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Progress with a purpose
Budget 2014

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The Minister of Finance, Mr Pravin Gordhan, today announced a revised consolidated net tax revenue estimate for 2014/2015 of R997,7 billion and a slightly reduced budget deficit over the 2013 min budget estimate of 4% of GDP.

Tax highlights announced as part of this year's budget include:

- R9,3 billion in personal income tax relief to individuals;
- Tax relief for small businesses;
- Deferral of the introduction of the carbon tax by one year; and
- Continued reform to the taxation of retirement savings.

Government expenditure for the coming year is to be allocated as follows:

Education	R253,8 bn
Public order and safety	R115,7 bn
Economic affairs	R142,8 bn
Social protection	R144,5 bn
Housing and community amenities	R142,9 bn
Health	R145,7 bn
General public services	R180,0 bn

Income tax – individuals

Both the minimum marginal rate of 18% and the maximum marginal rate of 40% have remained unchanged. The upper level of the band to which the 18% rate applies has been increased from R165 600 to R174 550 and the level at which the maximum rate is applicable has been increased from R638 601 to R673 101. The intervening brackets have all been adjusted upwards.

The proposed scale of rates for individuals and trusts is set out in the appendices. The new scale of rates for individuals will be applicable for years of assessment beginning on 1 March 2014.

The primary rebate is increased from R12 080 to R12 726, whilst the secondary rebate for individuals aged 65 years or older increased from R6 750 to R7 110. The third rebate for individuals 75 years and older has been increased from R2 250 to R2 367.

As a result of the amendments to the scale of rates and the rebates increasing, the tax threshold for individuals below the age of 65 is increased from R67 111 to R70 700, and for individuals aged between 65 and 75 from R104 611 to R110 200. The tax threshold for individuals 75 years and older increases from R117 111 to R123 350.

The resultant decrease in the tax liability for individuals younger than 65 is illustrated below:

Taxable income R	2013/2014 R	2014/2015 R	Decrease R
75 000	1 420	774	646
150 000	14 920	14 274	646
500 000	120 486	117 549	2 937
1 000 000	317 685	313 246	4 439

The interest exemption for individuals remains at R23 800 for individuals under the age of 65 and R34 500 for individuals over the age of 65 as indicated would be in the case in the 2013 Budget.

Medical deductions and conversion to medical tax credits

Monthly tax credits for medical scheme contributions will be increased from R242 to R257 for the first two beneficiaries and from R162 to R172 for each additional beneficiary. The amendments will come into effect from 1 March 2014. It should be noted that legislation has already been promulgated which has the effect of converting all medical expenditure deductions into a rebate as from 1 March 2014.

Travel allowances

The deemed cost tables for travel allowances have increased, as well as the deemed tax free reimbursive rate for business travel (R3.30 per kilometre) for business kilometres not exceeding 8 000 kilometres per annum.

Subsistence allowances

Tax-free subsistence allowances paid by an employer to an employee will be increased as follows:

- Meals and incidental costs - from R319 to R335 per day;
- Incidental costs only – from R98 to R103 per day; and
- Overseas travel – as set out on the SARS website per overseas country.

Miscellaneous matters

Employment tax incentives

The employment tax incentive legislation has been enacted and generated 56 000 opportunities in its first month of operation. At present, the incentive is only available to the extent of PAYE liabilities. However, a refund system is proposed to become effective in the fourth quarter of 2014.

Social grants

Improved administration has streamlined the grant system. Increases in social grants of approximately 5% were announced for the forthcoming fiscal year.

Company car fringe benefits

It is proposed that the basis for the valuation of the company car fringe benefit – the "determined value" – should be based on the retail selling price of the motor vehicle. In the case of motor dealers and motor manufacturers the effect of this change will be phased in over 4 years.

Retirement savings reforms

Following on from reforms enacted in 2013, regulations will be issued to estimate the contribution amount that will be deductible in respect of defined benefit plans.

It is also proposed that the policy approach to the timing of accrual of retirement fund benefits will be reviewed.

The tables for the taxation of lump-sum benefits from retirement funds have been adjusted, providing additional relief, particularly to lower income members.

Tax preferred savings accounts

As was originally in the 2012 Budget, government proposes to establish rules for tax preferred savings accounts into which individuals may make deposits, subject to an initial annual limit of R30 000 and a lifetime limit of R500 000. Investments may be in bank deposits, collective investment schemes, exchange traded funds and retail savings bonds.

Employer provided housing

The fringe benefit tax related to the provision of housing by employers is to be revised to allow for a basis of the lower of actual cost or the remuneration-based formula for rented accommodation. Provision will also be made for apportionment of the benefit where multiple employees occupy the same accommodation.

Keyman insurance policies

Policies that protect the employer against contingent liabilities (e.g. repayment of employee loans) on death or disability of an employee will not qualify as keyman policies. There must be a risk of loss to the business. Amendments are to be made to ensure that this principle is met with respect to cessions of policies.

Cross-border retirement saving

Government will address the issue resulting from taxpayers who work cross-border and contribute to retirement plans of their employers. It is expected that the review of policy will require two years, with extensive consultation.

Corporate tax

Corporate tax rate

The corporate tax rate remains unchanged at 28%.

Hybrid instruments

The provisions relating to third-party backed shares will be relaxed to allow for relief in the case of refinancing of transactions that would themselves qualify for relief. In addition, the requirement that the company that is the target of the acquisition should be in operation will be relaxed to include acquisitions of shares in exploration companies. The third-party backed shares anti-avoidance rules will also not apply where the sole form of security to the financier is in the form of shares held directly or indirectly in the underlying acquired company.

Interest limitations

Limitations on interest deductions for reorganisation and acquisition transactions enacted in 2013 are to be adjusted to remove anomalies. These anomalies include concerns related to increases in interest rates and the earnings base against which the limit is applied, including the inclusion of assessed losses from prior years.

Carbon tax

The carbon tax will not be introduced until 2016 in order to align the design of the carbon tax with the proposed desired emission-reduction outcomes and allow for adequate time for consultation on draft legislation. Several other adjustments to the carbon tax are proposed, including reducing Eskom’s tax liability through a credit for the renewable energy premium, lowering the electricity levy, addressing concerns about international competitiveness, extending the R&D incentive to provide for green technology and aligning reporting and classification of emissions for tax purposes with the mandatory reporting requirements.

Small and micro enterprise reforms

The relative underperformance of the informal sector has led to proposals to simplify and relax the turnover tax for micro businesses. Government also proposes to encourage entrepreneurship in the small and medium enterprise sector. Proposals by the Tax Committee are under active consideration and may result in a replacement of the small business corporation tax regime with a tax compliance rebate. Consideration is being given to providing tax relief for non-business entities that provide grant funding to small businesses, as well as exempting small and medium-sized enterprises from tax on grants received.

Venture capital companies

It is proposed that amendments be made to the venture capital regime, including:

- Making deductions permanent, subject to minimum prescribed investment holding periods;
- Allowing transferability of tax benefits on disposal of interests;
- Increasing the total asset limit from R20 million to R50 million and R300 million to R500 million in the case of junior mining companies; and
- Waiving capital gains tax on disposal of business assets and extending the range of permissible business forms.

Debt reduction rules

Tax in respect of debt reductions inhibits the prospects of business rescue. Tax relief measures for companies undergoing business rescue will be considered.

Long-term insurers

It is proposed that the taxation of risk business undertaken by long-term insurers be taxed on the same basis as short-term insurers. In addition, consideration is to be given to the appropriateness of the 30% rate of tax on individual policyholder funds.

Foreign reinsurance

Currently the net returns from foreign reinsurance are not taxed. It is proposed that these net returns should be taxed.

Capital gains tax ('CGT')

The CGT inclusion rate for individuals and special trusts will remain unchanged at 33.3% as well as the rate for companies and other trusts at 66.6%. The maximum effective capital gains tax rate will therefore remain at 13.3% for individuals and special trusts, 18.6% for companies and 26.7% for other trusts.

The exemptions available to individual taxpayers also remain unchanged.

International tax

Transfer pricing adjustments

The secondary adjustment in the form of a loan has presented difficulties. It is therefore proposed that the secondary adjustment will be deemed to be a dividend or a capital contribution, depending on the facts and circumstances.

Controlled foreign companies

The imputation of the income from controlled foreign companies may result in individual shareholders in the foreign company paying tax on dividends received at an effective rate of 21% instead of the intended 15%. It is proposed that the ratio be changed according to result in an effective rate of tax of 15%.

The high tax exemption will be extended in the case where the controlled foreign companies derive income through a foreign business establishment. The exact nature and scope of the extension is unclear.

Exit charge – individuals ceasing to be resident

Certain anomalies have arisen in relation to determining the currency in which assets are deemed to be reacquired by a person who ceases to be a resident. These affect the manner in which capital gains are determined. It is proposed to clarify the position.

Indirect tax

VAT

National Treasury is considering a number of policy and legislation amendments specific to VAT during 2014 as outlined below.

The legislation governing the sale of enterprises as a going concern will be amended to remove uncertainty whether the person acquiring the business must be a vendor before the business is acquired.

There is currently no time limit within which credit and debit notes must be issued. The legislation will be amended to impose a time limit.

Clarity is to be provided regarding the documents that are required to prove payment of VAT by an agent on importation of goods.

It is proposed to extend the exemption applicable to goods and services provided by bargaining councils to members to include the supply of administration services.

The zero-rating of goods for agricultural, pastoral or other farming purposes is to be reviewed in consultation with relevant stakeholders due to concerns related to fraudulent input tax deductions.

Excise duties

It has been proposed that the excise duty will increase on the following products with effect from 27 February 2014, by the following amounts:

Cigarettes:	From R10, 92 to R11, 60 per 20 cigarettes
Cigarette tobacco:	From R12, 16 to R13, 03 per 50g cigarette tobacco
Cigars:	From R56, 76 to R61, 87 per 23g of cigars
Pipe tobacco:	From R3, 54 to R3, 63 per 25g pipe tobacco
Unfortified wine:	From R2, 70 to R2, 87 per litre

Sparkling wine:	From R8, 28 to R9, 11 per litre
Fortified wine:	From R4, 85 to R5, 21 per litre
Spirits:	From R122, 80 to R137, 54 per litre absolute alcohol
Malt beer:	From R63, 81 to R68, 92 per litre absolute alcohol
Ciders and alcoholic fruit beverages:	From R3, 19 to R3, 45 per litre

RATES

INDIVIDUALS RATES, REBATES AND TAX THRESHOLD 2014/15	
Persons (including deceased estates) other than companies and trusts, but including special trusts and trusts established for the benefit of minor children	
Taxable income (R)	**Rates of tax**
0 – 174 550	18% of each R1
174 551 – 272 700	R31 419 + 25% of the amount above R174 550
272 701 – 377 450	R55 957 + 30% of the amount above R272 700
377 451 – 528 000	R87 382 + 35% of the amount above R377 450
528 001 – 673 100	R140 074 + 38% of the amount above R528 000
673 101 and above	R195 212 + 40% of the amount above R673 100
Rebates (applicable to individuals only)	
Primary	R12 726
Secondary	R7 110
Third	R2 367
Tax threshold	
Below age 65	R70 700
Age 65 to below 75	R110 200
Age 75 and older	R123 350
Capital gains exclusions	
Primary residence	R2 million
Individuals and special trusts	R30 000
Exclusion on death	R300 000
Person over 55 disposing of business	R1.8 million

TRUSTS (OTHER THAN SPECIAL TRUSTS)	
Flat rate	40%

TURNOVER TAX FOR MICRO BUSINESSES	
Turnover (R)	**Rates of tax**
0 – R150 000	0%
R150 001 – R300 000	1% of each R1 above R150 000
R300 001 – R500 000	R1 500 + 2% of the amount above R300 000
R500 001 – R750 000	R5 500 + 4% of the amount above R500 000
R750 001 and above	R15 500 + 6% of the amount above R750 000

INCOME TAX: SMALL BUSINESS CORPORATIONS	
Taxable Income (R)	**Rates of tax**
0 – R70 700	0%
R70 701 – R365 000	7% of taxable income above R70 700
R365 001 – R550 000	R20 601 + 21% of taxable income above R365 000
R550 001 and above	R59 451 + 28% of taxable income above R550 000

COMPANY RATES		
	2014/15 %	**2013/2014 %**
Normal company income tax rate (excluding taxable income from mining operations and long-term insurance)	28	28
Branch income tax	28	28
Tax on ‘employment companies’	28	28
Dividend withholding tax	15	15

CAPITAL GAINS TAX RATES			
Taxpayer	**Inclusion rate %**	**Statutory rate %**	**Effective tax rate %**
Individuals	33.3	0 – 40	0 – 13.3
Retirement funds	N/a	N/a	N/a
Companies (standard)	66.6	28	18.6
Branches of foreign companies	66.6	28	18.6
Trusts (normal)	66.6	40	26.6
Trusts (special)	33.3	0 – 40	0 – 13.3

OTHER RATES		
	2014/15 **%**	**2013/14** **%**
Value-added tax	14	14
Donations tax	20	20
Estate duty	20	20
Skills Development Levy	1	1

The information contained in this summary is based on our interpretation of the existing legislation and Budget proposals. These proposals are subject to amendment during the forthcoming debate in the National Assembly before they become law. Whilst we have taken every care in preparing the summary, we cannot accept responsibility for any inaccuracies that may arise.

We suggest that you use this summary as a guide, but that you consult us before taking any decisions based in the information contained herein.