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Progress with a purpose

Budget 2014/2015

PwC Tax Commentary on 2014 Budget Review

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Personal Income Tax

The Employment Tax Incentive Act, effective 1 January 2014, currently provides that any excess incentive amounts can be set off against future employees' tax liabilities. The South African Revenue Service (SARS) is in the process of developing a mechanism to reimburse employers in instances where the incentive amount exceeds the employees' tax liability in a specific tax period. The mechanism for the reimbursement of employees' tax should be introduced in the fourth quarter of 2014.

In practice, SARS does not reimburse any overpayment of employees' tax. In most cases, an employees' tax credit is allowed to be allocated to future employees' tax liabilities. It is going to be interesting to see how SARS will now adapt its current systems to enable it to reimburse employers.

Avisha Gajadhar and Nokuthula Modiga, PwC Tax Consultants

Once again, taxpayers have received relief in the form of personal income tax. We appreciate the personal income tax relief of R9.3 billion, but how does this affect our pockets?

When comparing the tax liability of an individual who earns about R200, 000 per year, the individual will have an additional R106 in his or her pocket every month. This barely covers the ever-rising cost of fuel and consumables.

When comparing the tax liability of an individual who earns approximately R700, 000 per year, the individual will have an additional R370 every month.

This is not quite enough to compensate us for the effects of inflation.

Christo Paxton, PwC Tax Trainee Accountant

In order to treat employees with company cars in a more equitable manner, it is proposed that who the employer is should be irrelevant when an employee's taxable fringe benefit is calculated.

Currently, car manufacturers that import vehicles calculate the fringe benefit based on the cost of the vehicle, whereas employees not working for a car manufacturer are taxed on the fringe benefit, based on the market value of the vehicle.

Government is proposing that in all cases the actual retail market value should be used to calculate the taxable fringe benefit value.

Being taxed on a higher fringe benefit value will result in less take-home pay. This might be more equitable, but is definitely not going to help with the increasing cost of living.

Karen Botha, PwC Senior Manager

In the instance where the employer provides rental accommodation from a third party to an inbound expatriate employee, the calculated rental value per the formula was often higher than the actual cost of providing the accommodation. As a result, employers were often required to apply to SARS for a tax directive to ensure that the employee was taxed on a fringe benefit on the actual cost of providing the accommodation. It has been proposed that employers will now be able to utilise the actual cost of the accommodation rented from unconnected third parties, without having to apply to SARS for a tax directive. This amendment will assist in decreasing the administrative burden on employers that have inbound expatriate employees.

Avisha Gajadhar, PwC Tax Consultant

Retirement reforms

It is disappointing not to see the expected further information on the retirement reform that will become effective on 1 March 2015. A document that briefly describes the changes up to this point and outlining anticipated future reforms should be released soon. Hopefully, this document will show good preparation for this reform.

Karen Botha, PwC Senior Manager

The retirement fund lump sum exemption has been generously increased from R315, 000 to R500, 000. This amounts to a 58.73% increase. However, the top bracket did not increase substantially in comparison - increasing from R945, 000 to R1, 015,000. This is a mere 19.58% increase.

This is clearly in line with Government's continued efforts to encourage individuals to save for retirement, particularly those in the lower income brackets.

Avisha Gajadhar, PwC Tax Consultant

International tax

High tax exemption for controlled foreign companies:

It is proposed that a taxpayer may elect to apply either the so-called 'high tax' exemption or the 'foreign business establishment', as opposed to having to perform a high tax calculation prior to undertaking a foreign business establishment exemption analysis. This should result in a reduced administrative burden for taxpayers in complying with controlled foreign company legislation and potentially mitigating the need to perform hypothetical tax calculations.

Cor Kraamwinkel, PwC Associate Director

Indirect tax

Diesel rebate refunds

Many qualifying taxpayers in the mining, agricultural and fishing industries experience problems in receiving their diesel refunds from SARS. The main problem areas appear to be the complex administrative procedures, such as maintaining log-books and the strict interpretation by SARS of qualifying activities.

Businesses will look forward to a simplified policy and administrative systems to provide clarity on qualifying activities and hopefully the long outstanding refunds will be released by SARS.

Notional input tax on precious metals

Jewellers and traders in precious metals are entitled to a notional input tax on the purchase of second-hand goods, such as second-hand jewellery. However, as the jewellery is generally not on-sold in its original state i.e. the jewellery is smelted and used with other materials in manufacturing 'new' jewellery, it is proposed that no input tax be allowed on the purchase of second-hand jewellery in future.

The aim of this amendment is to combat gold smuggling and also the claiming of fraudulent input tax deductions by persons buying second-hand items made of precious metals.

Review of educational services and public transport

Currently the provision of educational services and public transport are exempt from VAT. Although no VAT is levied on the supply of these services, no input tax maybe claimed on expenses incurred in providing these services. The unclaimed input tax becomes a cost to these service providers.

In order to make these services more cost effective by allowing the service providers to recover the input taxes paid, the supply of these services must be treated as zero-rated. We assume that this is on the cards and we may see changes in this regard in future.

Bennie Botha, PwC Partner