# Budget Summary:
## Navigating the Evolution

**KPMG South Africa's 2024/25 Budget Summary**

Finance Minister, Mr Enoch Godongwana, delivered the National Budget address on 21 February 2024

We set out below the key proposals of the Budget Speech.

### Tax policy objectives

Government's long-term tax policy strategy remains focussed on broadening the tax base, while improving tax compliance and administrative efficiency. The raising of revenue in a constrained economic environment comes with significant risks that need to be weighed against the effects of large spending adjustments and an unsustainable debt trajectory. To ensure that revenue can be raised reliably, the most stable and resilient tax base, personal income tax, has been targeted for the largest increases.

### Individuals and employment

- No inflationary adjustments to tax brackets, rebates and medical aid tax credits, resulting in increased personal income tax revenue of R18.2 billion.
- The implementation date of the two-pot retirement reform is 1 September 2024, and will not apply retrospectively.
- To address an anomaly that arose in the 2023 legislative changes, it is proposed that members of pension or provident funds who have reached the normal retirement age but have not yet opted to retire, must also be allowed to make transfers between retirement annuity funds, tax-free.
- Punitive measures to curb abuse of the employment tax incentive from aggressive tax schemes, which used training institutions to claim the incentive for students, is to be refined.
- In anticipation of the proposed PAYE and personal income tax administration reform, i.e. monthly payroll reporting, legislative changes are to be introduced to allow a deduction for payroll refunds made by taxpayers to employers in the same year of assessment.

### Corporate income tax

- ***Assessed loss restriction rule***: It has been proposed that the assessed loss restriction rule be removed for companies that are in the process of liquidation, deregistration or winding up.
- ***Capital allowances on assets used in the renewable energy sector***: As the private electricity generation threshold has been increased due the electricity crisis, the generation threshold and leasing restrictions in the provisions governing accelerated allowances are to be reconsidered.
- ***Learnership tax incentive***: The sunset date for this incentive is to be extended to 31 March 2027.
- ***Corporate reorganisation rules***: The following technical amendments are proposed:
  - Revising the definition of "value shifting arrangement" to exclude certain corporate rollover transactions between groups of companies, or where the value of the effective interest of the connected person remains unchanged.
  - Reviewing and clarifying the rules pertaining to the restriction of transfers of assets to non-taxable transferees, in respect of amalgamation transactions.
  - Narrowing the scope of de-grouping charges in relation to intragroup transactions to avoid the de-grouping being triggered when there is a change in shareholding affecting a group of companies, while the companies involved in the original intragroup transactions are still part of another group of companies.
- ***Interest limitation rules:*** The rules limiting interest deductions in respect of reorganisation and acquisition transactions are to be aligned with the rules that limit interest deductions incurred on debt between connected parties, where the interest earned is not taxed.
- ***Contributed tax capital***:
  - The rules for determining contributed tax capital in respect of shares issued by a resident company to a non-resident group company is to be refined, in order to minimise inadvertent tax consequences that may affect legitimate corporate finance practices.
  - The effective date of amendments proposed in 2023 to clarify the translation of contributed tax capital denominated in foreign currency to rands is to be postponed to 1 January 2025.

## Corporate income tax (cont.)

- ***Clarifying anti-avoidance rules dealing with third-party backed shares:***
  - It is proposed that the ownership requirement exclusions be extended to include corporate actions relating to listed share substitutions, on a recognised exchange in a country other than South Africa.
  - It is also proposed that legislation be amended to include the settlement of any amounts of dividends, foreign dividends or interest accrued in respect of the redemption of a preference share, as it does not fall within the ambit of its allowable redemption.
- ***Tax administration:***
  - **Presentation of information in person**: The instances in which a person may be required to be interviewed at a SARS office is to be expanded to include debt recovery and debt relief applications.
  - **Original assessments**: It is proposed that the legislative framework pertaining to original assessments be further clarified.
  - **Alternative Dispute Resolution proceedings**: It is proposed that the ADR process be reviewed to make it accessible to taxpayers earlier – i.e. during the objection phase of a dispute.
  - **Temporary write off provisions**: It is proposed that the circumstances under which SARS may temporarily write off a tax debt be reviewed.
  - **Public officers**: The grace period to appoint a public officer is to be removed. A new company will be required to appoint its public officer, along with its directors, on formation.
  - **Tax record access**: Following a recent Constitutional Court judgement, Parliament has been instructed to consider the constitutional validity of certain provisions of the Promotion of Access to Information Act and the Tax Administration Act.

## Trusts

- ***Low-interest or interest-free loans to trusts:*** Anti-avoidance measures exist to curb the tax-free transfer of wealth to trusts using low-interest or interest-free credit arrangements. Amendments clarifying the interaction of these measures with the transfer pricing rules will be proposed.

## Partnerships

- The status of a “connected person” in relation to a "qualifying investor" is to be reviewed, in order to limit its application in respect of limited partners in an *en commandite* partnership.

## Financial sector

- An amendment to section 24JB(3) is being proposed and will aim to specifically exclude the application of the definition of “gross income”.
- The implementation of IFRS 17 has created unintended tax consequences for some insurers. These will be addressed by government during the upcoming legislative cycle.

## Cross border tax

- ***BEPS Pillar Two:***
  - South Africa will introduce BEPS Pillar Two legislation for multinational enterprises (**MNE**) with consolidated group revenue exceeding €750 million. The aim of these measures is to achieve an effective tax rate of at least 15% in each jurisdiction.
  - Two methods to levy top-up-tax in South Africa are to be introduced, namely the income inclusion rule (**IIR**) and the domestic minimum top-up tax (**DMTT**), with effect from 1 January 2024.
  - The IIR will allow for South Africa to apply a top-up tax on foreign profits reported by qualifying South African MNEs with effective tax rates of below 15% in those foreign jurisdictions.
  - The DMTT will enable SARS to collect top-up tax from qualifying local subsidiaries of foreign MNEs paying effective tax rates of below 15% in South Africa.
  - It is expected that the introduction of these measures will yield an additional R8 billion in corporate tax revenue in 2026/27.
- ***Interest limitation rules:*** To prevent unfair treatment of tax-exempt investors, the rules which limit interest deductions incurred on debt between connected parties, where the interest earned is not taxed, is to be reconsidered.
- ***Controlled foreign companies (CFCs)***: The rules governing the taxation of CFCs are to be amended in order to clarify the translation of hyperinflationary currencies.
- ***Shareholdings by group entities***: The 18-month holding threshold in order to qualify for the participation exemption on the disposal of foreign shares or foreign returns of capital, is to be refined in order to cater for the situation where more than one company in a group held the shares in the foreign company.
- ***Foreign tax credits***: The legislation is to be amended so as to:
  - explicitly allow for a full foreign tax credit against South African tax payable on capital gains; and
  - align the periods used when translating foreign taxes payable by, and the income attributable from, a CFC.

## Cross border tax (cont.)

- ***Foreign exchange differences:***
  - To combat certain financial arrangements which abuse the mismatched treatment of exchange gains and losses arising in respect of preference shares, the definition of "exchange item" is to be extended to include shares disclosed as financial assets for IFRS purposes.
  - Consideration will be given to the "ring-fencing" of all foreign exchange losses arising from exchange items, in light of the fact that foreign exchange losses currently cannot be set off against foreign exchange gains arising in future years of assessment, where the taxpayer has ceased to trade.

## Incentives

- ***Infrastructure projects***: To encourage infrastructure investment, the flow-through tax treatment (similar to trusts) of certain infrastructure projects will be considered.
- ***Local electric vehicle production:*** An investment allowance equal to 150% of qualifying investment spend on new production capacity for electric and hydrogen-powered vehicles produced, is proposed with effect from 1 March 2026.

## Value-Added Tax (VAT)

- ***Zero rated fruit and vegetables:*** Proposals to clarify that the zero rate should not apply to pre-cut or prepared fruit or vegetables.
- ***VAT treatment of rental stock paid in terms of the National Housing Programme:*** VAT Act to be amended to clarify the deeming provision dealing with rental stock paid under the National Housing Programme.
- ***VAT relief for non-resident lessors of parts of ships, aircraft or rolling stock required to deregister:*** Amendments effected in 2023 had unintended output tax consequence for certain vendors who are required to deregister for VAT. A legislative change is proposed to provide relief.
- ***VAT treatment of the Mudaraba Islamic financing arrangement:*** Due to the disparity with the Income Tax Act and uncertainty as to the VAT treatment of Mudaraba Financing Arrangements, amendments to the VAT Act to clarify the VAT treatment are expected.
- ***VAT treatment of supply of services to non-resident subsidiaries of companies in South Africa:*** The definition of "resident of the Republic" will be amended to exclude non-resident subsidiaries of companies based in South Africa, to effectively allow for the zero-rating of services supplied by the resident to its non-resident subsidiary where the services are effectively consumed outside of South Africa.
- ***Foreign donor funded project regime:*** The foreign donor funded project regime will be reviewed to ease the administrative burden of separate VAT registrations.
- ***Electronic Services Regulations:*** Government proposed to revisit and update the Electronic Services Regulations with the intention to limit the application to non-resident VAT vendors who provide electronic services to non-vendors or end users.
- ***Regulations on the domestic reverse charge mechanism relating to valuable metal:*** Regulations on the domestic reverse charge to be revised due to schemes and malpractices in the primary gold sector.
- ***VAT in the gambling industry:*** Government proposes to incorporate a specific ruling relating to the VAT accounting for gambling, specifically table games, in the VAT Act.
- ***Prescription period for input tax claims:*** It is proposed that the provisions of the VAT Act dealing with the tax period in which unclaimed input tax deductions may be claimed, is amended, and that it is clarified that such deductions be made in the tax period in which the vendor became entitled to that deduction.
- ***VAT claw-back on irrecoverable debts subsequently recovered:*** A recipient of an account receivable at face value on a non-recourse basis is allowed to deduct the VAT on amounts written off as irrecoverable. Since the VAT Act does not provide for any claw-back of the VAT on amounts subsequently recovered, amendments to provide for such claw-back is proposed.
- ***Supplies by educational institutions to third parties:*** Proposals will be made to provide clarity on the VAT treatment of supplies by educational institutions to third parties given current inconsistencies.
- ***Non-resident vendors with no or limited physical presence in South Africa:*** It is proposed that the legislation is amended to exempt electronic services suppliers from the requirement to appoint a representative in South Africa and that it is considered that this dispensation is in specific circumstance also granted to non-resident vendors with no, or a limited, presence in South Africa.
- ***Timing of VAT on imported services:*** Following practical considerations, it is proposed that the 30-day time period within which to account for VAT on imported services be extended to 60 days.
- ***Overpayments of VAT on the importation of goods and imported services:*** It is proposed that mechanisms be introduced in the VAT Act to cater for refunds of overpaid VAT on the importation of goods and/or imported services where the recipient is not registered.

## Customs and Excise Duty

- Customs and excise rate increases:
  - ***Specific excise duties:*** With effect from 21 February 2024, specific excise duties are increased. Alcoholic beverages increased by 6.67% (excluding sparkling wine, unfortified wine and fortified wine). Sparkling wine, unfortified wine and fortified wine increased by 7.17%, while traditional African beer and beer powder remains unchanged. The rate of duty on HTPs sticks, cigarettes, cigarette tobacco, and ENDS/ENNDS increased by 4.67%, whereas pipe tobacco and cigars increased by 8.17%.
  - ***General Fuel Levy & Road Accident Fund Levy:*** The General Fuel Levy and the Road Accident Fund Levy will remain unchanged.
  - ***Carbon tax:*** With effect from 1 January 2024, the carbon tax rate increased to R190 per tonne of carbon dioxide equivalent. The carbon fuel levy for 2024 will increase to 11c/litre for petrol and 14c/litre for diesel from 3 April 2024. The carbon tax cost recovery quantum for the liquid fuels refinery sector increased to 0.69c/litre from 1 January 2024.
  - ***Plastic bag levy and incandescent globe taxes***: With effect from 1 April 2024, the plastic bag levy will increase to 32c/bag and the incandescent light bulb levy will increase to R20 per light bulb.
  - ***Motor vehicle emissions tax***: With effect from 1 April 2024, the motor vehicle emissions tax rate for passenger vehicles will increase to R146 per gram of CO2 emissions per kilometre and the tax rate for double cabs will increase to R195 per gram of CO2 emissions per kilometre.
- Legislative amendment proposals:
  - ***eCommerce import process:*** Government proposes to review the process relating to packages imported through eCommerce to ensure that the appropriate balance between simplicity and compliance with customs and excise requirements is maintained.
  - ***Export bills of entry:*** Government proposes to amend the Customs and Excise Act that would enable exporters to submit export bills of entry at a different time than currently provided in the Act.
  - ***Simplified process of substituting bills of entry:*** Government proposes to amend the Customs and Excise Act to allow for a simplified process of substituting a bill of entry where such a bill of entry has been passed in error or where an importer, exporter or manufacturer requested the substitution on good cause shown. Government proposes that a voucher of correction would no longer be required in those circumstances and it is foreseen that the substituting bill of entry will replace the previous one.

## Carbon tax

- The carbon tax rate per tonne of CO2 equivalent emission increased from R159 to R190, which will take effect from 1 January 2024.
- An increase in the limit for renewable energy projects that can qualify for the carbon offsets regime, from 15 megawatts to 30 megawatts, is proposed to promote further investments in renewable energy.
- The Minister announced that the density factors for calculation of the carbon fuel levy be changed from 0.75 to 0.7405 kilogram per litre for petrol and from 0.845 to 0.8255 kilogram per litre for diesel, which will take effect from 1 January 2024.
- In the 2022 Budget, a gradual reduction of the carbon tax's basic tax-free allowance from 1 January 2026 to 31 December 2030 was proposed. A discussion paper outlining proposals for the second phase of the carbon tax will be published for public comment later in the year.
- The carbon fuel levy will increase to 11 cents per litre for petrol and 14 cents per litre for diesel effective from 3 April 2024.
- The carbon tax cost recovery quantum for the liquid fuels sector increased from 0.66c/litre to 0.69c/litre, which will take effect from 1 January 2024.
- The fugitive emissions table in schedule 1 of the Carbon Tax Act will be updated to include the default emission factors for fugitive emissions from coal mining, oil and gas operations, which will take effect from 1 January 2024.

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