2017 budget highlights

PwC's tax comments on the 2017 Budget Review

Personal Income Tax

As many pundits predicted, the Minister of Finance today announced a new 45% tax bracket for individuals which will apply to taxable income in excess of R1.5 million. The tax rates below that have remained unchanged and the income levels at which they apply have been slightly adjusted, but not enough to offset the effects of inflation. By way of example, the impact of the tax changes at the various income levels will be as follows:

Taxable Income	2017/2018 Tax Due	Change from 2016/2017	% Change
R100,000	R4,365	-R135	-3.0%
R200,000	R23,174	-R286	-1.22%
R500,000	R115,824	-R636	-0.55%
R1,000,000	R314,989	-R941	-0.3%
R1,500,000	R519,989	-R941	-0.18%
R2,000,000	R744,990	+R19,059	+2.63%
R5,000,000	R2,033,625	+R77,694	+3.97%

According to the Minister of Finance, the impact of the tax proposals are that the additional revenue for the Fiscus from personal income tax is R16.5 billion while the introduction of the new tax bracket will result in additional revenue of R4.4 billion.

These new tax rates, combined with increases in the fuel levy as well as the usual increases in "sin taxes" will hit certain sectors of the economy quite hard. Certainly, taxpayers with taxable income in excess of R1.5 million will find themselves significantly worse off.

Notwithstanding the relatively bad news regarding the new 45% tax bracket, the Minister of Finance did announce some good news for employers and employees.

For example, if an employer grants a bursary or scholarship to dependents of its employees, provided the employee's remuneration does not exceed R600,000 (up from R400,000), then such a scholarship or bursary will be exempt from tax in the employee's hands to the extent that it does not exceed R20,000 (up from R15,000) per dependent per year (for education below NQF level 7) and R40,000 (up from R60,000) per dependent per year (for education at NQF level 7 and above).

In addition to the above, the travel allowance tables have been adjusted upwards as well as the rate at which employers can reimburse employees for business travel from R3,29 to R3,55 per kilometer and for 12,000 kilometers rather than the previous 8,000 kilometers.

Furthermore, the medical credit which members of medical aid funds can claim against their tax liability has increased from R286 to R303 for the first two dependents and thereafter from R192 to R204 per month per dependent.

For those employees who travel for business purposes and are paid a subsistence allowance by their employees, the deemed amounts have also increased from R372 to R397 per night away for meals and incidentals and, where the allowance is for incidentals only, the amount increases from R115 to R122.

Barry Knoetze, Associate Director, PwC Tax Services

It's interesting to note that a new 45% bracket has been introduced for individuals earning more than R1,5 million per year and that this is purported to affect only 100,000 people. To counter arbitrage opportunities, the dividends tax rate has also been raised to 20% effective immediately. The effective tax rate for distributed company profits then increases from 38,8% to 42,4%. Clearly, there is still a difference, albeit a small one of 2,6%. Given that many people earning in excess of R1,5 million may be able to adjust their salaried earnings and take the difference by way of dividends, the effective rate of tax for many of these high earners will be 42,4%.

Sandwiched in the Annexure C proposals is a paragraph which could have major tax implications for South African residents which hold foreign companies through an interposed trust. Currently the interposed trust breaks the controlled foreign company link with the consequence that the attribution rules under section 9D do not apply. Treasury has announced that it will propose specific countermeasures to curb these abuses.

Greg Tarrant, Associate Director, PwC Tax Services

Corporate Tax

Dividends tax

The increase in the dividends tax rate from 15% to 20% will largely impact South African individual taxpayers and non-resident taxpayers that are tax resident in countries that do not have double tax agreements with South Africa.

Dividends paid by South African tax resident companies to other South African tax resident companies are generally exempt from dividends tax, while dividends paid to non-residents who reside in countries that have in-force double tax agreements with South Africa generally enjoy a reduction in the dividends tax rate.

The increased tax burden on individual taxpayers may potentially result in new innovative products and schemes where taxpayers attempt to make use of the arbitrage in the rates levied on companies and also potentially relief afforded by double tax agreements.

Alwina Brand, Partner PwC Tax Services

Write-off of debt

Corporate taxpayers will welcome the proposed relief for the write off of debt in dormant group companies or companies under business rescue. The current income tax rules do not provide for inter-group relief where recoupments arise due to the write off or forgiveness of debt which was used to fund tax-deductible operating expenditure. The write off of the debt on liquidation gave rise to tax liabilities which could not be settled which prohibited the liquidation or deregistration of companies.

The extension of the relief to companies in liquidation as well as South African companies within the same group, would align the tax treatment of loans used to fund tax deductible expenditure with the current tax treatment of loans utilised for other purposes which currently already enjoy relief under the legislation dealing with capital gains tax.

We expect that mining companies will also welcome the alignment of the tax treatment of the write-off of debt associated with capital expenditure which at present results in a recoupment of the debt that is written off.

Alwina Brand, Partner PwC Tax Services

Share buy-backs

Following the announcement in 2016 that Treasury will pay closer scrutiny with regard to share buy-back transactions. As expected it has been announced that specific countermeasures will be introduced to curb the use of share buy-back schemes to avoid the tax consequences that would arise had the shares been disposed of in a traditional manner.

Alwina Brand, Partner PwC Tax Services

Utilisation of "contributed tax capital" to make distributions to foreign shareholders

Currently, South African companies may potentially utilise their "contributed tax capital" (an artificial term introduced into the Income Tax Act which comprises of capital contributed to the company by shareholders) to make distributions to foreign shareholders in a tax exempt manner. Distributions from "contributed tax capital" does not attract dividends tax and in most cases would also not attract capital gains tax (provided the distributing company does not hold significant investments in local immovable property) in the foreign shareholder's hands. It is proposed that the tax legislation be amended to prevent the perceived abuse of the definition of "contributed tax capital".

Alwina Brand, Partner PwC Tax Services

Base erosion and profit shifting

Treasury has confirmed its commitment to the focus on base erosion and profit shifting and its participation in OECD initiatives and recommendations. A number of legislative amendments have been made already and we will see a continued implementation of more measures to ensure the protection of South Africa's tax base.

Government has committed to the automatic exchange of financial information from 1 September 2017, which would facilitate transparency with regard to the tax affairs of multi-national groups across the globe.

Alwina Brand, Partner PwC Tax Services

Value-added tax

VAT on fuel

National Treasury has indicated an intention to expand the VAT base by removing the zero rating on fuel. To mitigate the effect, National Treasury is considering combining this change with a freeze or decrease in the fuel levy. This will, however, have the effect of increasing the cost of fuel which will cascade through the economy by way of increased costs, and furthermore contradicts the initial policy intent of subjecting fuel, already subject to a fuel levy, to an additional tax in the form of VAT.

This change will be subject to consultation leading up to the 2018 Budget.

VAT on electronic services

National Treasury proposes updating regulations to broaden the scope of electronic services which are subject to VAT in South Africa, and to include cloud computing and services provided using online applications. Further changes will be introduced to remove uncertainties and practical difficulties. While the detail of these changes has not been outlined, it remains to be seen whether the changes will align with broader OECD principles aimed at addressing base erosion and profit shifting.

Definition of 'resident of the Republic'

National Treasury proposes amending the definition of 'resident of the republic' in the VAT Act to ensure that the zero-rating for non-residents is not jeopardized. Such amendment aims to ensure that non-residents do not incur non-recoverable VAT.

Housing subsidy payments

The proposed deletion of the zero rating of housing subsidy payments has been postponed for two years. The law currently provides that payments made in terms of certain national housing programmes, reflected in a regulation, be zero rated. As no such regulation currently exists, the question has to be asked whether any payments can currently be zero rated.

Moveable property situated in an export country

The Budget implies that shares and securities of a foreign company listed on the JSE are to be regarded as movable property situated in a foreign country. Currently any services supplied directly in connection with these movable properties are zero rated under section 11(2)(l). The proposal is not clear in terms of whether the intention is to confirm the zero rating or to standard rate the supply.

Lesley O'Connell, Partner PwC Indirect Tax

Customs and excise

As predicted, National Treasury has sought to increase excise duties in respect of cigarettes and alcoholic beverages. National Treasury will furthermore amend the Tax Administration Act to tighten the controls around the marking, tracking and tracing of locally manufactured and imported tobacco products to limit fraud.

In addition, the fuel levy will be increased by an additional 30c per litre.

Lesley O'Connell, Partner PwC Indirect Tax

Sugar tax

In line with previous statements, Government proposes implementing a tax on sugary beverages as soon as the necessary legislation is approved by Parliament and signed by the President. The tax will be administered through the Customs and Excise Act. National Treasury's socioeconomic impact assessment shows a relatively small effect on job losses.

Following the draft policy paper and consultation with industry, the design of the tax has been revised such that:

- The World Health Organisation definition will be applied to cover the intrinsic and added sugars in sugary beverages;
- The sugar content will remain the base on which the tax is applied;
- The proposed tax rate has been decreased t0 2.1c/gram for sugar content in excess of 4g/100ml; and
- Of the proposed rate, 50 per cent will apply to concentrated beverages.

Some of the revenue collected will be used to support health promotion interventions to fight non-communicable diseases.

Lesley O'Connell, Partner PwC Indirect Tax

Carbon tax

A revised Carbon Tax Bill will be released during 2017 for public consultation and is expected to be tabled in Parliament mid-2017. Latest developments include:

- During the first phase of the tax until 2020, there will be no impact on the price of electricity;
- A revised regulation for the carbon offset allowance will be published by mid-2017.

Government expects to provide clarity on the alignment of the carbon tax and carbon budget after 2020.

Lesley O'Connell, Partner PwC Indirect Tax

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