

PwC Budget Predictions 2012



Topic	PwC Position
Tax collections	<p>Tax collections for 2011 – 2012 are expected to be line with revised targets despite lower GDP growth than predicted as tax revenues have grown ahead of GDP for the year to date.</p> <p>It is expected that budgeted tax revenues for 2012 – 2013 may have to be reduced from those projected in the Medium Term Budget Policy Statement given the reduced gross domestic product (GDP) growth rate projections for 2012. As result there may be a slightly higher budgeted deficit for 2012 – 2013.</p>
Corporate tax rates	<p>No change is expected in the corporate tax rate of 28%. A reduction in the rate for non-residents is expected from 33% to 28% and the introduction of a branch profits remittance tax in substitution for the higher rate is a possibility, although we hope that this will not be the case.</p>
Real Estate Investment Trusts	<p>Announcements may be made regarding the introduction of a specific tax regime for real estate investment trusts/property loan stock companies.</p>
Hybrid debt/equity rules and derivatives	<p>Following on from the 2011 interventions, it is expected that additional rules will be introduced to recharacterise debt and equity instruments for tax purposes in accordance with their economic substance rather than their legal form. Furthermore, the tax treatment of derivatives could be revisited.</p>
Debt restructuring	<p>It is expected that new rules will be announced to address the tax treatment of the cancellation of debt or settlement thereof with shares.</p>
Insurance Taxation	<p>The insurance industry can expect changes to the way in which insurance is taxed.</p>
Gateway into Africa	<p>Although it is hoped for further initiatives to enhance South Africa's attractiveness to foreign investors, it is considered unlikely that additional major announcements will be made before 2013.</p>
Special economic zones	<p>Tax incentives for the proposed special economic zones may be announced.</p>
Personal income tax rates	<p>Relief is expected to be limited to relief for fiscal drag in the form of increased rebates and adjustment of the tables, particularly for lower income earners. An increase in the maximum marginal rate is not expected this year.</p>

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Contributions to retirement funds	In last year's budget it was announced that from 1 March 2012 the tax regime for contributions to retirement funds would be aligned and a cap of R200 000 placed on deductible contributions. This proposal was not implemented and it is PwC Tax's view that the proposed cap is likely to be withdrawn entirely. It is hoped that clarity will be made in this year's budget to confirm this. Another possibility is that the concept of the cap is restated, but with an upper limit much higher than R200 000. The least likely position is that the original proposal will be repeated and pursued.
VAT	No changes are expected to the VAT rate.
Carbon Tax	<p>An update is expected to be given on the proposed introduction of the carbon tax. National Treasury is expected to issue a second consultation paper after the budget. On the one hand, no detailed announcements are expected to be made regarding the design features and schedule for the introduction of the tax. On the other hand, the direct lack of progress (and criticism) as regards "carrot" mechanisms, such as the section 12L efficiency allowance, is increasing speculation that the "stick" of the carbon tax will be fast-tracked.</p> <p>PwC Tax's view is that Budget 2012 will take a more 'responsible' line, that is to extend the consultation period on the carbon tax debate with the timelines being pushed out a year.</p>
Export taxes	It is likely that an announcement will be made regarding a consideration of the introduction of export taxes on unbeneficiated mineral exports. This may be wrapped up with the debate (and recent hype) around mining taxes.
National Health Insurance	No significant announcements are expected on the proposed National Health Insurance scheme in the 2012 Budget. It is expected that further investigations will continue this year and any proposals will only be made in the 2013 budget.
Tax Administration	It is expected that some announcements may be made regarding how soon the Finance Minister will enact various aspects of the Tax Administration Bill, particularly the appointment of the Tax Ombudsman. Other tax administrative announcements may be made relating to the South African Revenue Service's modernisation programme and roll out of the dividends tax system on 1 April.
Fuel levies	<p>It is expected that the general fuel levy will be increased as happens every year. This increase could be substantial given that the increase was low last year and the taxes as a percentage of the pump price have fallen significantly over the last few years. It will also be interesting to see whether any announcements are made regarding replacing e-tolling with an increased fuel levy in whole or in part as has been proposed by many critics of the e-tolling regime.</p> <p>It is also hoped that the RAF's financial position will have stabilised and that lower increases in the RAF levy than have been seen in recent years will be proposed.</p>
Excise taxes	It is expected that above inflation increases for excise taxes on alcohol and tobacco can be expected once again.



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