# 2015 Budget Predictions

## Tax revenues

| *Topic* | *PwC Prediction* |
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| **2014/15 tax revenues** | In the 2014 Medium-Term Budget Policy Statement (MTBPS), estimates for 2014/15 tax revenues were revised downwards by R10 billion to R983.6 billion. The major contributors to the downward revision were companies tax (R6.7 billion), VAT (R4.5 billion) and customs duties (R5.3 billion), offset to some extent by an upward revision in personal income tax (R5.6 billion). At that time, National Treasury estimated real GDP growth of 1.4% for 2014, and 1.6% for the 2014/15 fiscal year. Since then, the economy has continued to progress slowly and it is likely that these projections will prove to be reasonably accurate.<br><br>Revenue collections to date look to be broadly in line with the revised estimates in aggregate. Based on the December 2014 Statement of the National Revenue, Expenditure and Borrowing, it is projected that tax collections for personal income tax will exceed the revised estimate by between R10 billion and R11 billion. However, the performance of companies tax remains a major concern. The December revenue numbers were extremely poor and companies tax looks set to fall short of the revised estimate by approximately R9 billion. The performance of VAT is broadly in line with the revised estimates and may come in at a small surplus, while the general fuel levy is expected to register a surplus of between R1 billion and R2 billion. Customs duties, however, may fall short of the revised estimate by approximately R4 billion. |
| **2015/16 tax revenues** | The 2014 MTBPS put estimated tax revenues for 2015/16 at R1 088 billion, a R7 billion downward revision from the 2014 budget estimate. This downward revision is, however, after taking into account an additional R12 billion of tax revenues expected to be raised from the tax policy and administration reforms announced in the MTBPS.<br><br>In the MTBPS, it was announced that a structural increase in tax revenues over the medium term is proposed. These reforms are expected to raise additional tax revenues of at least R44 billion over the next three years; the details are to be announced in the 2015 Budget. The reforms are to be informed by recommendations of the Davis Tax Committee and we understand that the Committee has made some recommendations to the Minister of Finance in this regard, although these are not in the public domain at this stage.<br><br>Unfortunately, the revenue performance for 2014/15 to date would seem to indicate that tax increases are now inevitable, and the only question that remains is where these increases will come from. |

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## Business

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| **Corporate tax rates** | No change is expected in the corporate tax rate of 28%. Although corporate tax revenues are expected to continue to be under pressure in 2015/16 due to low economic growth, no increases are expected. Any increases would negatively impact on the competitiveness of SA's tax rates (the global trend for corporate tax rates is downwards) and would not be in line with the stated intention to promote investment-led growth. According to the Paying Taxes 2015 study, SA's effective rate of tax on company profits is significantly above the global and regional averages. An increase in corporate tax rates would likely have a negative impact on economic growth and investment. It is therefore expected that any additional tax revenues required will not be derived from this source. |
| **Small business** | In the 2014 Budget the proposals of the Davis Tax Committee were noted, and it was indicated that the proposal to replace the lower tax rates for small business corporations with a refundable tax compliance rebate would be accepted, subject to public consultation. Following the consultation process and a mixed response, the proposal was withdrawn for further consultation.<br><br>It is expected that tax relief for small business will remain a focus area in the 2015 Budget, and further announcements in this regard are likely. |
| **Mining taxes** | No significant announcements are expected on changes to the mining tax regime. The Davis Tax Committee is undertaking a review of mining tax and called for submissions during the course of 2014. The Committee is still working on its report and the IMF has been requested to make recommendations in this regard. Work on this report is therefore expected to continue during the course of 2015. |
| **BEPS** | Tax avoidance and evasion continues to be a major focus area of SARS. We expect to see a continued commitment to curbing such practices. In particular, South Africa will continue to participate in international initiatives of the G20 and OECD with respect to BEPS. The Davis Tax Committee recently released its interim report on BEPS and there is a reasonable chance that some of the more basic recommendations contained therein will be considered for implementation in 2015. |

## Individuals

| Topic | PwC Prediction |
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| **Personal income tax rates** | Tax relief is expected to be limited to partial relief for fiscal drag in the form of increased rebates and adjustment of the tables, particularly for lower-income earners. No changes in the tax rates are expected. The additional tax revenues for 2015/16 of R12 billion sought from tax policy and administration reforms are not expected to be derived from increases in PIT for two primary reasons. Firstly, even the introduction of a 45% super tax rate for taxable incomes over R1 million would raise only approximately R7 billion in tax and other sources of revenue would also need to be found. Secondly, an increased PIT tax rate would act as a disincentive to work, entrepreneurship and savings; negatively impact economic growth; and create opportunities for arbitrage with corporate tax. Such increases would therefore not be conducive to investment-led growth. |
| **National Health Insurance** | In the 2013 Budget it was announced that a discussion paper on the possible funding mechanisms of the NHI would be issued during the year. This discussion paper has yet to be issued. No major announcements are expected as to how the government proposes to fund the NHI ahead of the issuing of the discussion paper. |

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| **Estate duty and donations tax** | In the 2011 Budget it was announced that the effectiveness of estate duty was to be reviewed. Nothing came of this, but it now forms part of the Davis Tax Committee terms of reference. We understand that an interim report has been issued to the Minister in this regard, although it has not yet been made public. It is possible that some of the recommendations contained in the report will be considered for implementation during the course of 2015. These taxes could be a source for a small portion of the additional tax revenues being sought and an increase in the tax rates to 25% is possible, along with reforms to close some of the loopholes. |
| **Retirement savings reform** | Two important elements of retirement reform were set to come into effect on 1 March 2015. Firstly, the taxation and deduction of retirement fund contributions to pension funds, provident funds and retirement annuity funds was to become subject to a uniform tax regime and, secondly, preservation of provident funds on retirement was to be introduced by aligning the lump sum withdrawal limit with that of the other funds. Following concerns from organised labour, the implementation of these reforms was deferred for an initial 12-month period for further consultation. It is expected that the 2015 Budget will affirm the proposed introduction of these reforms and provide an update on the progress being made. |
| **Trusts** | In the 2013 Budget, it was announced that the taxation of trusts would be reformed. No legislative developments have yet taken place, although a new trust tax return was introduced in 2014. It is expected that legislative reforms may now be considered again in the 2015 Budget. |

## Indirect taxes

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| **VAT rates** | No changes are expected to the VAT rate. Although there is arguably scope to increase SA's VAT rate, given the relatively low rate by international standards and the growing trend to use indirect taxes as a source of tax revenue globally, an increase in the VAT rate is unlikely at this stage given the perceived regressive effect of the tax. It is understood that the Davis Tax Committee has issued an interim report to the Minister of Finance on VAT. However, it is not expected that any significant recommendations contained in the report will be implemented at this stage. It is possible that the Minister will make reference to the report, though, and that further consideration may be given to it. |
| **VAT on farming goods** | In the 2014 Budget it was proposed that the zero-rating of certain goods for farming purposes be removed as a result of fraud associated with the concession. This proposal was, however, vigorously opposed and was postponed in order for further analysis of the impact of the proposal to be carried out, and for further consultation to occur. It is expected that this proposal will therefore be revisited in the 2015 Budget. |
| **Carbon tax** | An update is expected to be given on the proposed introduction of a carbon tax. In the 2014 Budget, it was announced that the carbon tax would be postponed to 1 January 2016 to allow time for aligning the tax with the desired emission reduction outcomes and draft legislation. Although a discussion paper on offsets was issued in 2014 for comment, little progress has seemingly been made. An update on progress is expected in the 2015 Budget, but a further delay seems inevitable. |

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| **Other environmental taxes** | Other environmental taxes, such as the plastic bag levy, incandescent light bulb levy and vehicle emissions tax, were increased in 2013. No changes were made to these taxes in 2014. Although the revenues raised from these taxes are relatively small, they constitute a soft area for the raising of additional tax revenues and it is possible that further increases in these taxes will be introduced in 2015.<br><br>The electricity levy is not expected to be changed in 2015, given the proposed phasing out of this tax as the carbon tax is phased in.<br><br>It is possible that the introduction of new environmental taxes and levies could also be announced in the Budget. |
| **Fuel levies** | With significant decreases in the price of fuel in recent months due to lower oil prices, this presents an inviting opportunity for an increase in the general fuel levy. SA's taxation of fuels is relatively low by international standards, and an increase in the taxation of fuel would be less harmful to economic growth than increased taxes on profits and labour. A 50c increase in the general fuel levy would raise approximately R10 billion in additional revenues and therefore has the potential to contribute most of the additional R12 billion in tax revenues being sought, should this be necessary. Taxpayers can therefore expect to see a significant increase in the general fuel levy.<br><br>As announced in the 2014 Budget, a biofuels subsidy levy is set to be introduced in the second half of 2015. Further details of the levy are expected in the 2015 Budget.<br><br>The RAF levy is also expected to increase in line with the increases over the last few years by 8c/l to 10c/l.<br><br>An announcement on the reform of the diesel rebate regime for the general fuel levy is also possible. |
| **Excise duties** | Excise duties on tobacco and alcohol are a perennial soft target for increased taxes. Smokers and drinkers can expect to see above-inflation increases in these taxes in order to bring them up to the targeted tax burdens. Although a discussion document was issued during the course of 2014 in relation to taxes on alcohol, no significant changes in the approach to the taxation of alcohol are expected at this stage. |
| **Gambling taxes** | In the 2012 Budget it was announced that a national gambling tax would be introduced from 1 April 2013 in the form of a 1% levy on gross gambling revenues and that this would also apply to the national lottery. In the 2013 Budget it was announced that legislation would be introduced in 2013. There have been no developments in this regard, although we understand that the proposal is still on the table. It is expected that this tax will now be implemented. |

## Tax administration

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| **Transfer pricing** | Transfer pricing within multinational companies continues to be a key concern to SARS. While transfer pricing forms a significant part of the OECD-led BEPS project, it is expected that SA will commence with steps to put in place some of the recommendations. In particular, it is expected that an announcement may be made in respect of compulsory transfer pricing documentation and the introduction of advance pricing agreements. |

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