# PwC Tax Comment on the 2015 Budget Review

## *Personal Income Tax*

The Finance Minister proposes that the marginal personal income tax rates increase by 1% for all income tax brackets, with the exception of the lowest bracket which will remain at 18%.

This means that a taxpayer earning approximately R100,000 per year will have an additional R44.25 extra in their pockets every month. This barely covers the ever-rising cost of fuel and consumables.

However, a taxpayer who earns approximately R1 million per year can expect to have R379.22 less cash to take home every month.

It is incredible to think that 11% of registered taxpayers bring in 61% of the total personal income payable in South Africa, yet the lower income earners get to take more home on a monthly basis. I am not sure for how much longer the 11% will tolerate this.

***– Karen Botha, PwC Tax Senior Manager***

For individual taxpayers the message is mixed: relief for low- to middle-income earners and increased income tax burden for the middle- to high-income earners.

The usual relief in the form of widened tax brackets and increased personal rebates has been neutralised for taxpayers with annual taxable incomes in excess of R450 000 by an increase in the tax rates by 1% for all brackets other than the lowest, which remains at 18%.

The maximum marginal rate for individuals is now 41% (2014/5 – 40%).

As a result, the maximum effective taxation of a capital gain will now be 13.653% (2014/5 – 13.32%).

The implications for trusts (other than special trusts) are that their income will be taxed at the flat rate of 41% (2014/5 – 40%) and that capital gains will be taxed at an effective rate of 27.306% (2014/5 – 26.64%).

Medical scheme contribution tax credits have been increased marginally to R270 per month for the first two beneficiaries and R181 per month for each additional beneficiary (2014/5 – R257 and R172). This is a form of tax relief but any benefit needs to be compared with potential increases in fringe benefit taxation on employer contributions to medical schemes.

***– Ian Wilson, PwC Tax Consultant***

## *Transfer Duty*

Again the message is mixed. The duty –free threshold for property transfers has been raised from R500 000 to R750 000. However for properties with a value in excess of R2.25 million, the maximum rate of transfer duty has been increased from 8% to 11%.

***– Ian Wilson, PwC Tax Consultant***

## *International Tax*

The current anti-tax avoidance measures relating to cross border share-for-share transactions contained in paragraph 11(2)(b) of the Eighth Schedule to the Income Tax Act, aimed at avoiding an untaxed corporate migration but catching legitimate business transactions, will be revised.

Foreign tax credits in respect of SA-sourced service income are to be withdrawn. This is likely to increase total tax cost of services rendered by SA companies to businesses in Africa.

Controlled foreign company treatment may be extended to companies owned by foreign trusts where the beneficiaries are South African residents. The income derived by these companies may therefore be brought within the South African tax net.

Income derived by controlled foreign companies from supplying goods to local companies within the same group will again be brought within the South African tax net, having previously been excluded in 2012. This has implications for South African groups with foreign procurement subsidiaries.

***– Cor Kraamwinkel, PwC Associate Director, International Tax***