy, with effect from the last quarter of 2015, to be implemented through the Customs and Excise Act and collected by SARS. The existing levy arrangements for tyres as per the Department of Environmental Affairs' regulations will be replaced with the proposed tyre levy. Revenues from the levy will be deposited into the National Revenue Fund, and an on-budget allocation will be made available through the budget of the Department of Environmental Affairs for the recycling of waste tyres and other waste streams.

## **INDIRECT TAXES**

### **VALUE-ADDED TAX (VAT)**

#### **Educational services**

Educational services are currently exempt from VAT, but there are uncertainties around the exact definition of "educational services" and the VAT treatment of certain expenditures, such as accommodation and the provision of meals. The Davis Tax Committee is reviewing the VAT implications for educational institutions, and its conclusions will guide potential changes.

#### **Thresholds for payment basis**

To help with cash flow, some vendors with annual taxable supplies below R2.5 million are allowed to account for VAT on a payment basis rather than an accrual basis. These vendors must be natural persons or unincorporated bodies of which all members are natural persons. The Davis Tax Committee is reviewing this provision. There may be scope to increase the threshold and/or broaden the application to include incorporated businesses under this regime. However, the abuses previously experienced when businesses on the accrual basis transact with businesses on the payment basis will have to be addressed.

#### **Regulation prescribing foreign electronic services**

The regulations prescribing electronic services will be updated to include software and other electronic services and to remove some uncertainties.

### **Adjusted cost**

The definition of “adjusted cost” in section 1 of the VAT Act be amended to deem VAT at the standard rate to be included where the acquisition was subject to VAT at the zero-rate.

### **Commercial accommodation**

The definition of “commercial accommodation” in section 1(1) of the VAT Act states that an establishment is a commercial accommodation if it regularly or systematically supplies the listed supplies and where the total annual receipts from such supplies exceed (or are expected to exceed) R60 000 in a period of 12 months. It is proposed that the registration and threshold requirements of a commercial accommodation be reviewed.

### **Diesel refund system**

The diesel refund system’s implementation has experienced technical and administrative challenges and the system’s administration will be comprehensively reviewed. While the review is under way, steps will be undertaken to deal with some of the immediate challenges. This includes, among others, disputes over refunds for subcontracting in the mining sector through cession mining licences in terms of the Mineral and Petroleum Resources Development Act (2002). In the farming sector, attention will be given to rules for sugarcane contract farming and issues related to small-scale

## **TAX ADMINISTRATION**

### **Self-assessment system for income tax**

Amendments to the Income Tax Act are proposed to provide for the move to an income tax self-assessment system.

### **Appeal and dispute resolution procedures for customs and excise**

Uniform appeal and dispute resolution procedures for taxes administered by SARS are proposed by aligning the procedures under the Customs Control Act (2014), the Customs Duty Act (2013) and the Customs and Excise Act (1964) with dispute resolution procedures under the Tax Administration Act (2011).

## **NATIONAL GAMBLING TAX BILL**

The national gambling tax bill will be processed in 2015.

## TAX GUIDE

### Individuals and trusts

<b>Income tax rates for natural persons and special trusts</b>	
<b>Year of assessment ending 28 February 2016</b>	
<b>Taxable income (R)</b>	<b>Taxable rates</b>
0 – 181 900	18% of each R1
181 901 – 284 100	32 742 + 26% of the amount above 181 900
284 101 – 393 200	59 314 + 31% of the amount above 284 100
393 201 – 550 100	93 135 + 36% of the amount above 393 200
550 101– 701 300	149 619 + 39% of the amount above 550 100
701 301 and above	208 587 + 41% of the amount above 701 300

### Natural persons

<b>Tax thresholds</b>		
	<b>2014/15</b>	<b>2015/16</b>
	<b>R</b>	<b>R</b>
Below 65 years of age	70 700	73 650
Aged 65 and below 75	110 200	114 800
Aged 75 and over	123 350	128 500

<b>Tax rebates</b>		
	<b>2014/2015</b>	<b>2015/16</b>
	<b>R</b>	<b>R</b>
Primary – all natural persons	12 726	13 257
Secondary – persons aged 65 and below 75	7 110	7 407
Secondary – persons aged 75 above	2 367	2 466

### Trusts

The tax rate on trusts (other than special trusts which are taxed at rates applicable to individuals) increased from 40% to 41%.

### Retirement fund lump sum withdrawal benefits

<b>Taxable income</b>	<b>Rate of tax</b>
<b>R</b>	<b>R</b>
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

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**

<b>Taxable income</b>	<b>Rate of tax</b>
<b>R</b>	<b>R</b>
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 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.

## **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.

## **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 183 days during the 12 month period before the interest accrues or is received and the debt from which the interest arises is not effectively connected to a fixed place of business of the non-resident in South Africa during that period of 12 months.

## **DEDUCTIONS**

### **Current pension fund contributions**

The greater of 7,5% of remuneration from retirement funding employment, or R1 750. Any excess may not be carried forward to the following year of assessment.

### **Arrear pension fund contributions**

Maximum of R1 800 per annum. Any excess over R1 800 may be carried forward to the following year of assessment.

### **Current retirement annuity fund contributions**

The greater of 15% of taxable income other than from retirement funding employment, R3 500 less current deductions to a pension fund, or R1 750.

Any excess may be carried forward to the following year of assessment.

### **Arrear retirement annuity fund contributions**

Maximum of R1 800 per annum. Any excess over R1 800 may be carried forward to the following year of assessment.

### **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 R353 per day is deemed to have been expended;
- incidental costs only, an amount of R109 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 & Policy / Secondary Legislation / Income Tax Notices / 2015.

### *Travelling allowance*

Rates per kilometre 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.

<b>Value of the vehicle (including VAT)</b>	<b>Fixed cost</b>	<b>Fuel cost</b>	<b>Maintenance cost</b>
<b>R</b>	<b>R per annum</b>	<b>c per km</b>	<b>c per km</b>
0 – 80 000	26 105	78.7	29.3
80 001 – 160 000	46 505	87.9	36.7
160 001 – 240 000	66 976	95.5	40.4
240 001 – 320 000	84 945	102.7	44.1
320 001 – 400 000	102 974	109.9	51.8
400 001 – 480 000	121 886	126.1	60.8
480 001 – 560 000	140 797	130.4	75.6
Exceeding 560 000	140 797	130.4	75.6

#### **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 8 000 kilometers per annum, no tax is payable on an allowance paid by an employer to an employee up to the rate of 330 cents per kilometer, regardless of the value of the vehicle.
- This alternative is not available if other compensation in the form of an allowance or reimbursement 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-owned vehicles**

- The taxable value is 3,5% of the determined value (the cash cost including VAT) 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 lower of the benefit calculated by applying a prescribed formula or the cost to the employer. 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

## CORPORATE TAX RATES

YEARS OF ASSESSMENT ENDING BETWEEN 1 APRIL 2015 AND 31 MARCH 2016		
<b>Normal tax</b>		
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 2015 and 31 March 2016

<b>Taxable income</b>	<b>Rate of tax</b>
<b>R</b>	<b>R</b>
0 – 73 650	0% of taxable income
73 651 – 365 000	7% of taxable income above 73 650
365 001 – 550 000	20 395 + 21% of taxable income above 365 000
550 001 and above	59 245 + 28% of the amount above 550 000

## MICRO BUSINESSES

Financial years ending on any date between 1 April 2015 and 31 March 2016

<b>Taxable turnover</b>	<b>Rate of tax</b>
<b>R</b>	<b>R</b>
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	6 500 + 3% of taxable turnover above 750 000

## EFFECTIVE CAPITAL GAINS TAX (CGT) RATES

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

### Maximum effective rate of tax

Individuals and special trusts 13.65%

Companies 18.65%

Other trusts 27.31%

## 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.

### **Transfer duty**

Transfer duty is payable at the following rates on transactions in respect of acquisition of property on or after 1 March 2015 which are not subject to VAT.

<b>Value of property</b>	<b>Rate</b>
<b>R</b>	
0 – 750 000	0%
750 001 – 1 250 000	3% of the value above 750 000
1 250 001 – 1 750 000	15 000 + 6% of the value above 1 250 000
1 750 001 – 2 250 000	45 000 + 8% of the value above 1 750 000
2 250 001 and above	85 000 + 11% of the value above 2 250 000

### **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 of a per cent on the transfer of listed or unlisted securities. Securities consist of shares in companies or member's interests in close corporations.

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