2022 Budget Speech Tax Highlights

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2022 Budget Speech
Main tax proposals

- Company tax rate drops to 27% - with tax-base broadening measures
- ETI increases
- 4,5% adjustments to personal tax thresholds and rebates
- VAT rate stays at 15%
- Fuel taxes unchanged
- Environmental taxes increase
- Sin taxes increase
- Trust, estate duty, donations tax & transfer duty rates unchanged
- Increased focus on wealthy individuals and offshore holdings
- Annexure C amendments

Tax revenue trends

Main budget revenue ***Table 4.1 Budget estimates and revenue outcomes & Table 4.2 Budget revenue***			
	Budget (original) Rm	**Outcome / Revised budget Rm**	**Deviation Rm**
2017/18	1 194 585	1 196 399	1 814
2018/19	1 285 386	1 275 270	-10 116
2019/20	1 403 464	1 345 870	-57 994
2020/21	1 397 996	1 238 369	-159 627
2021/22	1 351 672	1 549 068	197 396
2022/23	1 588 044		

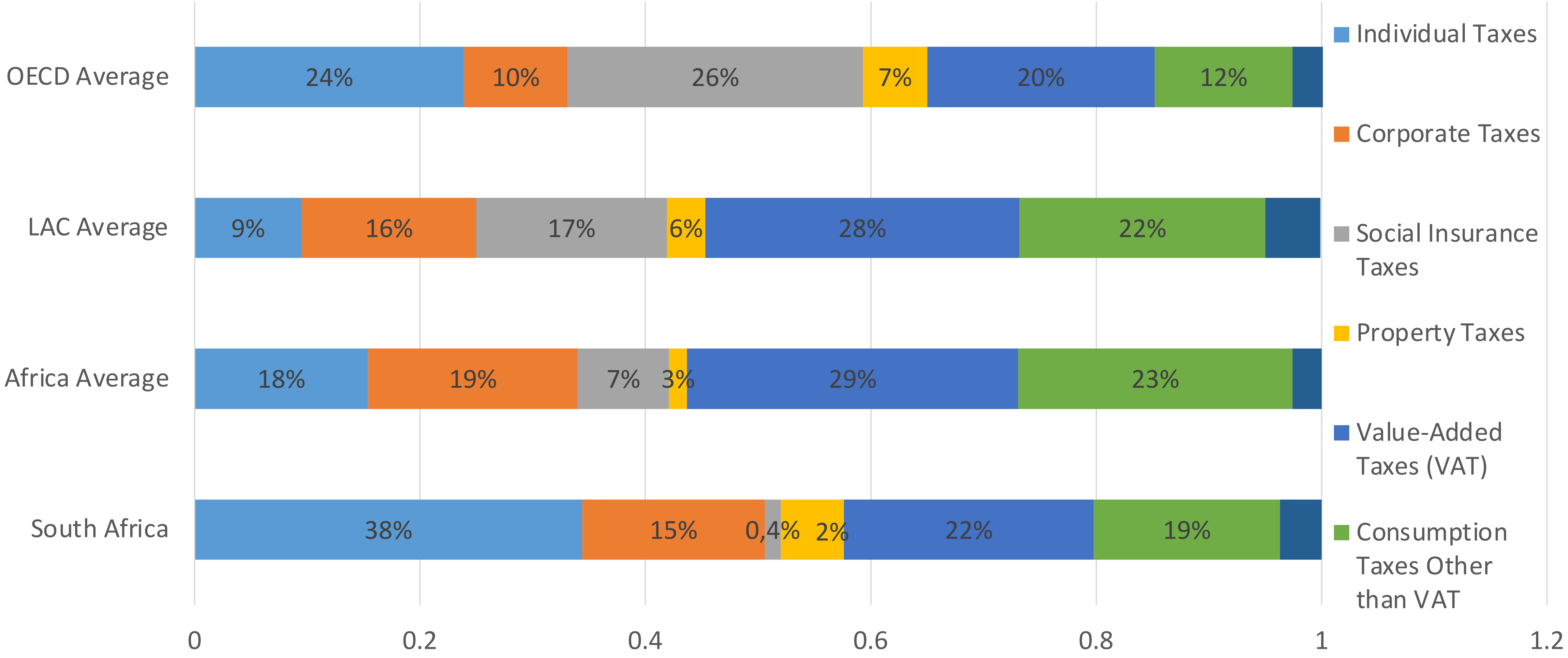
“R182 billion windfall”

Tax revenue trends … the 2022 windfall

	Main budget revenue: 2021/22			Main budget revenue: 2020/21		
(Rm)	Budget (2021)	Revised (2022)	Deviation	Budget (2020)	Revised (2021)	Deviation
Personal income tax	515 957	553 529	37 572	546 771	482 143	-64 628
Corporate income tax	213 114	318 380	105 266	230 226	188 801	-41 425
Dividends tax	26 715	32 662	5 947	31 169	23 456	-7 713
Value-added tax	370 177	383 724	13 547	360 555	324 554	-36 000
Specific excise duties	43 734	48 212	4 478	48 836	24 694	-24 142
Fuel levy	83 148	89 884	6 736	83 441	75 236	-8 206

Table 4.1 Budget estimates and revenue outcomes, 2021 & 2022.

Tax revenue composition



Source: OECD Tax in Africa 2019/2020

Cost of tax collections

	Tax revenue collected Rm	Operating costs[1] Rm	Cost as a % of revenue collected
2016/17	1 144 081	10 696	*0,93%*
2017/18	1 216 464	10 795	*0,89%*
2018/19	1 287 690	10 792	*0,84%*
2019/20	1 355 766	10 841	*0,80%*
2020/21	1 249 711	10 666	*0,85%*

Source: SARS Statistics 2020/21

1. Operating costs as disclosed in the Statement of Financial Performance for the controlling entity in the SARS: Own Accounts Annual Financial Statements.

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Budget highlights

Company tax rates to reduce

- The corporate income tax rate will be lowered to 27% for companies with **years of assessment ending on or after 31 March 2023** (as promised in the 2021 Budget Speech).
- Accompanied by broadening of the corporate income tax base by limiting interest deductions and the set-off of assessed losses.

Restricted use of assessed losses: s 20 amendment

- For companies: The set-off of a balance of assessed losses brought forward will be limited to the higher of R1 million and 80% of taxable income.
- Comes into operation on 31 March 2023 and applies in respect of years of assessment ending on or after that date.

“Thus companies with an assessed loss balance that matches or exceeds their current-year taxable income will need to pay tax on 20% of their taxable income… Smaller companies more likely to struggle with cash flow will be exempt from the proposed changes.”

Example

Company A has an assessed loss brought forward of R2,5 million and makes taxable income of R2 million for its tax year ending 30 June 2023.

Taxable income for the 2023 year:

	R
Taxable income for the year	2 000 000
Less: assessed loss b/f = R2 500 000 set-off limited to 80% of R2 000 000 = R1 600 000 balance of assessed loss c/f to 2024 = R900 000	(1 600 000)
Taxable income	400 000
Tax @ 27% =	108 000

Limitation of interest deduction: s 23M amendments

- Expanded definition of “interest”
- Applies where there is a “controlling interest”
- Net interest expense deduction will be capped at 30% (was 40%) of taxable income before interest & capital allowances (EBITDA)
- Will apply to companies in multinational groups – recognition of withholding tax on interest
- Refined inclusion of back-to-back loans
- Application to REITs
- Come into operation on 31 March 2023 and apply in respect of years of assessment ending on or after that date

Company tax rates and effective rate

	2022/23	**From 31/3/23**
Companies and close corporations	28%	27%
Dividends tax	20%	20%
Effective tax rate on fully-taxed dividends (72 x 20%; 73 x 20%)	14,4%	14,6%
Effective tax rate on fully taxed distributed profits	**42,4%**	**41,6%**

Small business corporations

Years of assessment ending on or after 1 April 2022	
Taxable income (R)	**Rate of tax**
0 – **91 250**	0% of taxable income
91 250 – 365 000	7% of taxable income above R91 250
365 001 – 550 000	R19 163 + 21% of taxable income above R365 000
550 001 and above	R58 013 + 28% of taxable income above R550 000

Years of assessment ending on or after 31 March 2023	
Taxable income (R)	**Rate of tax**
0 – 91 250	0% of taxable income
91 250 – 365 000	7% of taxable income above R91 250
365 001 – 550 000	R19 163 + 21% of taxable income above R365 000
550 001 and above	R58 013 + **27%** of taxable income above R550 000

Turnover tax on micro businesses: No change

Year of assessment ending 28 February 2023	
Taxable turnover (R)	**Rate of tax**
0 – 335 000	0% of taxable turnover
335 001 – 500 000	1% of taxable turnover above 335 000
500 001 – 750 000	R1 650 + 2% of taxable turnover above R500 000
750 001 and above	R6 650 + 3% of taxable turnover above R750 000

Increased Employment Tax Incentive

- 50% increase in the value of the ETI, effective 1 March 2022.
  - Increase from
    - 50% to 75% of monthly remuneration in year 1
    - 25% to 37,5% in year 2.
- Raises maximum monthly incentive from
  - R1 000 to R1 500 in the first 12 months; and
  - R500 to R750 in the second 12 months of eligibility.
- “Improved targeting of the incentive will be considered to support jobs for long-term unemployed work seekers, alongside an expansion of the eligibility criteria for qualifying employees to improve the incentive for small businesses.”

Tax Tables - Individuals

2022/23		2021/22	
Taxable Income	**Rates of Tax**	**Taxable Income**	**Rates of Tax**
R0 – R226 000	18% on each R	R0 - R216 200	18% on each R
R226 001 – R353 100	R40 680 + 26% on excess	R216 201 - R337 800	R38 916 + 26% on excess
R353 101 – R488 700	R73 726 + 31%	R337 801 - R467 500	R70 532 + 31%
R488 701 – R641 400	R115 762 + 36%	R467 501 - R613 600	R110 739 + 36%
R641 401 – R817 600	R170 734 + 39%	R613 601 - R782 200	R163 335 + 39%
R817 601 – R1 731 600	R239 452 + 41%	R782 201 - R1 656 600	R229 089 + 41%
R1 731 601 and above	R614 192 + 45%	R1 656 601 and above	R587 593 + 45%

4,5% increase on all thresholds

%s unchanged

Rebates and tax thresholds

	2022/23		2021/22	
	Rebate	**Threshold**	**Rebate**	**Threshold**
Under 65	**R16 425**	**R91 250**	**R 15 714**	**R87 300**
Increase	R 711	R3 950	R756	R4 200
Over 65	**R9 000**	**R141 250**	**R 8 613**	**R135 150**
Increase	R 387	R6 100	R414	R6 500
Over 75	**R2 997**	**R157 900**	**R 2 871**	**R151 100**
Increase	R 126	R6 800	R135	R7 250
% Increases	**4,5%**	**4,5%**	5%	5%
CPI inflation	4,8%		4,5%	

Disclosure of wealth

- Statement of assets (based on their cost) and liabilities currently required from provisional taxpayers with business interests to be expanded "to assist with the detection of non-compliance or fraud through the existence of unexplained wealth".
- All provisional taxpayers with assets above R50 million will be required to declare specified assets and liabilities <u>at market values</u> in their 2023 tax returns.
- The additional information will also help in determining the levels and structure of wealth holdings as recommended by the Davis Tax Committee.

Review of provisional tax system

"A review of the provisional tax system is being considered given changing circumstances and international developments, with the intention of publishing a discussion paper on this subject."

Interest exemptions: No change

Local interest exemption:

Under 65	R23 800
65 and over	R34 500

Non-residents interest exemption:

Full exemption on interest earned by non-residents IF physically absent from SA for at least 182 days during the 12-month period before the interest accrues and the debt from which the interest arises is not effectively connected to a fixed place of business in SA of that non-resident.

Tax-free investments: No change

- Annual allowance for tax free savings accounts
  - increased from R30 000 to R33 000 in 2017
  - increased to R36 000 from 1 March 2020
- Lifetime limit R500 000.

Medical scheme credit (s 6A)

	2022/23 Per month	2021/22 Per month	% increase
Member and 1st dependent	R347	R332	4,5%
Each additional dependent	R234	R224	4,5%

Subsistence allowances

- **Travel in the Republic (Draft Notice published 23 February 2022)**
  - meals and incidental costs: R493 per day (was R452 per day in 2020/21 & 2021/22)
  - incidental costs only: R152 per day (was R139 per day in 2020/21 & 2021/22)
- **Travel outside the Republic**
  - daily amount per country: No changes since 2019

    EG
    - France € 128 per day
    - USA US$146 per day
    - United Kingdom GBP102 per day
    - Swaziland RSA Rand 818 per day
    - Other countries not listed US$ 215 per day

Working from home

- 2021 Budget: In light of the large-scale migration to working at home over the past year, NT will review current travel and home office allowances to investigate their efficacy, equity in application, simplicity of use, certainty for taxpayers and compatibility with environmental objectives. In recognition of the potential effect on salary structuring, this will be a multi-year project, starting with consultations during 2021/22.
- 2022 Budget: "a discussion document will be published in 2022 on a personal income tax regime for remote work."

Reviewing variable remuneration – s 7B

- Any amount of variable remuneration paid by the employer to the employee is deemed to accrue to the employee on actual date of payment under s 7B.
  - Allows for the taxation of variable remuneration to be deferred to the date when the amount is paid, rather than when it accrues to the employee.
  - Note: deduction for employer is also deferred.
- 'Variable remuneration' includes overtime pay, bonuses or commission; an allowance or advance paid for transport expenses; an amount the employee becomes entitled to as a result of unused leave; any night shift or standby allowance; or any amount paid or granted for a reimbursement as contemplated in the Act.
- "... the definition may not fully cater for all types of variable remuneration. For example, it does not cater for the informal sector, where payments calculated based on units produced do not fit the 'definition' of commission, thereby falling outside of variable remuneration."
- Proposal: amend s 7B to cater for these performance-based variable payments.

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Apportioning interest exemption and CGT annual exclusion when an individual ceases to be resident

Section 9H(2)(b) provides that, when an individual ceases to be a SA tax resident, their year of assessment is deemed to end on the date immediately before the day that their tax residency ceased. The individual's next succeeding year of assessment will start on the day on which tax residency is ceased. As a result, the individual has two years of assessment during the 12-month period, which means that there is an opportunity for duplicate claims of certain exemptions or exclusions that are allowed per year of assessment. This has never been the intention of the legislation.

Proposal: to apportion of the interest exemption and capital gains annual exclusion, in the circumstances.

Donations tax

Unchanged

Donations tax rates and exemptions	
Donations up to R30m (cumulative from 1/3/2018)	20%
Exceeding R30m (cumulative from 1/3/2018)	25%
Annual exemption per person (individuals)	R100 000
Annual exemption per person (other than individuals)	R10 000

Estate duty
Unchanged

Estate duty	
Estates up to R30m	20%
Exceeding R30M	25%
Abatement	R3 500 000

CGT inclusion rates

	Inclusion rate	Maximum marginal rate	Maximum effective rate
Individuals	40%	45%	18%
Companies	80%	28%	22.4%
		27%	21.6%
Trusts	80%	45%	36%

Transfer duty: No change

Value of property (R)	**Rate** **Acquisition of property on or after 1/3/2020**
0 – 1 000 000	0%
1 000 001 – 1 375 000	3% of the value above 1 000 000
1 375 001 – 1 925 000	11 250 + 6% of the value above 1 375 000
1 925 001 – 2 475 000	44 250 + 8% of the value above 1 925 000
2 475 001 – 11 000 000	88 250 + 11% of the value above 2 475 000
11 000 001 and above	1 026 000 + 13% of the value above 11 000 000

Specific excise duties

- 4,5% - 6,5% increases in excise duties on alcohol and tobacco.
- New developments:
  - Beer powders: The current excise duty regime applies a flat excise rate for traditional African beer powder of 34.7c/kg. There are similar products in the market. In the interest of equity, these products will be included in the tax net with an excise equivalent to the powder rate from 1 October 2022.
  - Vaping: Following public consultation, government proposes to apply a flat excise duty rate of at least R2.90/ml to both nicotine and non-nicotine solutions. The proposal will be included in the 2022 Taxation Laws Amendment Bill for further consultation before being introduced from 1 January 2023.

Specific excise duties

Product	Current rate	Proposed rate	% change
Malt beer	R115.08/l of absolute alcohol (195,64c/ 340ml can)	R121.41/l of absolute alcohol (206,40c / 340ml can)	5,5
Traditional African beer	7,82c / litre	7,82c / litre	–
Traditional African beer powder	34,70c / kg	34,70c / kg	–
Fortified wine	R7,92 / litre	R8,36 / litre	5,5
Sparkling wine	R15,51 / litre	R16,52 / litre	6,5
Ciders and alcoholic fruit beverages	R115.08/l of absolute alcohol (195,64c / 340ml can)	R121.41/l of absolute alcohol (206,40c / average 340ml can)	5,5
Spirits	R230.18/l of absolute alcohol (R74.23 / 750ml bottle)	R245.15/l of absolute alcohol (R79.06 / 750ml bottle)	6,5
Cigarettes	R18,79 / 20 cigarettes	R19,82 / 20 cigarettes	5,5
HTPs sticks	R14.09 / 20 sticks	R14.87 / 20 sticks	5,5
Cigarette tobacco	R21.12 / 50g	R22.28 / 50g	5,5
Pipe tobacco	R6.26 / 25g	R6.63 / 25g	6,0
Cigars	R104.16 / 23g	R110.93 / 23g	6,5

Health promotion levy

- Introduced 1 April 2018
  - 2.1c/gram of sugar content exceeding 4 g/100ml (first 4 g/100ml are levy free)
- 1 April 2019: increase to 2.21 c/g in excess of 4 g of sugar per 100ml
- 2020 & 2021: no change
- 1 April 2022: increase to 2.31 c/g in excess of 4 g of sugar per 100ml

"Consultations will also be initiated to consider lowering the 4g threshold and extending the levy to fruit juices."

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Fuel levies

	From 6 April 2022		From 7 April 2021	
	93 octane petrol (R/l)	**Diesel (R/l)**	**93 octane petrol (R/l)**	**Diesel (R/l)**
General fuel levy	3,85	3,70	3,85	3,70
Road Accident Fund levy	2,18	2,18	2,18	2,18
Customs and excise levy	0,04	0,04	0,04	0,04
Carbon fuel levy	**0,09**	**0,10**	**0,08**	**0,09**
Total	**6,16**	**6,02**	**6,15**	**6,01**

"To support consumers and the economic recovery, no increases will be made to the general fuel levy on petrol and diesel for 2022/23, providing tax relief of R3.5 billion. There will also be no increase in the RAF levy."

Carbon tax

- Came into effect on 1 June 2019 at R120 per ton of carbon dioxide equivalent
- Annual increase as per the Carbon Tax Act, 2019 (up to December 2022):
  - annual inflation rate (November CPI) plus 2%
- 2020: 5,6% increase from R 120 to R127 per ton of carbon dioxide.
- 2021: 5,5% increase from R 127 to R134 per ton of carbon dioxide from 1 January 2021.
- 2022: 7,5% increase from R 134 to R144 per ton of carbon dioxide from 1 January 2021.

Extension of first phase of the carbon tax

- The first phase of the carbon tax will be extended by 3 years for 1 January 2023 to 31 December 2025.
- The transitional support measures afforded to companies in the first phase, such as significant tax-free allowances and revenue-recycling measures, will continue over this period, alongside various adjustments.
- Second phase – expected tax base broadening, rate increases and reduction in allowances.

Motor vehicle emissions tax

Date	Rate (R per gCO2/km)	
	Passenger vehicles	**Double cabs**
1/9/2010 to 31/3/13	R75 per g/km exceeding 120 g/km	
1/3/2011 to 31/3/13		R100 per g/km exceeding 175 g/km
1/4/13 to 31/3/16	R90	R125
1/4/16 to 31/3/18	R100	R140
1/4/18 to 31/3/20	R110	R150
1/4/20 to 31/3/22	R120 per g/km exceeding 95 g/km	R160 per g/km exceeding 160g/km
1/4/22 onwards	R132 per g/km exceeding 95 g/km	R176 per g/km exceeding 160g/km

- Aims to encourage consumers to use more fuel-efficient, low-carbon-emitting vehicles, and manufacturers to improve fuel efficiency. Main objective is to influence the composition of SA's vehicle fleet to become more energy efficient and environmentally friendly.
- Levy based on certification provided by the vehicle manufacturer, or in the absence thereof according to the set methods of calculation as described in the Customs and Excise Act, 1964.

Tax incentives: Sunset dates

"In line with the recommendations of the Katz Commission and the Davis Tax Committee, expiring incentives that have not widened social or economic benefits will not be renewed."
Budget Speech 2022

Incentive	Income Tax section	Sunset date
Research and development allowance (currently being reviewed)	11D	30 September2022: extended to 31 December 2023
Pipelines, transmission and railway lines	12D	None
Allowance for rolling stock	12DA	28 February 2022*
Small business corporations	12E	None
Airport and port assets	12F	28 February 2022*
Learnership allowance	12H	31 March 2024
Energy efficiency savings incentive	12L	31 December 2022 extended to 31 December 2025
International ships	12Q	None
Special economic zones	12R & 12S	31 December 2030
Urban development zone allowance	13*quat*	31 March 2023

* Will not be renewed

Annexure C proposed amendments

Cross-border tax treatment of retirement funds

A review of the exemption of foreign retirement benefits in domestic tax legislation will be conducted.

“Consultation on last year’s proposal regarding the tax treatment of retirement interest when changing tax residence showed that multiple tax treaties need to be revised to ensure South Africa retains taxing rights on payments from local retirement funds. Government intends to initiate these negotiations this year.”

Two-pot retirement system

- Discussion paper *Encouraging South African Households to Save More for Retirement* was in December 2021.
- Outlines a set of reforms to enable pre-retirement access to a portion of one's retirement assets – while ensuring that the remainder is preserved for retirement.
- Public comments on the tax treatment of contributions to the two pots are being reviewed in preparation for public workshops, to be followed by legislative amendments.

Debtor’s allowance to apply to lay-by arrangements

- In credit sales, the whole amount that accrues on the day the agreement is entered into is included in the taxpayer’s income upfront.
- The s 24 debtors allowance applies if a taxpayer has entered into an agreement under which the taxpayer transfers property ownership to that person after the taxpayer has received the whole or a certain portion of the amount payable in terms of the agreement IF
- the term of the agreement is at least 12 months ; and
- at least 25% of the amount due to the taxpayer is only payable in a subsequent year of assessment.
- It has come to government's attention that lay-by arrangements do not benefit from the above-mentioned debtors allowance rules because such arrangements are for periods shorter than 12 months. To remedy this, government proposes that the current debtors allowance rules be reviewed to limit the adverse effect on lay-by arrangements.

Wear & tear allowance on asset funded by a government grant

- Tax exemption for any government grant received or accrued under a programme or scheme listed in the Eleventh Schedule or approved under the national annual budget process and gazetted by the Minister of Finance.
- Expenditure on trading stock and allowance assets that is funded by a government grant other than a government grant in kind, must be reduced for the purpose of claiming any deduction/allowances (as a taxpayer receiving a government grant does not incur the expenditure – it is settled by the government grant0.
- It has come to government's attention that when a government grant in kind is acquired, the provisions for wear and tear allowance in section 11(e) are applicable because they apply to the value of the asset and not the expenditure or cost incurred by the taxpayer. This creates an anomaly in the system as, similar to a cash government grant, the receipt of a government grant in kind is exempt from tax but the assets received should not qualify for wear and tear allowances. To address this anomaly, government proposes that changes be made in the legislation to align the tax treatment of an asset acquired as a government grant in kind with the tax treatment of assets acquired using a cash government grant.

VAT

- Further changes be made following reviews of some s 72 decisions.
- Electronic services
  - Updating regulations; and
  - Introducing a specific exception to the registration requirements for a non-resident supplier when electronic supplies exceed R1 million a year due to a once-off supply – an exception that already applies to resident suppliers.

Tax Administration

- Review of domestic legal framework to effect joint audits
  - TAA to be amended to allow for joint audits with other tax administrations in order to improve the effective exchange of information under international tax agreements.
- Imposition of understatement penalty for employment tax incentives improperly claimed
  - Given ETI abuse, government proposes understatement penalties on reimbursements that are improperly claimed.
- Removal of statutory recognised controlling body
  - A statutory recognised controlling body has indicated that it is no longer appropriate for it to be listed as a recognised controlling body in terms of the Tax Administration Act. It is proposed that this body be removed from the list.
- Tax compliance status for taxpayers under business rescue
  - SARS cannot reflect a taxpayer as being tax compliant if it has outstanding tax debts unless the taxpayer has entered into an instalment payment agreement or compromise agreement with SARS or, where the tax debt is disputed, a suspension of payment has been granted. This may not be possible in the earliest stages of a business rescue, which may negatively affect the prospects of the rescue being successful. It is proposed that empowering SARS to assist in these cases, under certain conditions, be investigated.

QUESTIONS?

Please use the Q&A portal

THANK YOU!

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