2016 South African budget speech summary | tax proposals
The Honourable Minister of Finance read the 2016 South African budget speech on 24 February 2016. In this summary, we address only the revenue (i.e. tax) side of the budget proposals. As this budget speech has received an unusual amount of discussion, debate and analysis, this summary is necessarily a compressed version of some of the measures announced therein.

The growth outlook for the South African economy for 2016 has been revised downwards to 1.9% from 2.3% in 2015. Despite growth challenges, the government’s objective is to achieve a sustainable high-growth, low inflation, and employment-friendly economy in the medium-term.

Key measures announced include:

- **Revenue side:**
  - Gross revenue collection to increase by R18.1 billion in the 2016/2017 year, and an additional R15 billion over and above baseline forecasts in each of the subsequent two years.
  - Measures to improve tax compliance and enforcement, including a focus on aggressive tax planning.
  - **Customs and excise duty** – rates will increase by 4.5% for goods imported into the country.
  - **VAT (value-added tax)** – the rate will remain at 14%.
  - **Income tax** – tax rates will increase by up to 1% for personal income tax.

- **Spending side:**
  - The government plans to increase spending to support economic growth and social development.
  - A focus on infrastructure investment, including the acceleration of the National Roads Programme.
  - Additional funding for social grants and education.

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The tax measures dealing with the transition of the hedge fund industry into a new regulated tax regime will be considered further, specifically in relation to asset-for-share and amalgamation transactions.

The due date for submission of an estimate for the second provisional tax period will be fixed at the date of assessment of the relevant year.

Where interest withholding tax has been paid on an amount that is subsequently written-off and irrecoverable, a mechanism will be introduced to allow for a refund.

The VAT implication of waivers and cancellations of debt will be analysed to deal with the possibility that such “supplies” could give rise to an output tax liability.

The Commission will notify local employees of foreign employers to pay provisional tax in lieu of PAYE.

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The incentive for venture capital funding for small businesses will be reviewed to eliminate unintended consequences.

The due date for submission of an estimate for the second provisional tax period will be fixed at the date of assessment of the relevant year.

The tax treatment of securities lending arrangements will be reviewed.

The withholding tax on service fees will be withdrawn from the Income Tax Act and will be dealt with under the provisions of reportable arrangements in the Tax Administration Act of 2011 instead.

The VAT treatment of loyalty programmes (including implications of redeeming loyalty points) and the provisions relating to vouchers will be reviewed.

It is proposed that section 42 of the Act will be amended to clarify the rules relating to section 42 rollover transactions involving a natural person and a company.

The Commissioner will notify local employees of foreign employers to pay provisional tax in lieu of PAYE.

The interactions of VAT and PAYE in relation to non-executive directors’ fees will be revisited to provide clarity due to the current controversy in this regard.

Further measures to limit income splitting and other tax benefits will also be considered.

The Durban Harbour Authority – the largest single transaction in terms of the proposed tax rules – will be reviewed to ensure that the tax structure and associated administration are efficient.

Further amendments will be introduced to the VAT treatment of service agreements, elimination of VAT on customs and customs duties, goods, travel, electronic and digital goods, and revenue received from a non-central government area located in a special economic zone and the invoicing requirements of municipal entities that are registered on a payments basis.

The rule relating to an assessment for a matter not in dispute will be amended to allow for the adjustment of the liability for tax if the tax payable has been overpaid or underpaid.

The “best endeavours” rule in section 11C will be amended to allow for a taxpayer to be deemed to be in dispute for the purpose of the rule if the taxpayer has provided written notice of its intention to contest the assessed tax liability.

The VAT regulation relating to the determined value of company cars will be aligned with the provisions of the Seventh Schedule of the Income Tax Act of 1962 ("the Act") to reduce the administrative burden.

It is proposed that a forced transfer through the closure of a provident fund will be made easier to ensure that, while the obligations of a contributor will be transferred, the beneficiaries will not be penalised.

From 1 March 2016, provident fund members above the age of 55 will be able to continue contributing to that provident fund without being required to purchase an annuity upon retirement. It is proposed that a forced transfer through the closure of a provident fund will be made easier to ensure that, while the obligations of a contributor will be transferred, the beneficiaries will not be penalised.

The tax treatment of green taxes and incentives will be reviewed.

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