4

Revenue trends and tax proposals

In brief

- Given the weak economic outlook, government will not raise additional revenue from tax proposals in 2020/21.
- Tax revenue is projected to grow by 4.9 per cent in 2020/21.
- The main tax proposals include personal income tax relief through above-inflation adjustments in all brackets, along with increases in the fuel and Road Accident Fund (RAF) levies to adjust for inflation. Corporate interest deductions will be limited to combat base erosion and profit shifting.
- The revitalisation of the South African Revenue Service (SARS) is under way, and this is expected to contribute to increased tax revenue over the medium term.
- South Africa aims to strengthen its progressive tax system, while broadening the tax base and removing exemptions. In line with this approach, government will review tax incentives over the medium term, and repeal or redesign those that are inefficient or inequitable.

Overview

Large revenue under-collection generally matches difference in GDP forecast and outcome

Projected revenue for 2019/20 is now R63.3 billion lower than the estimate at the time of the 2019 Budget. This under-collection exceeds that of 2009/10, in the immediate aftermath of the global financial crisis. The shortfall is a consequence of weakening economic growth, and largely matches the lower GDP growth forecast. For example, the 2019 Budget forecast real economic growth in 2019 at 1.5 per cent; the revised forecast is 0.3 per cent.

Over the past five years, government has implemented large tax increases. But the difference between projected and collected revenue has grown progressively larger in the face of a persistent slowdown in economic growth and a weakened SARS. In the last 12 months, the new SARS leadership has taken steps to revive the institution, and tax administration has started to recover – but the economy has not.

Growth in wages, consumption and business profitability has stagnated in recent years, lowering tax receipts for personal income tax, value-added tax (VAT) and corporate income tax, which make up more than 80 per cent of total tax revenue.

Government proposes no overall increase in taxes for 2020/21

In this context, substantial tax increases are unlikely to be effective. South Africa already has a relatively high tax-to-GDP ratio compared with other countries at a similar level of development. New tax increases at this time could harm the economy's ability to recover. Consequently, government will not raise additional revenue from tax proposals for 2020/21. Additional revenue from indirect taxes will be offset by personal income tax relief.

The main tax proposals for 2020/21 are:

- Providing personal income tax relief through an above-inflation increase in the brackets and rebates.
- Further limiting corporate interest deductions to combat base erosion and profit shifting.
- Restricting the ability of companies to fully offset assessed losses from previous years against taxable income.
- Increasing the fuel levy by 25c/litre, consisting of a 16c/litre increase in the general fuel levy and a 9c/litre increase in the RAF levy, to adjust for inflation.
- Increasing the annual contribution limit to tax-free savings accounts by R3 000 from 1 March 2020.
- Increasing excise duties on alcohol and tobacco by between 4.4 and 7.5 per cent.

Revenue collection and outlook

Projected revenue shortfall of R63.3 billion stems from weak economic growth

Compared with the 2019 Budget estimate, the projected revenue shortfall for 2019/20 is R63.3 billion – significantly higher than the revised estimate of R52.5 billion published in the 2019 *Medium Term Budget Policy Statement*.

The main reason for reductions in projected revenue collection over the past two years has been weaker-than-expected economic growth. Personal income tax collection has been affected by sluggish employment and wage growth. Following the recession in the first half of 2018, the dividends tax has not yielded the expected results, and corporate income tax collection continued to underperform.

Growth in fraudulent VAT claims to be referred for audit or criminal investigation

Growth in VAT collection has moderated following the one percentage point rate increase in 2018/19. Strong growth in VAT refunds also played a role in the lower year-to-date performance. Following the acceleration of VAT refund payments in the past year, SARS reports that the number of fraudulent claims has been increasing. VAT refunds for the last quarter of the fiscal year are expected to moderate as SARS refers more cases for audit or criminal investigation. Tax collections related to trade have slowed in the second half of 2019/20 in line with contracting imports, resulting in lower estimated revenue from customs duties and import VAT.

Tax buoyancy – a ratio of tax revenue growth to economic growth – is a useful measure to determine whether revenue collections are performing as expected. For example, gross tax buoyancy was particularly low in

2016/17 and 2017/18, a period in which SARS was severely weakened. Tax increases in those years should have caused revenue to grow faster than nominal GDP, but buoyancy was at or below one.

Table 4.1 Budget estimates and revenue outcomes[1]

R million	Budget[2]	2018/19 Outcome	Deviation	Budget[2]	2019/20 Revised	Deviation	Percentage change[3]
Taxes on income and profits	**751 846**	**738 741**	**-13 105**	**820 342**	**778 280**	**-42 062**	**5.4%**
Personal income tax	497 451	492 083	-5 368	552 877	527 584	-25 293	7.2%
Corporate income tax	218 436	212 046	-6 390	229 608	216 718	-12 890	2.2%
Dividends tax	30 341	29 898	-443	31 893	29 144	-2 748	-2.5%
Other taxes on income and profits[4]	5 618	4 714	-904	5 964	4 833	-1 131	2.5%
Skills development levy	**17 312**	**17 439**	**127**	**18 759**	**18 576**	**- 182**	**6.5%**
Taxes on property	**16 035**	**15 252**	**-783**	**17 159**	**16 038**	**-1 121**	**5.2%**
Domestic taxes on goods and services	**460 287**	**460 545**	**257**	**504 649**	**488 711**	**-15 938**	**6.1%**
Value-added tax	325 917	324 766	-1 151	360 471	344 202	-16 269	6.0%
Specific excise duties	40 276	40 830	553	42 354	46 765	4 411	14.5%
Health promotion levy	2 396	3 195	799	1 986	2 590	604	-18.9%
Ad valorem excise duties	4 163	4 192	29	4 454	4 112	- 342	-1.9%
Fuel levy	75 374	75 372	-1	82 958	79 277	-3 680	5.2%
Other domestic taxes on goods and services[5]	12 161	12 190	28	12 426	11 764	- 661	-3.5%
Taxes on international trade and transactions	**56 722**	**55 723**	**-999**	**61 300**	**57 330**	**-3 971**	**2.9%**
Customs duties	55 638	54 968	-670	60 029	56 325	-3 704	2.5%
Health promotion levy on imports	78	53	-25	245	54	-191	2.4%
Diamond export levy	87	78	-9	93	90	-3	15.9%
Miscellaneous customs and excise receipts	918	624	-295	932	860	-73	37.8%
Gross tax revenue	**1 302 201**	**1 287 690**	**-14 511**	**1 422 208**	**1 358 935**	**-63 273**	**5.5%**
Non-tax revenue[6]	31 473	35 869	4 395	31 537	36 142	4 605	0.8%
of which:							
Mineral and petroleum royalties	*8 340*	*8 612*	*272*	*8 766*	*11 952*	*3 186*	*38.8%*
Less: SACU[7] payments	-48 289	-48 289	–	-50 280	-50 280	–	4.1%
Main budget revenue	**1 285 386**	**1 275 270**	**-10 116**	**1 403 464**	**1 344 796**	**-58 668**	**5.5%**
Provinces, social security funds and selected public entities	169 831	170 154	323	180 347	172 192	-8 155	*1.2%*
Consolidated budget revenue	**1 455 217**	**1 445 424**	**-9 793**	**1 583 811**	**1 516 988**	**-66 823**	**5.0%**

1. A more disaggregated view is presented in Tables 2 and 3 of the statistical annexure
2. 2019 Budget Review estimates
3. Percentage change between outcome in 2018/19 and revised estimate in 2019/20
4. Includes interest on overdue income tax and interest withholding tax
5. Includes turnover tax for micro businesses, air departure tax, plastic bag levy, electricity levy, CO_2 tax on motor vehicle emissions, incandescent light bulb levy, Universal Service Fund, tyre levy and International Oil Pollution Compensation Fund
6. Includes mineral and petroleum royalties, mining leases, departmental revenue and sales of capital assets
7. Southern African Customs Union. Amounts made up of payments and other adjustments
Source: National Treasury

Analysis of the main components of tax revenue shows that although 2019/20 personal income tax collections are not expected to meet the 2019 Budget forecast, their decline is in line with moderating real wage growth in the economy. Similarly, domestic VAT collections and trade-related taxes are in line with expected outcomes for consumption and imports. Corporate income tax, which is particularly volatile, is expected to significantly underperform.

Table 4.2 Budget revenue[1]

R million	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
		Outcome		Revised		Medium-term estimates	
Taxes on income and profits[2]	664 526	711 703	738 741	778 280	813 588	863 888	921 375
of which:							
Personal income tax[3]	*424 545*	*460 953*	*492 083*	*527 584*	*546 771*	*581 146*	*621 602*
Corporate income tax[4]	*204 432*	*217 412*	*212 046*	*216 718*	*230 226*	*243 686*	*258 357*
Skills development levy	15 315	16 012	17 439	18 576	19 413	20 585	21 970
Taxes on property	15 661	16 585	15 252	16 038	17 510	18 956	20 165
Domestic taxes on goods and services	402 464	422 248	460 545	488 711	514 267	543 916	576 525
of which:							
VAT	*289 167*	*297 998*	*324 766*	*344 202*	*360 555*	*381 859*	*405 598*
Taxes on international trade and transactions	46 102	49 939	55 723	57 330	60 640	64 849	69 622
Gross tax revenue	**1 144 081**	**1 216 464**	**1 287 690**	**1 358 935**	**1 425 418**	**1 512 194**	**1 609 657**
Non-tax revenue[5]	33 272	35 849	35 869	36 142	35 973	32 663	34 586
of which:							
Mineral and petroleum royalties	*5 802*	*7 617*	*8 612*	*11 952*	*12 697*	*13 439*	*14 248*
Less: SACU[6] payments	-39 448	-55 951	-48 289	-50 280	-63 395	-60 563	-63 366
Main budget revenue	**1 137 904**	**1 196 362**	**1 275 270**	**1 344 796**	**1 397 996**	**1 484 294**	**1 580 877**
Provinces, social security funds and selected public entities	147 700	155 015	170 154	172 192	185 910	198 545	210 442
Consolidated budget revenue	**1 285 605**	**1 351 378**	**1 445 424**	**1 516 988**	**1 583 905**	**1 682 839**	**1 791 319**
As percentage of GDP							
Tax revenue	*25.9%*	*25.9%*	*26.2%*	*26.3%*	*26.3%*	*26.3%*	*26.3%*
Main budget revenue	*25.7%*	*25.5%*	*25.9%*	*26.1%*	*25.8%*	*25.8%*	*25.8%*
GDP (R billion)	*4 419.4*	*4 698.7*	*4 921.5*	*5 157.3*	*5 428.2*	*5 759.0*	*6 126.3*
Tax buoyancy	*0.97*	*1.00*	*1.23*	*1.15*	*0.93*	*1.00*	*1.01*

1. A more disaggregated view is presented in Tables 2 and 3 of the statistical annexure
2. Includes secondary tax on companies/dividends tax, interest withholding tax and interest on overdue income tax
3. As announced in the 2018 Budget, medical tax credits were adjusted below inflation over the MTEF to fund additional expenditure for national health insurance. The additional amount for 2020/21 is R0.58 billion. This is the last year of that MTEF, and therefore such an amount is not included in the two outer-year estimates for personal income taxes
4. Relative to the estimates published in Table D.4 of the 2019 MTBPS, the forecasts for corporate income tax assume a buoyancy of 0.9, 0.95 and 1 over the next three years
5. Includes mineral and petroleum royalties, mining leases, departmental revenue and sales of capital assets
6. Southern African Customs Union. Amounts made up of payments and other adjustments
Source: National Treasury and SARS

Tax revenue is projected to grow by 4.9 per cent in 2020/21. Gross tax buoyancy is expected to decrease to 0.93, primarily due to lower personal income tax receipts following the anticipated reduction in the public-service wage bill. After contractions in four of the past seven quarters, economic growth and profitability are expected to remain weak, putting greater pressure on corporate income tax collections. Revenue should improve over the medium term as growth recovers. Efficiency improvements at SARS may bolster revenue further, but such potential gains are not included in the current projections.

Strengthening the South African Revenue Service

SARS to renew its focus on illicit and criminal activity

Building a capable state that serves South Africa is integrally linked to the success of SARS. The new Commissioner is focusing on stabilising the organisation, re-establishing integrity and compliance functions, and restoring employee confidence and public trust. Revenue recovery plans include assistance from the re-established Davis Tax Committee to address tax leakages, customs fraud, trade mispricing and harmful tax practices; setting up a new centre focused on wealthy individuals who have complex tax arrangements; and renewing the focus on illicit and criminal activity, including non-compliance of religious public-benefit organisations.

SARS is reviewing its procurement processes. Contracts that did not represent value for money have not been renewed. A number of senior officials implicated by the Nugent Commission have left, and experienced staff returned to roles from which they had been displaced. Strengthening SARS will take time, but will result in improved revenue collections in the years ahead.

Some experienced SARS staff have returned to roles from which they had been displaced

Rebuilding governance at SARS

The Commission of Inquiry into Tax Administration and Governance by SARS (the Nugent Commission) found a "massive failure of governance and integrity" at SARS under the former Commissioner. The Commission made 27 recommendations. The SARS Commissioner is responsible for implementing non-legislative and organisational recommendations from the report, and the Minister of Finance for policy recommendations. This is in keeping with two guiding principles:

- SARS should implement tax laws fairly, without bias and without political interference.
- SARS is autonomous but accountable to the Minister of Finance, who determines tax policy.

Accordingly, government plans to publish a discussion document by June 2020 setting out proposed legislative amendments to strengthen governance at SARS. These will include an improved appointment and removal process for the Commissioner by the President, and an appointment and removal process for Deputy Commissioners.

The Office of the Tax Ombud has proved effective in ensuring that taxpayers are not prejudiced by SARS. Government will strengthen the ombud and separate it financially and operationally from SARS.

In addition, government recognises the need for an independent office to oversee governance and conduct within SARS. Accordingly, government will propose an inspector-general to:

- Monitor and report conduct and performance metrics to government and the public.
- Safeguard whistleblowing by SARS officials in a way that keeps tax information secret.
- Empower senior SARS officials to disclose any lapses or findings by the internal audit function.
- Provide independent assurance that internal processes are sound and unbiased.

Tax policy

Over the past five years, government has increased rates of personal income tax, dividends tax, capital gains tax and VAT, while raising the fuel levy and excise duties on alcohol and tobacco. The tax-to-GDP ratio has steadily increased over this period, reaching 26.2 per cent, which is close to its democratic-era peak of 26.4 per cent in 2007/08.

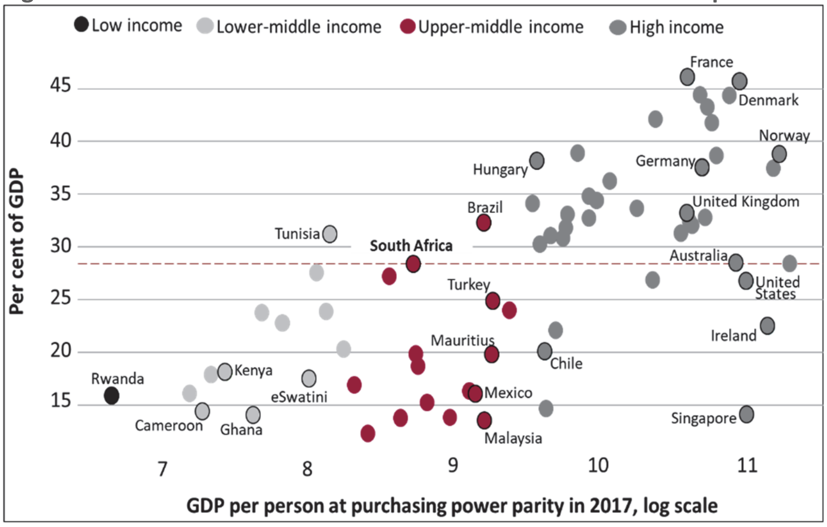
South Africa's tax-to-GDP ratio is nearing its democratic-era peak

The 2019 Budget announced that an additional R10 billion in tax revenue would be raised in 2020/21 to support fiscal consolidation. At the time, real GDP growth was expected to be 1.5 per cent for 2019 and 1.7 per cent for 2020. Since then, the economy has faltered and growth estimates have been revised down to 0.3 per cent for 2019 and 0.9 per cent for 2020. Substantial tax increases may obstruct short-term recovery. As a result, government will not raise any taxes to collect the additional R10 billion in 2020/21.

Even without additional tax increases this year, the projected tax-to-GDP ratio is expected to equal 26.3 per cent over the next three years. South Africa has a relatively high level of tax to GDP compared with other upper-middle-income countries, as shown in Figure 4.1. Higher levels of economic

South Africa has relatively high level of tax to GDP compared with other upper-middle-income countries growth are required for further tax increases to be effective in consolidating the public finances or financing additional expenditure.

Figure 4.1 Tax burdens for countries at different levels of development



Source: OECD, International Monetary Fund

Government seeks to broaden tax base, and eliminate exemptions and deductions where possible

The way in which tax revenue is raised has important implications for fairness and economic growth. South Africa aims to strengthen its progressive tax system by broadening the tax base and eliminating exemptions or deductions where possible. The system should make it easy for individuals and firms to comply, and minimise distortions so that they do not base their decisions on tax. Crucially, the system should continue to generate tax revenue throughout the business cycle.

Corporate income tax

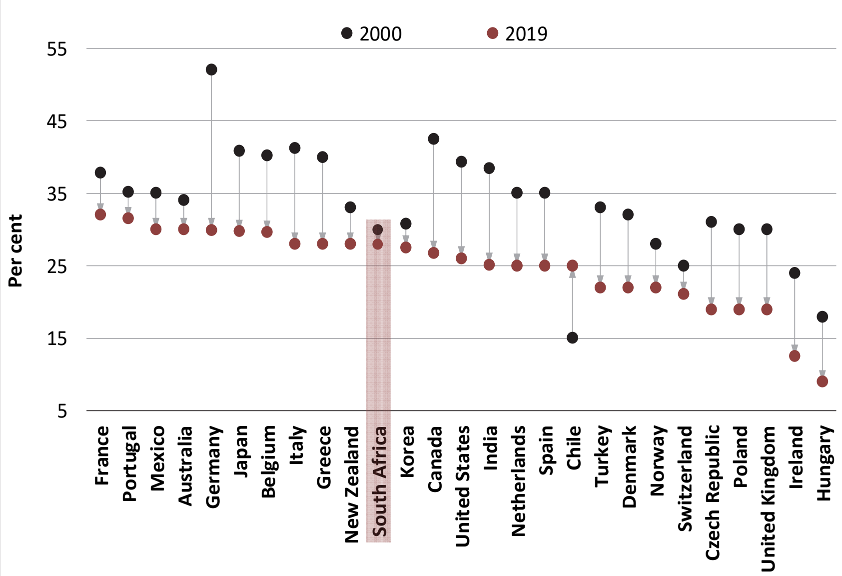
To promote economic growth, government intends to restructure the corporate income tax system over the medium term by broadening the base and reducing the rate. Broadening the base will involve minimising tax incentives, and introducing new interest deduction and assessed loss limitations. Rate reductions will be implemented in a revenue-neutral manner.

As trading partners reduce their corporate tax rates, South Africa's relative competitiveness declines

Government has broadened the corporate income tax base since the early 2000s by taxing foreign dividends, imposing capital gains tax and introducing the controlled foreign company regime. In contrast with many other countries, however, South Africa's corporate income tax rate has remained unchanged at 28 per cent for more than a decade. As the gap with our trading and investment partners grows, the country's relative competitiveness declines. India, the United States and the United Kingdom have all recently reduced their corporate income tax rates below 28 per cent.

Reducing the corporate income tax rate will encourage businesses to invest and expand production, improve the country's competitiveness as an investment destination, and reduce the appeal of base erosion and profit shifting.

Figure 4.2 Corporate income tax rate movements



Source: OECD

Do tax incentives work?

Tax incentives can undermine the tax system by creating complexity and inequity

Tax incentives are subsidies that provide favourable tax treatment to individuals and businesses to encourage specific behaviour or activities. They can compromise the principles of a good tax system by creating complexity and inequities between individuals, sectors and activities. They also reduce the tax base, requiring higher tax rates for the rest of the economy and opening up avenues for aggressive tax avoidance. In many cases, the incentivised investment or action would have taken place anyway, causing a direct loss of revenue with no additional benefit.

In addition, tax incentives result in:

- Increasingly complicated governing legislation to isolate the specific activity that is being promoted without an undue loss of tax revenue.
- Greater benefits to larger firms and those who are able to afford specialist tax advice.
- Additional SARS resources to monitor and audit incentives.

Katz: tax incentives are 'a form of special pleading, a preferential treatment to a particular group'

The 1994 Katz Commission stated that tax incentives "are a form of special pleading, a preferential treatment to a particular group" and as such they should be treated as a subsidy provided by government. It noted that incentives often lead to lobbying by particular groups whose aim is to retain their vested interest. These subsidies do not form part of the annual budget process and are not subject to the same level of annual oversight as government expenditure, although the estimated costs of most tax expenditures are published in Annexure B of the *Budget Review*. The Katz Commission stated that "the range of incentives should be narrowed as far as possible". The Davis Tax Committee has proposed a detailed review of corporate tax incentives and the removal of inefficient subsidies.

Government to launch systematic review of tax incentives

The 2020 Budget applies sunset clauses to several incentives, as described in the tax proposals section. Over the medium term, government will systematically review tax incentives and repeal or redesign those found to be redundant, inefficient or inequitable. This will create a more standardised tax treatment of different sectors and individuals, and could allow for lower tax rates. In addition, government will consider publishing information on which companies benefit from tax incentives, and the amount of those incentives, to improve transparency.

Tax proposals

Some relief is provided for personal income tax

The tax proposals for the 2020 Budget aim to support a recovery in economic growth, with some relief at the level of personal income tax. They result in no overall change to tax revenue in 2020/21.

Table 4.3 Impact of tax proposals on 2020/21 revenue[1]

R million		
Gross tax revenue (before tax proposals)		**1 425 418**
Budget 2020/21 proposals		**-**
Direct taxes		**-2 000**
Taxes on individuals and companies		
Personal income tax	**-2 000**	
Increasing brackets by more than inflation	-2 000	
Revenue if no adjustment is made	*12 000*	
Higher-than-inflation increase in brackets and rebates	*-14 000*	
Indirect taxes		**2 000**
Carbon tax	1 750	
Plastic bag levy	250	
Gross tax revenue (after tax proposals)		**1 425 418**

1. Revenue changes are in relation to thresholds that have been fully adjusted for inflation

Source: National Treasury

Personal income tax

The personal income tax brackets and the primary, secondary and tertiary rebates will be increased by 5.2 per cent for 2020/21, which is above expected inflation of 4.4 per cent (Table 4.4). This adjustment provides R2 billion in tax relief. The change in the primary rebate increases the tax-free threshold from R79 000 to R83 100.

Medical tax credits

Medical tax credit adjustment less than inflation to help fund rollout of national health insurance

Government proposes an increase in the value of medical tax credits in 2020/21 from R310 to R319 per month for the first two beneficiaries, and from R209 to R215 per month for the remaining beneficiaries. This increases the value of the tax credit by 2.8 per cent. It is in line with the announcement in the 2018 *Budget Review* that the credit would be adjusted by less than inflation to help fund the rollout of national health insurance over the medium term.

Tax-free savings accounts

The annual limit on contributions to tax-free savings accounts will be increased from R33 000 to R36 000 from 1 March 2020.

Table 4.4 Personal income tax rates and bracket adjustments

2019/20		2020/21	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 - R195 850	18% of each R1	R0 - R205 900	18% of each R1
R195 851 - R305 850	R35 253 + 26% of the amount above R195 850	R205 901 - R321 600	R37 062 + 26% of the amount above R205 900
R305 851 - R423 300	R63 853 + 31% of the amount above R305 850	R321 601 - R445 100	R67 144 + 31% of the amount above R321 600
R423 301 - R555 600	R100 263 + 36% of the amount above R423 300	R445 101 - R584 200	R105 429 + 36% of the amount above R445 100
R555 601 - R708 310	R147 891 + 39% of the amount above R555 600	R584 201 - R744 800	R155 505 + 39% of the amount above R584 200
R708 311 - R1 500 000	R207 448 + 41% of the amount above R708 310	R744 801 - R1 577 300	R218 139 + 41% of the amount above R744 800
R1 500 001 and above	R532 041 + 45% of the amount above R1 500 000	R1 577 301 and above	R559 464 + 45% of the amount above R1 577 300
Rebates		**Rebates**	
Primary	R14 220	Primary	R14 958
Secondary	R7 794	Secondary	R8 199
Tertiary	R2 601	Tertiary	R2 736
Tax threshold		**Tax threshold**	
Below age 65	R79 000	Below age 65	R83 100
Age 65 and over	R122 300	Age 65 and over	R128 650
Age 75 and over	R136 750	Age 75 and over	R143 850

Source: National Treasury

Table 4.5 provides a distributional breakdown of the effects of changes to the rebates and personal income tax brackets. Lower-income individuals will receive most of the income tax relief from these inflation adjustments.

Table 4.5 Estimates of individual taxpayers and taxable income, 2020/21

Taxable bracket	Registered individuals		Taxable income		Income tax payable before relief		Income tax relief after proposals		Income tax payable after proposals	
R thousand	**Number**	**%**	**R billion**	**%**	**R billion**	**%**	**R billion**	**%**	**R billion**	**%**
R0 - R80[1]	6 822 326	–	218.8	–	–	–	–	–	–	–
R80 - R150	2 084 683	29.2	235.3	9.3	23.8	4.2	-1.4	10.2	22.4	4.1
R150 - R250	1 771 582	24.8	354.3	14.1	30.9	5.5	-2.1	14.8	28.8	5.3
R250 - R350	1 071 402	15.0	318.3	12.6	47.2	8.4	-2.0	14.0	45.3	8.3
R350 - R500	1 029 509	14.4	424.1	16.8	81.0	14.4	-2.8	20.0	78.2	14.3
R500 - R750	615 177	8.6	368.2	14.6	90.4	16.1	-2.5	17.6	87.9	16.1
R750 - R1 000	266 169	3.7	225.7	9.0	65.9	11.8	-1.3	9.6	64.5	11.8
R1 000 - R1 500	182 883	2.6	217.2	8.6	71.0	12.7	-0.9	6.6	70.1	12.8
R1 500 +	125 029	1.7	376.4	14.9	150.6	26.8	-1.0	7.2	149.6	27.4
Total	**7 146 434**	**100.0**	**2 519.5**	**100.0**	**560.8**	**100.0**	**-14.0**	**100.0**	**546.8**	**100.0**
Grand total	**13 968 760**		**2 738.3**		**560.8**		**-14.0**		**546.8**	

1. Registered individuals with taxable income below the income-tax threshold
Source: National Treasury

Curtailing excessive corporate interest deductions

Proposal to restrict net interest expense deductions to curb base erosion and profit shifting

Government proposes to restrict net interest expense deductions to 30 per cent of earnings for years of assessment commencing on or after 1 January 2021. This measure will address a typical form of base erosion and profit shifting by multinational corporations. This practice involves artificially inflating company debt and/or the interest rate on that debt to a related party in another jurisdiction with a lower corporate income tax rate. The resulting interest payments are deducted in South Africa, reducing the domestic tax base and effectively shifting profits to be taxed at a lower rate offshore.

Consultation on the design of this limitation begins today. A discussion document is available on the National Treasury website and the closing date for comments is 17 April 2020.

Taxing the digital economy

In today's digital economy, many businesses are able to generate significant profits in a country, without a physical presence. The Organisation for Economic Co-operation and Development (OECD) secretariat has proposed a unified approach to taxing multinational firms. This approach considers multinationals as a whole, and recognises that consumers and intangible assets contribute to global profits. Under the proposal, multinationals would be required to report a portion of their global profits in all countries where they have a sustained and material market presence. The proposal forms the basis for negotiations and a hoped-for consensus in 2020. South Africa participates in these discussions as a member of the OECD's inclusive framework steering group.

Sunset dates for corporate tax incentives

The National Treasury proposes introducing a 28 February 2022 sunset date for tax incentives dealing with airport and port assets, rolling stock, and loans for residential units. Government will review each of these incentives before the sunset date to determine whether they should be extended. Details are provided in Annexure B.

The section 12I tax incentive relating to industrial policy projects will not be renewed beyond 31 March 2020. The urban development zone incentive will be extended for one year while a review of the incentive is completed. Government intends to insert sunset dates in additional tax incentives where they do not currently exist to avoid benefits continuing indefinitely without adequate oversight. More details are provided in Annexure B. Given the fiscal position, government does not intend to extend the tax incentives for special economic zones beyond the six zones already approved by the Minister of Finance.

Limiting the use of assessed losses to reduce taxable income

Growing international trend to restrict use of assessed losses carried forward

When a company's tax-deductible expenses exceed its income, it records an assessed loss. Often, the loss is carried forward to the next year and is offset against taxable income in that year. Over the past few years, there has been an international trend to restrict this practice.

Government proposes broadening the corporate income tax base by restricting the offset of assessed losses carried forward to 80 per cent of taxable income, for years of assessment commencing on or after 1 January 2021. This is viewed as a reasonable approach that affects all businesses equally, rather than restricting the number of years for carrying forward assessed losses, which would disproportionately hurt businesses with large initial investments or long lead times to profitability.

Export taxes

Export taxes are limited by trade agreements, and lead to winners and losers in the economy. Given these considerations, South Africa has generally avoided such taxes. Government is aware, however, that unfair trade practices have put some key industries under pressure.

Given their negative impact on trade, South Africa has generally not used export taxes

Government will consult with affected industries on the introduction of export taxes on scrap metal, which could replace the current price preference system. Proposed export taxes will apply to ferrous metals at the rate of R1 000 per tonne, aluminium at R3 000 per tonne, red metals at R8 426 per tonne, and other waste and scrap metals at R1 000 per tonne. This reform aims to improve the availability of better-quality scrap metal at affordable prices for domestic foundries and mills. Consultation will begin today, to be concluded by the end of May 2020, for consideration in the annual tax bills.

Transfer duties

The brackets to calculate transfer duties on the sale of property, last adjusted in 2017, will be adjusted for inflation from 1 March 2020. No transfer duty will be liable on the purchase of property with a value below R1 million.

Table 4.6 Transfer duty rate adjustments

	2019/20		2020/21
Property value (R)	**Rates of tax**	**Property value (R)**	**Rates of tax**
R0 - R900 000	0% of property value	R0 - R1 000 000	0% of property value
R900 001 - R1 250 000	3% of property value above R900 000	R1 000 001 - R1 375 000	3% of property value above R1 000 000
R1 250 001 - R1 750 000	R10 500 + 6% of property value above R1 250 000	R1 375 001 - R1 925 000	R11 250 + 6% of property value above R1 375 000
R1 750 001 - R2 250 000	R40 500 + 8% of property value above R1 750 000	R1 925 001 - R2 475 000	R44 250 + 8% of property value above R1 925 000
R2 250 001 - R10 000 000	R80 500 + 11% of property value above R2 250 000	R2 475 001 - R11 000 000	R88 250 + 11% of property value above R2 475 000
R10 000 001 and above	R933 000 + 13% of property value above R10 000 000	R11 000 001 and above	R1 026 000 + 13% of property value above R11 000 000

Source: National Treasury

Taxation of heated tobacco products

Heated tobacco products produce aerosols containing addictive substances and other chemicals that are inhaled by users. These products are not currently subject to excise duty. Government will introduce a new category or tariff subheading for heated tobacco products in the schedule of excise duties, to be taxed at a rate of 75 per cent of the cigarette excise rate with immediate effect.

Electronic cigarettes

Electronic cigarettes are different to heated tobacco products: they do not contain tobacco, but they do contain nicotine or other chemicals. Currently, electronic cigarettes are not taxed. Globally, policymakers are looking at regulating and taxing these products due to concerns about their health effects. Government intends to tax electronic cigarettes in 2021.

Government intends to tax electronic cigarettes due to concerns about health effects

Excise duties on alcohol and tobacco

Excise duties on alcohol and tobacco increase in line with inflation

Taxes on alcohol and tobacco are determined within a policy framework that targets the excise duty burden. The excise burdens for most types of alcoholic beverages and tobacco products currently exceed the targeted level as a result of above-inflation increases and price fluctuations. Government will increase most excise duties by an amount that matches expected inflation of 4.4 per cent for 2020/21, and by 6 per cent in the case of sparkling wine and 7.5 per cent for pipe tobacco and cigars.

Table 4.7 Changes in specific excise duties, 2020/21

Product	Current excise duty rate	Proposed excise duty rate	Percentage change Nominal	Real
Malt beer	R102.07/ litre of absolute alcohol (173,51c / average 340ml can)	R106.56/ litre of absolute alcohol (181,15c / average 340ml can)	4.4	–
Traditional African beer	7,82c / litre	7,82c / litre	–	-4.4
Traditional African beer powder	34,70c / kg	34,70c / kg	–	-4.4
Unfortified wine	R4.20 / litre	R4.39 / litre	4.4	–
Fortified wine	R7.03 / litre	R7.34 / litre	4.4	–
Sparkling wine	R13.55 / litre	R14.36 / litre	6.0	1.6
Ciders and alcoholic fruit beverages	R102.07/ litre of absolute alcohol (173,51c / average 340ml can)	R106.56/ litre of absolute alcohol (181,15c / average 340ml can)	4.4	–
Spirits	R204.15 / litre of absolute alcohol (R65.84 / 750ml bottle)	R213.13 / litre of absolute alcohol (R68.73 / 750ml bottle)	4.4	–
Cigarettes	R16.66 / 20 cigarettes	R17.40 / 20 cigarettes	4.4	–
Cigarette tobacco	R18.73 / 50g	R19.55 / 50g	4.4	–
Pipe tobacco	R5.39 / 25g	R5.79 / 25g	7.5	3.1
Cigars	R89.72 / 23g	R96.45 / 23g	7.5	3.1

Source: National Treasury

Levies on fuel

To adjust for inflation, government proposes to increase the general fuel levy by 16c/litre and the RAF levy by 9c/litre from 1 April 2020.

Table 4.8 Total combined fuel taxes on petrol and diesel

Rands/litre	2018/19 93 octane petrol	2018/19 Diesel	2019/20 93 octane petrol	2019/20 Diesel	2020/21 93 octane petrol	2020/21 Diesel
General fuel levy	3.37	3.22	3.54	3.39	3.70	3.55
Road Accident Fund levy	1.93	1.93	1.98	1.98	2.07	2.07
Customs and excise levy	0.04	0.04	0.04	0.04	0.04	0.04
Carbon tax[1]	–	–	0.07	0.08	0.07	0.08
Total	**5.34**	**5.19**	**5.63**	**5.49**	**5.88**	**5.74**
Pump price[2]	15.30	14.20	13.86	13.14	15.71	14.57
Taxes as percentage of pump price	*34.9%*	*36.5%*	*40.6%*	*41.8%*	*37.4%*	*39.4%*

1. The carbon tax on fuel became effective from 5 June 2019

2. Average Gauteng pump price for the 2018/19 and 2019/20 years. The 2020/21 figure is the Gauteng pump price in February 2020. Diesel (0.05% sulphur) wholesale price (retail price not regulated)

Source: National Treasury

Carbon tax

The carbon tax rate will increase by 5.6 per cent for the 2020 calendar year. This increase includes an annual inflation rate of 3.6 per cent plus two percentage points in line with the Carbon Tax Act (2019). Accordingly, the carbon tax rate will increase from R120 per tonne of carbon dioxide equivalent to R127 per tonne of carbon dioxide equivalent.

Purchase tax on motor vehicle emissions and incandescent globe tax

Vehicle emission tax to increase in line with global standards and shift to fuel-efficient cars

In line with global vehicle emission standards and the shift to low-carbon, fuel-efficient vehicles, government proposes to increase the vehicle emissions tax rate for passenger cars to R120 per gram of carbon dioxide emissions per kilometre (gCO_2/km) and R160 gCO_2/km for double cabs. The threshold will be adjusted from 120 gCO_2/km to 95 gCO_2/km for passenger vehicles to align with the Euro 6 emission standards. These amendments will take effect from 1 April 2020. Government proposes to increase the incandescent light bulb levy by R2 from R8 to R10, effective 1 April 2020, to encourage the uptake of more energy-efficient light bulbs.

Levies on plastic

An estimated 12.7 million tonnes of plastic litters the world's oceans. While progress has been made in the domestic environment, plastic pollution remains a significant problem, particularly for marine life. The National Treasury will consult on extending the current levy on plastic bags to all single-use plastics used for retail consumption, including plastic straws, utensils and packaging. Changes will be implemented in 2021.

Government proposes to raise the plastic bag levy from 12 to 25 cents per bag effective 1 April 2020. A review of the current levy, including a clarification of the tax treatment of compostable bags, will be undertaken.

Carbon pricing and environmental taxation

Increasingly, governments and businesses recognise that the world faces a climate crisis, and acknowledge the need for partnerships to limit global warming to below 1.5 degrees Celsius. As the Paris Agreement becomes operational in 2020, signatories will submit revised nationally determined contribution commitments to mitigate climate change. A range of legislation and policies is being developed to meet South Africa's commitments in this regard.

South Africa introduced a carbon tax in June 2019 as part of government's broader climate change mitigation policy. The National Treasury and the Department of Environment, Forestry and Fisheries will jointly consult stakeholders on future mitigation policies, including the integration of the carbon tax and mandatory carbon budgeting for the private sector to provide policy certainty and promote transparency. Government will also continue to monitor developments under Article 6 of the Paris Agreement and their implications for the design and implementation of the domestic carbon offset scheme under the carbon tax. Government will review the design of the carbon tax after it has been in operation for at least three years to ensure that the measure is contributing appropriately to cost-effective emissions reduction.

Government is preparing to publish an environmental fiscal reform review paper. It will explore the potential for new environmental taxes and reforms to existing instruments, such as:

- Restructuring the general fuel levy to include a local air pollution emissions component.
- Alleviating traffic congestion through road pricing charges and design options for an annual carbon dioxide tax on vehicles, in collaboration with the Department of Transport and provincial governments.
- Reviewing inefficient fossil fuel subsidies, including the VAT zero-rating of transport fuels.
- Considering product taxes on electrical and electronic waste.
- Reviewing the tax treatment of company cars to incentivise use of more fuel-efficient vehicles.

Foreign remuneration exemption

Government wants to encourage all South Africans working abroad to maintain their ties to the country

Government will increase the cap on the exemption of foreign remuneration earned by South African tax residents to R1.25 million per year from 1 March 2020. Some advisors have recommended emigration, as recognised by the Reserve Bank, as a way to break tax residency. However, this is only one factor considered by SARS. Government wants to encourage all South Africans working abroad to maintain their ties to the country. Consequently, this concept of emigration will be phased out by 1 March 2021. Details appear in Annexure E.

Tax policy reviews and research

The fiscal treatment of the upstream petroleum sector

The draft Upstream Petroleum Resources Development Bill was recently published for public comment. The National Treasury notes the current public discussion on the bill and will consult with the relevant stakeholders as to the most appropriate fiscal regime for South Africa.

Other projects

The National Treasury will undertake or complete the following projects during 2020/21:

- Examining the regulation and tax treatment of unlisted real estate investment trusts, in line with the announcements in the 2013 and 2019 *Budget Review*.
- Reviewing the tax treatment of amounts received by portfolios of collective investment schemes in line with the announcement in the 2019 *Budget Review*.

Measures to enhance tax administration

Pay-as-you-earn and personal income tax administration reform

Reforms expected to lead to automated PAYE system that could reduce filing burden

The legal framework and administration of pay-as-you-earn (PAYE) will be reviewed with a view to implementing a more modern, automated process for employers that is easy to understand, access and maintain. The reform is intended to promote accurate and timely withholding from employees and payments to SARS. It is expected to reduce the administrative burden for employers, payroll administrators and SARS. In addition, employees will be able to monitor their tax obligations during the course of the year, and the annual return process for employers will be simplified. Over time, this reform is likely to mean that most individual salaried taxpayers will not have to file personal tax returns.

Conclusion

Revenue collection continues to perform below expectations, driven by a weak economy. The 2020 Budget aims to support economic recovery in the short term by not raising additional taxes. Over time, the strengthening of SARS is expected to lead to increased revenue collection.