Creating certainty
Budget 2013

pwc

PwC 2013 Tax Budget Comments

Personal Income Tax

Higher income tax earners will have R231,25 less income tax to pay per month, assuming they have a basic annual taxable income of R700,000. Lower income tax earners will pay R86 less income tax annually, assuming they have an annual basic taxable income of R165, 600.The individual threshold for submitting a tax return was raised from R120,000 to R250,000 per year. This means that taxpayers that have taxable income of less than R250,000 annually will not be required to submit tax returns.

Karen Botha, Senior Manager, Tax, PwC

Relief for small businesses

The increase in the turnover threshold for small business corporations from R14 million to R20 million is welcome in that it will incentivise small businesses and stimulate this industry.

Cor Kraamwinkel, Associate Director, International Tax, PwC

Business taxes: Restricting debt to prevent base erosion

The proposed restrictions on debt financing will in all likelihood have a negative impact on the ability of South Africa to attract new foreign direct investments, and may necessitate debt restructuring of existing investments.

Cor Kraamwinkel, Associate Director, International Tax, PwC

Uniform cross-border withholding to prevent base erosion

The proposed introduction of a withholding tax on cross border services fees, to be effective from 1 March 2014, may increase the cost of doing businesses in South Africa for groups relying on centralised global shares service centres. The possible relief from such tax offered by certain double taxation agreements will become of key consideration for such multinational groups.

Cor Kraamwinkel, Associate Director, International Tax, PwC

Retirement Reforms

Yet again, the proposals mention that retirement savings should be encouraged, but from March 2014 an employer's contribution to retirement funds on behalf of an employee will be treated as a taxable fringe benefit. Although the capping amount will not have a significant effect on lower income earners as they will now be allowed to have a tax deduction of 27,5% if they are under the age of 65, the high income earners will have no reason to save excess cash for their retirement as their contributions will be capped at R350,000. Contributions above the capped amount will be carried forward to future tax years. This begs the question as to whether this contradicts the incentive to save.

Karen Botha, Senior Manager, Tax, PwC

Exchange Control Relaxation

Government recognises the need to improve the flexibility of South African companies carrying on business abroad, especially with regard to exchange controls and currency. Proposals to allow for a South African company to carry on treasury operations in South Africa free of exchange control restrictions and in a non-ZAR functional currency are to be welcomed. Also welcomed, are proposals around a South African foreign holding company, as a subsidiary of a JSE listed entity that may operate outside the shackles of exchange control.

Elandre Brandt, Partner, International Tax, PwC

Government shows it is serious about employment of youth

One of the main tax proposals for 2013 as stated in the Budget Speech is the addressing of youth unemployment through an employment tax incentive targeted to support young workers. The aim of this is to help young people to enter the labour market, gain valuable experience and have access to career opportunities. In conjunction with this initiative the proposed Employment Services Bill of 2010 will assist with addressing the unemployment of young people through the creation of work schemes.

Candice Aletter, Tax, PwC

Restricting debt to prevent base erosion

It appears that the current discretionary regime relating to the allowance of interest deductions on acquisition debt is to be replaced by a non-discretionary regime. The tax certainty/predictability that such a non-discretionary system is to afford taxpayers is welcomed.

Cor Kraamwinkel, Associate Director, International Tax, PwC

VAT registration

VAT registration will be streamlined to ease the compliance burden while guarding against fraud.

Currently, obtaining a VAT registration can be an unnecessarily expensive and time-consuming process. Often the requirements change without notice which leads to huge frustration and can result in the loss of business for the prospective registrant. This attempt to streamline is a critical step in reducing the administrative burden on business.

Gerard Soverall, Partner, Indirect Tax, PwC

VAT registration of foreign businesses

Foreign businesses and providers of digital goods and services in South Africa will be required to register as VAT vendors. This proposal is in line with international trends, such as regulations adopted by the European Union requiring such suppliers to register for VAT in the country where the consumer resides. Suppliers of digital goods and services will have to register for VAT

This change has major compliance implications for foreign suppliers of digital products. Traditionally, this has been extremely difficult to police because of the ambiguity in the VAT law,SARS lack of resources and the proliferation of digital suppliers.

Because of the difficulty in policing this requirement, this new approach is more likely to impact the larger, well known global brands. Such suppliers are easier to detect. This might also be a reaction to the recent furore in Europe over well know business not paying their “fair share” of national taxes.

This change is also likely to affect foreign suppliers of software, data, etc. This might be an unintended consequence.

Gerard Soverall, Partner, Indirect Tax, PwC

Understatement penalties

The penalty provisions will be refined and relief will be provided for bona fide errors.

The introduction of the Tax Administration Act in October 2013 has created huge difficulty for taxpayers, particularly in terms of the scale of the penalties and rigidity of the penalty regime. This is a welcome development in that, hopefully, the punishment of the taxpayer might now be commensurate with the error.

Gerard Soverall, Partner, Indirect Tax, PwC

Tax policy research projects

The National Treasury will research the VAT treatment of financial services and VAT apportionment within the financial sector during 2013/14.

This research is part of a continuing effort on National Treasury and SARS's parts to understand the financial services sector from a VAT perspective and to ensure that the entitlement to deduct VAT on expenses is aligned fully with the taxable activities of the taxpayer.

Gerard Soverall, Partner, Indirect Tax, PwC

Deductibility of interest on restructuring debt

Indications from the budget speech are that there is an intention to move away from the recently enacted section 23K provision which gives SARS the discretion to determine the level of deductibility of interest incurred on debt raised for certain restructuring transactions. Although not clear, indications are that objective criteria will be put in place to determine deductibility. This will certainly be welcomed, given the time consuming and administratively inflexible approach required by section 23K which delays certainty on transactions and hampers the ability of business persons to act rapidly.

Elandre Brandt, Partner, International Tax, PwC

Increase in vehicle CO_2 emissions tax

The proposed increase of 20% or more in motor vehicle CO_2 emissions tax is likely to play an ever increasing role in influencing customers to buy passenger vehicles with lower CO_2 emissions.

Cor Kraamwinkel, Associate Director, International Tax, PwC

Multiple sources of Income

If you receive income from more than one source, usually at the end of the tax year you'll be met with a tax shortfall which you must pay across to SARS.

SARS refers to this as the "aggregation rate" where the PAYE withheld from each source of income does not take into account the income from the other sources.

It has been proposed that this anomaly will be addressed as follows:

1. Requesting employers to withhold PAYE at a higher rate;

2. Holding the employers responsible for the "extra PAYE" due;

3. Advising employers which of their employees receive income from more than one source; and

4. Providing temporary relief for widows and widowers.

This seems like more administration SARS may not be able to handle.

Nokuthula Modiga, Consultant, Tax, PwC

Corporates expected to contribute even less to overall tax collections

Predicted tax collections for 2014 show a total of R898 billion, of which corporates are expected to contribute R192 billion (21.4% - prior year 21.8%), indirect tax R333 billion (37.1% - prior year 36.9%) and individuals R306 billion (34.1% - prior year 33.8%), with other taxes making up the balance. It is clear that tax collections are being driven by individuals and the end consumer, with corporates gradually contributing less.

Elandre Brandt, Partner, International Tax, PwC

South African companies expanding internationally

The proposed incentives relating to the Gateway subsidiary for African and offshore operations falls short of providing significant tax incentives to attack regional hub activities to South Africa when compared with traditional low/ tax free jurisdictions used to house such functions.

Cor Kraamwinkel, Associate Director, International Tax, PwC

Special economic zones

The Finance Minister confirmed the intention to proceed with special economic zones in the 2012 Budget Speech. Incentives would include a reduction in the corporate tax rate of 15% and incentive allowances. This may prove a useful incentive in the job creation drive and regeneration of certain targeted zones.

Cor Kraamwinkel, Associate Director, International Tax, PwC

Tax-free interest

The annual thresholds for interest income for individuals below 65 increased by 4.39% from R22 800 to R23 800 and for individuals over 65 increased by 4.55% from R33 000 to R34 500. It was also mentioned that it will not be adjusted for inflation in future years. This can only be due to tax-preferred savings and investment accounts that will be introduced by April 2015.

Odette Pfeifer, Consultant, Tax, PwC

Withholding Taxes

In 2011, proposals to revise the withholding regime applicable to royalties paid to non-residents were announced. The announcement was coupled with an announcement that a withholding tax on interest paid to non-residents would also be introduced. While the revision of the regime relating to royalties was arguably necessary, the introduction of the regime relating to interest was directly aimed at widening the tax base.

Initially, it was proposed that the revised royalty and the new interest withholding regimes would apply with effect from 1 January 2013. In order to harmonise the systems and to address anomalies in the initial legislation, the date of introduction was postponed until 1 July 2013.

Presumably, in an effort to broaden the tax base and to align the South African tax system with other tax systems, it has been proposed that a withholding tax on service payments be introduced with effect from 1 March 2014. Apparently, in order to harmonise this new regime with the royalty and interest withholding regimes, the introduction date of those regimes has again been postponed to 1 March 2013.

The logic behind the introduction of the withholding tax on services is questionable. South Africa already suffers from a severe skills shortage, and to impose this tax would increase the cost to non-residents of providing these services in South Africa. The introduction of the tax (coupled with the withholding tax on interest) appears to fly in the face of other initiatives aimed at encouraging foreign direct investment.

Greg Smith, Senior Manager, Tax, PwC

Miscellaneous Indirect Changes: VAT

Motor cars

VAT recovery on a racing car or cart that is acquired by a vendor partly for recreational use and partly for business use (for example, advertising purposes) will be blocked. This falls into this exclusion.

Repossession of goods

Both the debtor and the creditor in an instalment credit agreement will be deemed to make a supply of goods under an instalment credit agreement.

Future supplies of services

A special time of supply rule for services will be introduced when the consideration for that service cannot be determined upfront due to a contingent future event (for example, share price and exchange rate).

In-flight entertainment

VAT on in-flight entertainment (movies and video games) is currently disallowed even though it is ancillary to the flight. VAT on this in-flight entertainment will no longer be disallowed (just as meals and refreshments, which are not disallowed).

Supplies between connected persons

Special time-of-supply rules apply to transactions between connected persons. The purpose of these rules is to prevent artificial deferrals. It is proposed to relax these rules where the input VAT recovered matches the output tax declared by the supplier.

Gerard Soverall, Partner, Indirect Tax, PwC

Tax invoices issued in foreign currency

Under the current law, a valid tax invoice must be stated in rands. The VAT Act will be changed to deal with the scenario in which the transaction is conducted in foreign currency. Foreign currency invoices will be allowed to be converted to rands at the spot rate agreed upon by the parties. In the absence of an agreement, the spot rate on the date of supply will be used.

Gerard Soverall, Partner, Indirect Tax, PwC

Conversion from a share block scheme to a sectional title

Notional input tax will be allowed on the conversion of a share block company to a sectional title. This was previously considered to a “non-supply” for VAT purposes with no output tax due but with a corresponding blocking of input tax relief. This mismatch will be removed.

Gerard Soverall, Partner, Indirect Tax, PwC

Square Kilometre Array

The Square Kilometre Array, an international collaboration to build the world’s largest radio telescope, is eligible for income-tax exemption under existing public-benefit provisions. VAT relief will be provided through a refund mechanism or the zero-rating of consideration received by the project and for imported goods and services.

Gerard Soverall, Partner, Indirect Tax, PwC

Apportionment – non-financial sectors

The default apportionment method (the standard method) is based on turnover. It can be inequitable because there may not be a direct correlation between expenditure incurred and the turnover generated. It is proposed that the application of this method be re-evaluated particularly as it concerns non-financial institutions.

Gerard Soverall, Partner, Indirect Tax, PwC