2019 Budget Speech

INTRODUCTION

Finance Minister Tito Mboweni delivered his maiden National Budget address on 20 February 2019, with the focus for the coming fiscal year on strengthening tax administration in line with the recommendations by the Nugent Commission, which should be supported by the appointment of the new, permanent SARS Commissioner in the coming weeks.

The 2019 Budget is built on six “fundamental prescripts”:

1. Achieving a higher rate of economic growth
2. Increasing tax collection
3. Reasonable and affordable expenditure
4. Stabilising and reducing debt
5. Reconfiguring state-owned enterprises
6. Managing the public sector wage bill
**HIGHLIGHTS**

“Our recovery will be slow and steady. 2019 growth will rise to 1.5%, then 2.1% in 2021. World Economic Growth is expected to slow, thus constraining South Africa. We’ve got a weaker outlook now. I’m someone who believes the budget must follow after policy is set, not the other way round.”

- Total tax collections for 2018/19 are estimated to be R1.3 trillion, a budget shortfall of R42.8 billion.
- Increase in the fuel levy by 29c/litre, consisting of a 15c/litre increase in the general fuel levy, a 5c/litre increase in the Road Accident Fund (RAF) levy from 3 April 2019.
- The introduction of a carbon tax on fuel of 9c/litre from 5 June 2019, against which no diesel refund can be claimed.
- Increase in excise duties on alcohol and tobacco products between 7.4 per cent and 9 per cent, well above inflation. Proposals to tax electronic cigarettes and tobacco heating products.
- Carbon tax will be implemented on 1 June 2019. SARS and the Department of Environmental Affairs will jointly administer the tax.
- Personal income tax brackets remain unchanged and will not be adjusted for inflation, raising R12.8 billion in revenue. Primary, secondary and tertiary rebates will be increased by only 1.1% (to R14 220, R7 794, and R2 601 respectively).
- No change in the monthly medical tax credit for medical scheme contributions.
- Increase in sugar tax to 2.21 cents per gram in excess of 4 grams of sugar per 100ml from 1 April 2019.
- Eskom will receive an annual grant of R23 billion from taxpayers over the next three years as it restructures into three independent units. The R69 billion cost will require a R16 billion rise in government’s self-imposed spending ceiling.
“A few years ago, Madam Speaker, one of my predecessors – Trevor Manuel – handed out succulent plums to the members of this house, to demonstrate the times of plenty we were in. ”

“Today, I walk into this house with an iconic South African plant, the aloe ferox. It is resilient, sturdy and drought resistant. It withstands the elements. Today, I bring you a seed to prove that if we plant anew, we can return to those plum times.”

• An export tax will be introduced on scrap metal.
• A reserve of R13 billion has been set aside to provide support for SAA, the SABC, Denel and other SOEs in the year ahead. In the current year, SAA’s government guaranteed debt increased by R6.2 billion and Denel was granted a further R1 billion guarantee. The Land Bank was the outlier, actually repaying debt.
• There will be no salary increases this year for members of Parliament and provincial legislatures and executives at public enterprises.
• Of R5.87 trillion in total state spending during the next three years, the biggest allocations are for education (20%); social development (15%) and health (10%).
• Over R30 billion is being allocated to build new schools and maintain schooling infrastructure. An additional R2.8 billion will be used to replace pit latrines in 2 400 schools. More than R111 billion is being invested over the medium-term to fund the university and technical college education of 2.8 million students from poor and working-class backgrounds.
• In the coming fiscal year, R567 billion has been allocated for social grant payments. Old age pensions will rise by R80 a month; monthly grants for foster care will rise by R40 and child support by R10.
• More doctors and nurses are needed with R2.8 billion reprioritised to a new human resources grant; an additional R1 billion is being allocated to interns; and R1 billion will be used to raise the monthly pay for community health workers to R3 500.
• The small business incubation programme will be supported through an allocation of R481 million to the Small Enterprise Development Agency.
• R8 billion is allocated to implement 262 priority land reform projects over the next three years, with R3.7 billion set aside for emerging farmers seeking to acquire land to farm. The Land Bank has set aside R3 billion to support small farmers and to leverage partnerships with financial institutions.
• SANRAL is being allocated an additional R3.5 billion over the next three years to improve non-toll roads.
Previously, a gambling tax in the form of a 1% levy to fund rehabilitation and awareness-raising programmes to mitigate the negative effects of excessive gambling was proposed. Draft legislation for public comment is expected during 2019.

In 2018, amendments were proposed to tax the profits of some collective investment schemes as revenue instead of capital. After reviewing the public comments on this draft, government decided that more time is needed for it to work with the industry to find solutions that will not negatively affect the relevant groups. This study is proposed for the 2019 legislative cycle.

In addition to the significant changes to the Venture Capital Company regime in 2018, further amendments are proposed to prevent the perceived abuse of the system.

In addition to recent legislative changes, the rules governing share buy-backs and dividend stripping will be amended effective 20 February 2019 to curb new forms of abuse. No further details on the specific rules are currently available.

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VALUE-ADDED TAX PROPOSALS

• Reviewing the definition of “group of companies” for electronic services regulations

Effective 1 April 2019, regulations prescribing electronic services will expand the scope of electronic services required to pay VAT in South Africa. These regulations exclude electronic services supplied between companies in a “group of companies”, if a non-resident company supplies such services to a domestic company within the same group.

• Refining the VAT corporate reorganisation rules

The VAT Act provides relief for companies in the same group by treating the supplier and the recipient of goods or services as the same person during corporate reorganisation transactions. If these transactions take place in terms of sections 42 or 45 of the Income Tax Act, VAT relief is only permitted if the transfer relates to a going concern. However, transfers of fixed property under these sections may not always involve a going concern. It is proposed that the VAT Act be amended to clarify treatment in these instances.

• VAT rulings

The VAT Act gives SARS discretionary powers to apply provisions relating to the calculation or payment of tax or the application of any provision, exemption or zero-rate, in cases where “difficulties, anomalies or incongruities have arisen” due to the business conduct of vendors. A constitutional review of section 72 of the VAT Act should be conducted given the challenges that arose as to its application in respect of mandatory wording of the VAT Act.

• RAF levy diesel refunds

The farming, forestry and mining industries are refunded levies paid when they buy diesel. This refund is intended to offset the RAF levy these users pay. However, these diesel users still receive benefits from the RAF if they experience accidents involving motor vehicles, even if the accident is off-road. It is proposed that the RAF levy diesel refund benefit for these primary production industries be limited to ensure that diesel users in these sectors equitably contribute towards their RAF indemnity.
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INDIVIDUALS, EMPLOYMENT AND SAVINGS

• Refining the foreign employment income tax exemption for South African residents

From 1 March 2020, South African residents who spend more than 183 days in employment outside the country will be subject to South African taxation on any foreign employment income that exceeds R1 million. To prevent monthly withholding of income tax both in South Africa and the host country, it is proposed that South African employers be allowed to reduce their monthly local Pay-As-You-Earn withholding by the amount of foreign taxes withheld on the employment income.

CUSTOMS AND EXCISE

• Excluding bulk wine movements from the compulsory tariff determination requirement

Bulk wine that is removed from one excise manufacturing warehouse to another is used as an input for further manufacturing and is not the final alcoholic beverage that should be subject to the tariff determination requirement. Bulk wine removals between warehouses will therefore be exempted from the obligation to obtain compulsory tariff determinations.
CROSS-BORDER INCOME TAX AND EXCHANGE CONTROL PROPOSALS

REVIEWING CONTROLLED FOREIGN COMPANY RULES

The global trend towards reducing corporate tax rates affects the current controlled foreign company comparable tax exemption. It is proposed that the exemption threshold be reduced from the current percentage, considering the sustainability of the tax base.

CLARIFYING THE INTERACTION OF CAPITAL GAINS TAX AND FOREIGN EXCHANGE TRANSACTION RULES

Assets disposed of or acquired in foreign currency are subject to taxation under both the foreign exchange transaction rules and capital gains tax rules. To prevent double taxation of assets, foreign debt is currently excluded from the specific capital gains tax rules. However, it is unclear how the general rules apply if foreign bonds are disposed at a capital gain or loss. It is proposed that these rules be reviewed to prevent potential double taxation.

REVIEWING THE DEFINITION OF PERMANENT ESTABLISHMENT

In November 2017, the OECD expanded this definition. When South Africa signed the OECD multilateral convention, it did not expand the permanent establishment definition. As a result, South African tax treaties use the narrow definition of permanent establishment. However, the definition in the Income Tax Act uses the expanded OECD definition. It is proposed that the permanent establishment definition in the Income Tax Act be reviewed to determine whether a limitation is warranted.

“**In this coming year, we expect revenues of R1.58 trillion and spending of R1.83 trillion. That means we will spend R243 billion more than we earn – that’s without including what we spend on the weekend when the Soweto Derby is on...** **Gross National Debt will stabilise at 60% of GDP by 2024.”**

ADMINISTRATIVE PROPOSALS

• During August 2018, the National Treasury and SARS jointly held extensive consultations on the published discussion paper, “Review of the Diesel Fuel Tax Refund System”, through a series of industry-specific workshops. The new proposed system will shift the basis from eligible users to eligible activities. The design of the new standalone diesel refund administration will be outlined in draft rules and notes that will be developed and published for public comment during the year.

• The legislative provisions relating to tax compliance certificates will be updated to include recent system requirements.
RATES OF TAX

• The following rates remain unchanged:
  
  o VAT at 15%: (the list of zero-rated items, where VAT is charged at 0 per cent, will be expanded from 1 April 2019)
  o Corporate income tax at 28% and dividends withholding tax at 20%
  o All inclusion rates for CGT
  o Interest and royalty withholding tax rates at 15%
  o All tax brackets for individuals, as set out below:

<table>
<thead>
<tr>
<th>Taxable income (R)</th>
<th>Rates of tax (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 195 850</td>
<td>18% of taxable income</td>
</tr>
<tr>
<td>195 851 – 305 850</td>
<td>35 253 + 26% of taxable income above 195 850</td>
</tr>
<tr>
<td>305 851 – 423 300</td>
<td>63 853 + 31% of taxable income above 305 850</td>
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<tr>
<td>423 301 – 555 600</td>
<td>100 263 + 36% of taxable income above 423 300</td>
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<tr>
<td>555 601 – 708 310</td>
<td>147 891 + 39% of taxable income above 555 600</td>
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<tr>
<td>708 311 – 1 500 000</td>
<td>207 448 + 41% of taxable income above 708 310</td>
</tr>
<tr>
<td>1 500 001 and above</td>
<td>532 041 + 45% of taxable income above 1 500 000</td>
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