Tax Alert

For Our Humanity:
Now's the time to work together

In brief

Revenue collection in 2023/24 has weakened significantly relative to projections in the 2023 Budget.

Tax proposals will result in additional revenue of R15 billion in 2024/25, mainly from not making inflationary adjustments to personal income tax brackets, tax rebates and medical tax credits, and increasing excise duties on alcohol.

No increases are proposed to the general fuel and road accident fund levies.

In detail

Personal income tax

Personal income tax tables are reviewed annually to limit the effects of inflation on taxpayers. However, for Budget 2024, no inflationary adjustments will be made resulting in additional revenue of R16.3 billion. Accordingly, the annual tax-free threshold for a person (under 65 years old) will remain at R95 750. Medical tax credits will remain at R364 per month for the first two members and R246 per month for additional members in order to raise an additional R1.9 billion.

Two-pot retirement reform

The two-pot retirement reform will be implemented from 1 September 2024 through amendments to the relevant legislation which is currently before parliament.

Incentivising local electric vehicle production from 1 March 2026

To encourage the production of electric vehicles in South Africa (“SA”), it is proposed that an investment allowance be made available for new investments in production capacity from 1 March 2026.

Producers will be able to claim 150 per cent of qualifying investment spending on production capacity for electric and hydrogen-powered vehicles in the first year of investment.

Let’s talk

For a deeper discussion on how this issue might affect your business, please contact:

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Learnership tax incentive extension

The sunset date for this incentive will be extended by three years to 31 March 2027 to allow sufficient time for the incentive to be evaluated before a decision is made on its future.

Implementing the global minimum corporate tax from 1 January 2024

In October 2021, SA committed to the new international tax framework developed by the Inclusive Framework (“IF”) to Address the Tax Challenges Arising from the Digitalisation of the Economy. Government proposes to introduce two measures to effect the IF’s Pillar Two proposals, namely an income inclusion rule (“IIR”) and a domestic minimum top-up tax (“DMTT”) for qualifying multinationals from 1 January 2024.

The IIR will enable SA to apply a top-up tax on profits reported by qualifying SA multinationals operating in other countries with effective tax rates below 15 per cent.

The DMTT will enable SARS to collect a top-up tax for qualifying multinationals paying an effective tax rate of less than 15 per cent in SA.

Government has published an Explanatory Memorandum and a Draft Global Minimum Tax Bill that contain more details on these proposals for public comment.

Excise duties on alcoholic beverages and tobacco-related products

Excise duties on alcoholic beverages will be increased by between 6.7 and 7.2 per cent for 2024/25.

Tobacco excise duties will be increased by 4.7 per cent for cigarettes and cigarette tobacco and by 8.2 per cent for pipe tobacco and cigars for 2024/25.

Government implemented an excise duty on electronic nicotine and non-nicotine delivery systems, colloquially referred to as vaping, with effect from 1 June 2023 at a flat excise duty rate of R2.90 per millilitre on both nicotine and non-nicotine solutions. These excise duties will be increased in line with expected inflation to R3.04 per millilitre for 2024/25.

Carbon tax and carbon fuel levy

The carbon tax increased from R159 to R190 per tonne of CO2 equivalent from 1 January 2024.

The carbon fuel levy will increase to 11c/litre for petrol and 14c/litre for diesel effective from 3 April 2024, as required under the Carbon Tax Act. Effective 1 January 2024, the carbon tax cost recovery quantum for the liquid fuels sector increased from 0.66c/litre to 0.69c/litre.

In the 2022 Budget, government proposed a gradual reduction of the carbon tax’s basic tax-free allowance from 1 January 2026 to 31 December 2030. To provide policy certainty, a discussion paper outlining proposals for the second phase of the carbon tax will be published for public comment later in the year.

Aligning the carbon tax and carbon budget

The Climate Change Bill remains under consideration in Parliament. The 2022 Budget announced a higher carbon tax rate of R640 per tonne of CO2 equivalent on all greenhouse gas emissions exceeding the carbon budget.

The amendments were to be legislated once the Climate Change Bill was enacted.

It is now proposed that the higher tax rate on emissions exceeding carbon budgets come into effect after the bill is enacted and the Department of Forestry, Fisheries and the Environment gazettes the relevant regulations.

Implementation is expected from 1 January of the calendar year after the legislation is finalised. The carbon budget allowance of 5 per cent would fall away once the mandatory carbon-budgeting system comes into effect. Government proposes that once that allowance falls away, there is an equivalent increase of the carbon offset allowance by 5 per cent to encourage investment in green energy projects.

Embedded generation initiatives

The threshold for eligible renewable energy projects will be increased from 15 megawatts to 30 megawatts installed capacity for purposes of the carbon offset allowance. The amendments are effective from 1 January 2024.

The Department of Mineral Resources and Energy aims to finalise the framework for the approval of domestic carbon offset standards this year.

Plastic bag and incandescent globe levy

The plastic bag levy will be increased from 28c/bag to 32c/bag from 1 April 2024. To encourage the uptake of more efficient lighting such as light-emitting diode bulbs and reduce electricity demand, the incandescent light bulb levy will be raised from R15 to R20 per light bulb from 1 April 2024.

Motor vehicle emissions tax

The motor vehicle emissions tax rate for passenger vehicles will be increased from R132 to R146 per gram of CO_2 emissions per kilometer and the tax rate for double cabs, from R176 to R195 per gram of CO_2 emissions per kilometer from 1 April 2024.

Tax research and reviews – What is in the pipeline?

Tax treatment of certain infrastructure projects

To encourage infrastructure investment, government will investigate the feasibility of a flow-through tax treatment, similar to what is afforded to trusts and other investment vehicles, for certain clearly defined infrastructure projects under specified circumstances.

Section 12B renewable energy allowance

Currently, embedded solar photovoltaic energy production assets with a generation capacity not exceeding one megawatt are written off in one year. This was linked to the private electricity generation threshold. However, the private threshold has since been lifted due to the electricity crisis. As a result, government will reconsider the generation threshold and leasing restrictions of section 12B. Any proposals will be designed to take effect from 1 March 2025.

Interest limitation rules

Current law limits interest deductions when there is a relationship between a debtor and a creditor, and the corresponding interest income is not taxed fully. An unintended consequence of this rule may unfairly prejudice tax-exempt investors such as pension funds when they lend to a related party. Government will consider this matter further, with the possibility of including amendments in the 2024 Taxation Laws Amendment Bill.