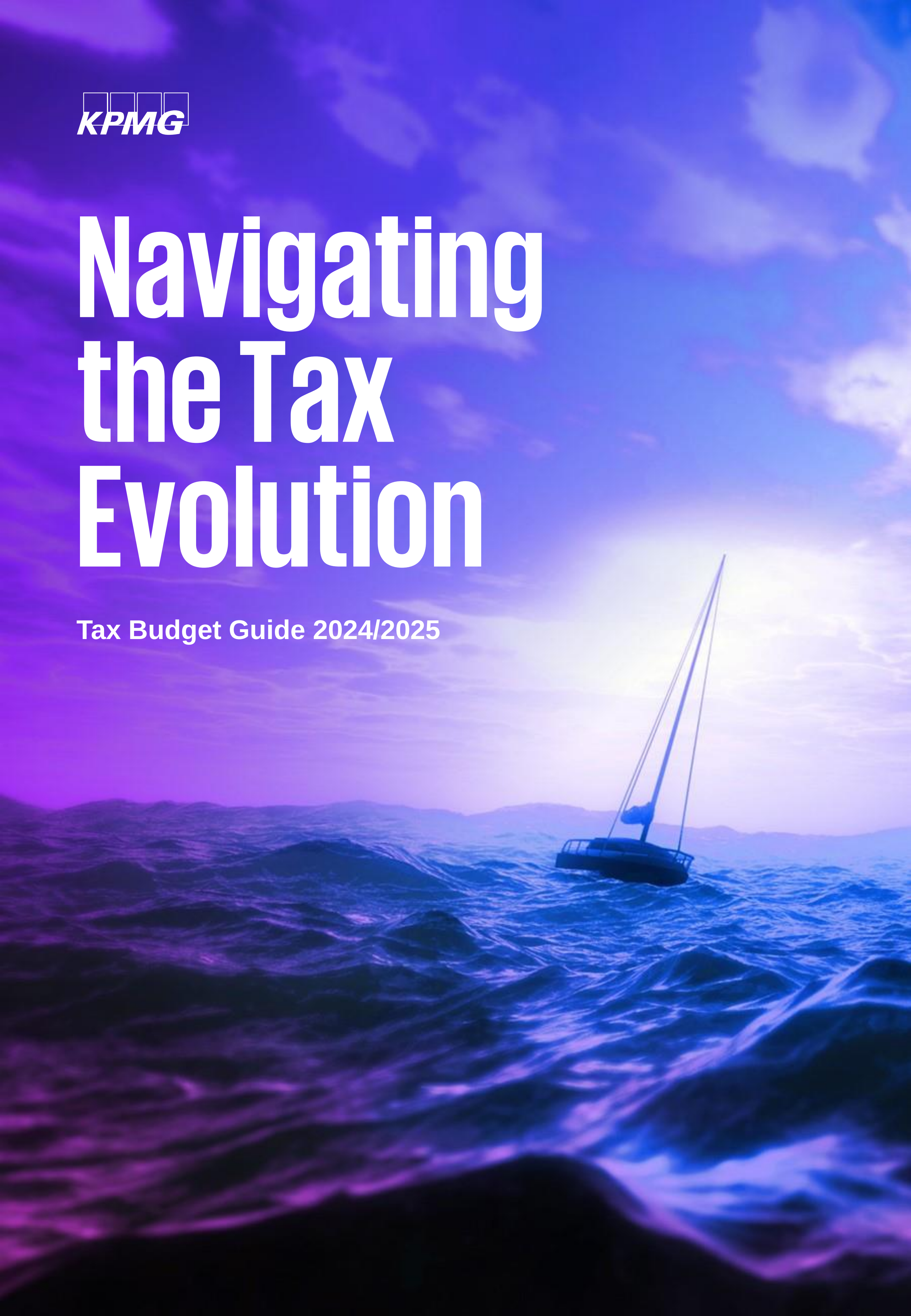


Navigating the Tax Evolution

Tax Budget Guide 2024/2025

Income tax: Individuals and special trusts

Tax rates (year of assessment ending 28 February 2025)

Taxable income	Rates of tax
R0 – R237 100	18% of each R1 of taxable income
R237 101 – R370 500	R42 678 + 26% of the amount above R237 100
R370 501 – R512 800	R77 362 + 31% of the amount above R370 500
R512 801 – R673 000	R121 475 + 36% of the amount above R512 800
R673 001 – R857 900	R179 147 + 39% of the amount above R673 000
R857 901 – R1 817 000	R251 258 + 41% of the amount above R857 900
R1 817 001 and above	R644 489 + 45% of the amount above R1 817 000

Tax thresholds

Age	Threshold
Below age 65	R95 750
Age 65 to below 75	R148 217
Age 75 and older	R165 689

Trusts, other than special trusts, will be taxed at a flat rate of 45%.

Tax rebates (natural persons)

- Primary rebate – R17 235
- Secondary rebate (age 65 to below 75) – R9 444
- Tertiary rebate (age 75 and older) – R3 145

Individuals who must submit tax returns

The Commissioner gives annual public notice of the persons who are required to submit tax returns for normal tax purposes.

The relevant Government Gazette is expected to be issued in June/July 2024 in relation to the tax year ended 29 February 2024.

Tax relevant Government Gazette Public notices can be found here: Public Notices | South African Revenue Service (sars.gov.za).

Capital gains tax - Individuals

Capital Gains Tax (CGT): Individuals

Relevant rates

- Inclusion rate: 40%
- Statutory rate: 0% – 45%
- Effective rate: 0% – 18%

Exemptions / exclusions from CGT

- The annual exclusion for individuals and special trusts is R40 000.
- The exclusion granted to individuals during the year of death is R300 000.
- The first R2 million of the capital gain or capital loss in respect of the disposal of a primary residence must be disregarded.
- A capital gain in relation to the disposal of a primary residence, if the proceeds from the disposal of that primary residence does not exceed R2 million, must be disregarded.
- The exclusion on the disposal of a small business for persons 55 years and older is R1.8 million, provided that the market value of the business does not exceed R10 million.

Allowances

Subsistence allowances and advances

Where the recipient is obliged to spend at least one night away from his/her usual place of residence on business, and the accommodation to which that allowance or advance relates is in South Africa, and the allowance or advance is granted to pay for:

- meals and incidental costs, an amount of R548 per day is deemed to have been expended.
- incidental costs only, an amount of R169 for each day which falls within the period is deemed to have been expended.

These rates also apply where an employee is obliged to be away from the office on a day trip.

Overseas costs: The applicable rate per country is available on the SARS website at [Subsistence Allowances and Advances | South African Revenue Service (sars.gov.za)] or Legal Counsel/Secondary Legislation/ Income Tax Notices on the SARS website.

Travel allowance

A log book confirming business kilometres travelled and total kilometres travelled during the tax year must be maintained in order to claim a deduction against the travel allowance.

PAYE must be withheld by the employer on 80% of the allowance granted to the employee.

The withholding percentage may be reduced to 20% if the employer is satisfied that at least 80% of the use of the motor vehicle for the tax year will be for business purposes.

No fuel and/or maintenance costs may be claimed if the employee has not borne the full cost thereof (e.g. if the vehicle is covered by a maintenance plan).

The fixed cost must be reduced on a pro-rata basis if the vehicle is used for business purposes for less than a full year.

Alternative simplified method:

No tax is payable on a reimbursement paid by an employer to an employee which does not exceed the SARS rate per kilometre, regardless of the value of the vehicle.

The SARS rate per kilometre for the 2025 tax year will be available on the SARS website under Legal Counsel, Secondary Legislation, Income Tax Notices.

This alternative simplified method is not available if other compensation in the form of an allowance or reimbursement (other than for parking or toll fees) is received from the employer in respect of the vehicle.

Travel table

The actual distance travelled during the tax year and the distance travelled for business purposes, substantiated by a logbook, are used to determine the cost which may be claimed against a travelling allowance.

Rates per kilometre which may be used in determining the allowable deduction for business travel against an allowance or advance where actual costs are not claimed, are determined by using the table on SARS's website.

Fringe benefits

Employer-provided vehicles

The taxable value is 3,5% of the determined value (the cash cost including VAT) per month of each vehicle.

However, where the vehicle is:

- the subject of a maintenance plan when the employer acquired the vehicle, the taxable value is 3,25% of the determined value; or
- acquired by the employer under an operating lease, the taxable value is the cost incurred by the employer under the operating lease plus the cost of fuel.

80% of the fringe benefit must be included in the employee's remuneration for the purposes of calculating PAYE. The percentage is reduced to 20% if the employer is satisfied that at least 80% of the use of the motor vehicle for the tax year will be for business purposes.

On assessment, the fringe benefit for the tax year is reduced by the ratio of the distance travelled for business purposes substantiated by a logbook, divided by the actual distance travelled during the tax year.

On assessment, further relief is available for the cost of licence, insurance, maintenance and fuel for private travel, if the full cost thereof has been borne by the employee, and if the distance travelled for private purposes is substantiated by a logbook.

Employer-provided residential accommodation

In the case of employer-provided residential accommodation, where the employer-provided accommodation is leased by the employer from an unconnected third party, the value of the fringe benefit to be included in gross income is the lower of:

- the cost to the employer of providing the accommodation; and
- the amount calculated with reference to the formula.

The formula will apply if the accommodation is owned by the employee, but it does not apply to holiday accommodation hired by the employer from non-associated institutions.

Interest-free or low-interest loans

The fringe benefit to be included in gross income is the difference between interest charged at the official rate for this benefit and the actual amount of interest charged.

Exemptions

Interest and dividend income

Under 65 years of age –
The first R23 800 of interest income is exempt.

65 years of age and over –
The first R34 500 of interest income is exempt.

Interest is exempt if earned by a non-resident person who is an individual and who is physically absent from South Africa for at least 183 days during the 12 month period before the interest accrues, or if the debt from which the interest arises is not effectively connected to a permanent establishment of that non-resident person in South Africa.

Interest exemptions are subject to apportionment in a tax year in which an individual ceases to be a South African tax resident.

South African dividends are generally exempt after the withholding of dividends tax (except to the extent that anti-avoidance provisions have been triggered).

Foreign interest and dividends

There is no exemption in respect of foreign sourced interest income.

Where an individual holds less than 10% of the equity share capital of a foreign company which distributes a dividend, the dividend will be taxed at a maximum effective rate of 20%, as determined by a formula.

No deductions are allowed for expenditure to produce foreign dividends.

Foreign remuneration exemption

Where an employee works abroad for more than a certain amount of qualifying days (see below), that foreign remuneration is exempt from tax in South Africa. The exemption is limited to the first R1.25 million of foreign remuneration.

For the foreign remuneration exemption to be applied, an employee must be rendering services outside of South Africa for more than 183 days in a twelve-month period and for more than 60 consecutive days in the same twelve-month period.

In an effort to reduce the cash flow burden on the employee, the South African employer may apply to SARS for a tax directive allowing Foreign Tax Credits (FTCs) as a tax reduction in the South African payroll.

Employees who are not remunerated via a South African payroll will be considered provisional taxpayers and will be required to claim the FTCs when filing their provisional and annual tax returns.

Fringe benefit exemption for employer provided bursaries

Employer-provided bursaries to employees are not subject to income eligibility thresholds or monetary limit criteria.

However, there are other criteria, such as repayment conditions, that must be met for the bursary to be exempt entirely.

The remuneration eligibility threshold applicable to employees in respect of bursaries granted to their relatives, is R600 000.

The monetary limits for bursaries to relatives are as follows:

- R20 000 for grade R to grade 12 or for qualifications up to and including NQF level 4; and
- R60 000 for qualifications from NQF level 5 and above.

The monetary limits for relatives with disabilities are as follows:

- R30 000 for grade R to grade 12 or for qualifications up to and including NQF level 4; and
- R90 000 for qualifications from NQF level 5 and above.

No exemption applies if the bursary is subject to an element of salary sacrifice.

Deductions from income – Individuals

Contributions to pension, provident and retirement annuity funds

Employer contributions to South African retirement funds for the benefit of employees are deemed to be taxable fringe benefits in the hands of employees. Depending on the nature of the fund, the fringe benefit is either the actual cash value of the contribution or determined by a formula. The employee will be deemed to have made contributions to the value of the fringe benefit (which, together with their own contributions, may be eligible for a deduction).

The annual tax deduction for contributions to all retirement funds is limited to the lower of R350 000, or 27,5% of the greater of taxable income before the inclusion of a taxable capital gain (excluding retirement and severance lump sums) or remuneration (excluding retirement and severance lump sums).

Any contributions in excess of the limitations will be rolled forward and will be available for deduction in future tax years, subject to the annual limitations applicable in those tax years. Any non-deductible contributions will be available for deduction against retirement lump sums or annuity income on withdrawal or retirement from the fund.

Retirement reform

It has been proposed that from 1 September 2024, persons who contribute to South African retirement funds will have limited pre-retirement access to some of their retirement savings. Marginal tax rates will apply to the savings accessed pre-retirement.

Donations to certain PBOs

Deductions in respect of donations to certain Public Benefit Organisations (PBOs) are limited to 10% of taxable income (excluding retirement fund lump sums and severance benefits).

The amount of donations exceeding 10% of the taxable income is treated as a donation to qualifying PBOs in the following tax year. It has been proposed that third-party reporting be extended to tax deductible donations made, so that SARS can pre-populate these on the relevant tax returns.

Home office deduction

Employees who work from home more than 50% of the time, and have set aside a room to be occupied for the purpose of “trade”, may be allowed to deduct certain expenses incurred in maintaining a home office. The deduction will be calculated on a pro-rata basis, provided that the requirements as set out in section 11(a) of the Income Tax Act, read in conjunction with sections 23(b) and 23(m), are met.

More details are available on the SARS website: Home Office Expenses | South African Revenue Service (sars.gov.za).

Medical and disability expenses

Taxpayers may deduct from their tax liability a tax credit (i.e. a rebate) of:

- R364 per month for each of the first two beneficiaries and
- R246 per month for each additional beneficiary,

in respect of medical aid contributions.

Taxpayers 65 years and older and those with disabilities under the age of 65 years or with disabled dependents may deduct an additional tax credit (rebate) equal to 33,3% of the sum of:

- qualifying medical expenses; and
- an amount by which the contributions paid exceed three times (3x) the medical tax credits for the year.

Taxpayers under the age of 65 years may deduct an additional tax credit (rebate) equal to 25% of the sum of:

- qualifying medical expenses; and
- an amount by which the contributions paid exceeds four times (4x) the medical tax credits for the year, but limited to the amount which exceeds 7,5% of taxable income (excluding retirement lump sums and severance benefits).


6.5
Z-99

Tax-free savings and investment accounts

All returns received from tax free savings and investment accounts, such as interest, dividends and capital gains, are 100% tax free.

The annual contribution limit is R36 000 from 1 March 2020.

The lifetime contribution limit is R500 000.

Taxation of lump sum benefits

Retirement fund lump sum benefits (retirement or death) and severance lump sum benefits

The tax-free lump sum benefit upon death, retirement, withdrawal after reaching the age of 55, as well as illness, accident, injury, incapacity or in respect of severance benefits (as defined in the Income Tax Act), is R550 000. The tax rates are:

Taxable income	Rates of tax
R1 – R550 000	0% of taxable income
R550 001 – R770 000	18% of taxable income above R550 000
R770 001 – R1 155 000	R39 600 + 27% of taxable income above R770 000
R1 155 001 and above	R143 550 + 36% of taxable income above R1 155 000

Retirement fund lump sum withdrawal benefits

Retirement fund lump sum withdrawal benefits refer to lump sums from a pension, pension preservation, provident, provident preservation or retirement annuity fund upon withdrawal from the fund in the circumstances that do not qualify for the above rates table. The tax rates are:

Taxable income	Rates of tax
R1 – R27 500	0% of taxable income
R27 501 – R726 001	18% of taxable income above R27 500
R726 001 – R1 089 000	R125 730 + 27% of taxable income above R726 000
R1 089 001 and above	R223 740 + 36% of taxable income above R1 089 000

These tax tables apply cumulatively to all lump sum benefits, and include:

- all other retirement fund lump sum withdrawal benefits accruing from March 2009;
- all retirement fund lump sum benefits accruing from October 2007; and
- all severance benefits accruing from March 2011.

Companies and employers

Corporate tax rates

Type	Rates of tax
Companies	
Resident company	27%
Non-resident company	27%
Personal service provider company	27%
Gold mining, oil & gas companies and long-term insurance companies are subject to special rules and tax rates.	
Small business corporations (footnote 1)	
R1 – R95 750	0% of taxable income
R95 751 – R365 000	7% of taxable income above R95 750
R365 001 – R550 000	R18 848 plus 21% of taxable income above R365 000
R550 001 and above	R57 698 plus 27% of taxable income above R550 000
Micro businesses (footnote 2)	
R1 – R335 000	0% of taxable turnover
R335 001 – R500 000	1% of taxable turnover above R335 000
R500 001 – R750 000	R1 650 plus 2% of taxable turnover above R500 000
R750 001 and above	R6 650 plus 3% of taxable turnover above R750 000
Withholding taxes (footnote 3)	
Dividends	20%
Interest paid to non-residents	15%
Royalties paid to non-residents	15%
Amounts paid to non-resident entertainers and sportspersons	15%
Disposal of fixed property by non-residents	Individuals: 7.5%, Companies: 10%, Trusts: 15%

[1] Applicable for years of assessment ending on any date between 1 April 2024 and 31 March 2025.

[2] Micro businesses have the option of making payments for turnover tax, VAT and employees' tax bi-annually. Applicable in respect of years of assessment that end on any date between 1 March 2024 and 29 February 2025.

[3] Subject to double tax agreement relief if paid to a non-resident

Withholding taxes

If the amount is paid to a non-resident, the applicable withholding tax rate may be reduced by the provisions of an applicable Double Tax Agreement (DTA). The foreign recipient of the royalty, dividend or the interest should provide a written declaration and undertaking to the payor, confirming that the requirements to qualify for a reduced rate under a DTA have been met. These written declarations and undertakings have to be renewed every five years.

Which companies must submit returns

The Commissioner annually gives public notice of the persons who are required to furnish returns for the assessment of normal tax within the period prescribed in that notice (likely to be issued in June/July 2024).*

The following entities are currently required to submit annual income tax returns:

- every company or other juristic person, which is a resident and which derived gross income or capital gains or losses of more than R1 000, had assets or liabilities of more than R1 000 or had taxable income, taxable turnover, an assessed tax loss or an assessed capital loss;
- every trust which is a resident;
- every company, trust or other juristic person, which is not a resident, and
  - which carried on a trade through a permanent establishment in South Africa;
  - which derived income from a source in South Africa; or
  - which derived any capital gain or capital loss from the disposal of an asset to which the Eighth Schedule to the Income Tax Act applies;
- every company incorporated, established or formed in South Africa, but which is not a resident as a result of the application of any DTA.

*A tax alert setting out the category of persons required to submit a return and any changes in relation to the above requirements, will be issued at the time of publication of the public notice (once available on the SARS website).

Capital gains tax – Companies and trusts

Effective CGT rates

Type of taxpayer	Inclusion Rate	Statutory Rate	Effective Rate
Other trusts	80%	45%	36%
Companies* (including personal service provider companies and branches of non-resident companies)	80%	27%	21,6%
Small business corporations	80%	0% – 27%	0% – 21,6%

Payroll taxes and levies

Employees' tax / Pay-As-You-Earn (PAYE)

Resident employers, representative employers and with effect from 22 December 2023, non-resident employers who are conducting business through a permanent establishment in South Africa, are required to withhold PAYE from all remuneration paid to employees.

The PAYE must be paid to SARS by the 7th day of the month following the month in which the remuneration is received. If the 7th falls on a weekend or public holiday, the payment must be made by the last business day before the 7th.

Employees' tax and personal income tax administration reforms are expected.

Unemployment Insurance Fund (UIF)

UIF contributions are payable by both resident and non-resident employers to SARS on a monthly basis and are calculated at a rate of 2% of remuneration paid or payable (1% employee and 1% employer contribution, based on the employee's remuneration) to each employee during the month.

The monthly threshold increased to a maximum threshold of R17 712 per month (R212 544 per year) from 1 June 2021.

Employers (including non-resident employers) not registered for PAYE or SDL purposes must pay the contributions to the Unemployment Insurance Commissioner.

With effect from 1 March 2018, foreign nationals working in South Africa and employees undergoing learnership training are subject to UIF.

Skills Development Levy (SDL)

Both resident and non-resident employers with a payroll of more than R500 000 per year must account for SDL at a rate of 1% of total remuneration paid to employees. This is an employer contribution.

Employment Tax Incentive (ETI)

The ETI was introduced with the objective of generating employment opportunities for young and less experienced work seekers.

The incentive reduces the cost of hiring young people to employers, through a cost-sharing mechanism with government, while leaving the wage of the employee unaffected. Compliant employers are able to reduce their PAYE liabilities by claiming ETI.

The ETI was implemented with effect from 1 January 2014 and will end on 28 February 2029.

Eligible employers can claim ETI for a maximum period of 24 qualifying months in relation to qualifying employees.

Employers are able to claim ETI up to a maximum of R1 500 per qualifying employee per month in the first twelve months and up to R750 per qualifying employee per month in the second twelve months. These maximum values were increased from R1 000 and R500 respectively, with effect from 1 March 2022.

The incentive is nil for qualifying employees who earn R6 500 and more.

ETI reimbursements are classified as refunds for purposes of the Tax Administration Act and accordingly may be subject to the imposition of understatement penalties if ETI is claimed incorrectly.

To curb abuse of the ETI, punitive measures are proposed to address the abusive behaviour.

Value-Added Tax

- Standard rate:
  - 15% (from 1 April 2018)
  - 14% (until 31 March 2018)
- Threshold for compulsory VAT registration: Taxable supplies > R1 million during any 12-month period
- Voluntary VAT registration threshold: Taxable supplies > R50 000 during any 12-month period
- VAT registration threshold for foreign suppliers of "electronic services":
  - R50 000 (until 31 March 2019)
  - R1 million (from 1 April 2019)


NW
NNW
WNW
W
WSW
NNE
NE
ENE
90
80
70
60
50
40
30
20
10
0
10
20
30
40
50

Corporate income tax

Clarifying the interaction of the value shifting provisions and the corporate reorganisation rules

The current value shifting provisions seek to tax the transfer of value between connected persons. When applying the corporate group roll-over provisions in the context of group reorganisations, the market value of group entities may increase or decrease (implying value shifting), however, the market value of the ultimate holding company's direct and indirect interest in all the subsidiary companies remains unchanged. It is proposed that the definition of "value shifting arrangement" be amended to exclude certain corporate rollover transactions between groups of companies or where the value of the effective interest of the connected person remains unchanged.

Clarifying the prohibition against transfers of assets to non-taxable transferees

In general, the "amalgamation transaction" roll-over relief rules do not apply if assets are transferred to companies that are wholly or partially exempt or fall outside the South African tax base. The current legislation is not explicit that a transfer of assets to a foreign company that does not have its place of effective management in South Africa is disallowed. It is proposed that this be reviewed and clarified.

Reviewing the application of the de-grouping charge in intra-group transactions

A de-grouping charge is generally levied when (in the context of an intra-group transaction) the transferee company and transferor company cease to form part of the same group of companies or when the transferee company ceases to form part of the same group as any controlling group company in relation to the transferor company. It is proposed that the scope of the de-grouping charge be narrowed to avoid the de-grouping charge being triggered when there is a change in shareholding affecting a group of companies, while the companies involved in the original intra-group transactions are still part of the same group of companies.

Clarifying anti-avoidance rules dealing with third party backed shares

The third-party backed share anti-avoidance rules deem preference share dividends, backed by third parties through an enforcement right of the holder, to be income except where the funds derived from the issue of the third party backed shares are used for a qualifying purpose (for example, if the funds are used directly or indirectly to acquire equity shares in an operating company). The following amendments are proposed to clarify these rules:

- The definition of a "third-party backed share" in section 8EA of the Income Tax Act does not clearly match the intent that either a holder or a connected person to that holder could hold an "enforcement right". It is proposed that the definition of a "third-party backed share" be clarified to address this anomaly.
- The exclusions in relation to the ownership requirement to meet a "qualifying purpose" currently include a listed equity share that was substituted for another listed share in terms of an arrangement that is announced and released as a corporate action on a South African regulated stock exchange, as well as where the equity shares in an operating company are disposed of and the funds derived therefrom are used to redeem the preference share within 90 days of the disposal.

  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, as well as to clarify that the settlement of dividends, foreign dividends or interest accrued in respect of the redemption of a preference share also falls within the ambit on an allowable redemption.

Refining CTC provisions

It is proposed that the anti-avoidance provisions of section 8G of the Income Tax Act (that limits the contributed tax capital (CTC) of a resident company in the context of a share-for-share transaction with a non-resident group company) be refined to mitigate its impact on legitimate corporate finance practices.

Other incentives

Incentives review

The following changes were proposed:

- An allowance equal to 150% of qualifying investment spend on new production capacity for electric and hydrogen-powered vehicles is proposed and will likely be effective from 1 March 2026.
- The section 12H learnership incentive sunset date will be extended for three years from 1 April 2024 to 31 March 2027.
- The generation threshold and leasing restrictions, as contained in section 12B which provides for an accelerated capital allowance in respect of renewable energy assets, will be reconsidered in order to enhance the allowance. Any proposed changes are expected to take effect from 1 March 2025.

Provisional tax

Provisional tax – individuals / companies

- First payment: To be made within 6 months from the start of the tax year.
- Second payment: To be made by the tax year end.
- Third payment: Voluntary payment to be made within 7 months after the tax year end (if tax year end is 28/29 February), or to be made within 6 months after year end (if tax year end falls on any other date).

A provisional taxpayer is any person who earns income by way of remuneration from an unregistered employer, or income that is not remuneration or an allowance or advance payable by the person's principal. An individual is not required to pay provisional tax if the individual does not carry on any business and the individual's taxable income:

- will not exceed the tax threshold for the tax year; or
- from interest, dividends, foreign dividends, rental from the letting of fixed property and remuneration from an unregistered employer will be R30 000 or less for the tax year.

Provisional tax returns showing an estimation of total taxable income for the year of assessment are required from provisional taxpayers.

Deceased estates are not provisional taxpayers.

Provisional tax – penalties on late payment, late submission and underestimation

The following penalties may be imposed:

- A 10% penalty for the late payment of the amount of provisional tax due.
- A 20% penalty for the underestimation of the amount of provisional tax due.
- The 20% underestimation penalty is reduced by the amount of any late payment penalty imposed. Both of these penalties constitute percentage based penalties in terms of section 213 of the Tax Administration Act.

The 20% underestimation penalty will only be triggered in the following scenarios:

- Taxable income of less than R1 million: if the taxable income per the second provisional tax return is less than 90% of the taxable income upon final assessment and is less than the "basic amount" (i.e. the taxable income per the most recent previous assessment issued).
- Taxable income equal to or more than R1 million: if the taxable income per the second provisional tax return is less than 80% of the taxable income per the final assessment.

International Tax

Clarifying the translation for hyperinflationary currencies

Section 9D(2A)(*k*) provides that when determining the foreign exchange gains or losses in respect of an exchange item, the local currency is regarded as the functional currency of a controlled foreign company (CFC).

However, section 9D(6) provides that where the functional currency is determined to be a hyperinflationary currency (i.e. the currency of that country has an official rate of inflation of 100% or more for the foreign tax year), the functional currency (i.e. local currency) may not be utilised in determining the foreign exchange gains or losses in respect of an exchange item.

National Treasury has identified the inconsistency between section 9D(2A)(*k*) and section 9D(6) and has proposed the amendment of section 9D(2A)(*k*) to not allow for the use of a functional currency that is regarded as a hyperinflationary functional currency for the translation of exchange items.

Clarifying the 18-month period in relation to shareholdings by group entities

National Treasury recently amended section 64B of the Income Tax Act to provide for an 18 month holding requirement in relation to the participation exemption in respect of foreign return of capital. This is similar to one of the requirements as provided in terms of the participation exemption for capital gains tax upon the disposal of the equity shares in a foreign company. National Treasury proposes that this section is updated to take into account instances where more than one company in a group of companies holds shares in a foreign company during a 18 month period.

Clarifying the rebate for foreign taxes on income in respect of capital gains

South African residents are subject to income tax on their worldwide taxable income. The provisions of section 6*quat* of the Income Tax Act provides relief to South African residents who are liable for taxes in foreign jurisdictions in the form of a rebate, limited to the South African tax paid.

When determining the allowable foreign tax credit in terms of the foreign tax rules, the tax-exempt portion relating to foreign dividends is not taken into account, however there is no corresponding provision for the non-taxable portion of a capital gain.

National Treasury has therefore proposed that section 6*quat* be amended to explicitly allow for a full foreign tax credit against tax payable in South Africa on foreign capital gains realised through the disposal of an asset.

Aligning the section 6*quat* rebate and translation of net income for CFCs

Section 6*quat*(4) of the Income Tax Act requires that the foreign taxes payable by a CFC must be translated to the currency of South Africa by using the average exchange rate in respect of that resident's year of assessment.

However, in determining the net income of a CFC that should be included in the income of a resident, section 9D(6) requires that the net income of a CFC be translated to the currency of South Africa by using the average exchange rate in respect of that CFCs foreign tax year.

This creates an anomaly where the year of assessment of a resident and the foreign tax year of a CFC are not aligned.

Accordingly, National Treasury has proposed that for purposes of determining the net income and foreign tax payable of a CFC, the average exchange rate for a CFC's foreign tax year should be utilised.

Refining the definition of "exchange item" for determining exchange differences

The current definition of an "exchange item" in section 24I of the Income Tax Act does not include shares that are disclosed as financial assets for financial reporting purposes in terms of IFRS.

National Treasury has proposed that the definition of an "exchange item" in section 24I of the Income Tax Act be extended to include shares disclosed as financial assets for financial reporting in terms of IFRS.

Reviewing the interaction of the set-off of assessed loss rules on exchange differences on foreign exchange transactions

Section 20 of the Income Tax is premised on the basis that taxpayers carrying on a trade will be permitted to set off their assessed losses from prior years of assessment, against any income in future years of assessments.

Currently the legislation allows for foreign exchange losses that arise from an exchange item to be set off against future income provided the trade requirement is met.

National Treasury proposes that all foreign exchange losses arising from exchange items are ring-fenced from a future year of assessment, regardless of whether the trade requirement is met.

Customs and excise

Customs and excise rates increases

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, 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 CO_2 emissions per kilometre and the tax rate for double cabs will increase to R195 per gram of CO_2 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 that 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.

Environmental taxes

Carbon tax

Carbon tax rate increase

The Carbon Tax Act specifies that the initial rate of carbon tax of R120 per tonne will be increased by consumer price inflation (CPI) +2% per year until 31 December 2022, whereafter the rate of carbon tax will be increased only by CPI.

It is therefore no surprise that the carbon tax rate is increased with 19.49% from R159 to R190 per tonne of CO_2e.

The amendments will take effect from 1 January 2024.

Carbon fuel levy and carbon tax cost recovery

Effective 3 April 2024 the carbon fuel levy will increase to 11 cents per litre for petrol and 14 cents per litre for diesel.

The carbon tax cost recovery quantum for the liquid fuels sector increased from 0.66c/litre to 0.69c/litre, effective 1 January 2024.

Carbon tax - Second phase

A gradual reduction (from 1 January 2026 to 31 December 2030) of the carbon tax's basic tax-free allowance was proposed by government in the 2022 budget.

A discussion paper outlining proposals for the second phase of the carbon tax is expected to be published for public comment later this year.

Carbon Tax - Aligning schedule 1 of the Carbon Tax Act

It was announced in the 2023 budget that changes to the carbon dioxide emission factors and net calorific values for the relevant fuel types are necessary, to ensure alignment between the Carbon Tax Act and the Department of Forestry, Fisheries and the Environment's Methodological Guidelines for Quantification of Greenhouse Gas Emissions (the Methodological Guidelines).

It is therefore proposed that the schedule 1 fuel combustion emissions factors and net calorific values are updated, and new fuel types are added, as set out in the tables contained in Annexure C to the 2024 Budget Review.

It is also proposed that the density factors for calculation of the carbon fuel levy is changed from 0.75 to 0.7405 kilogram per litre for petrol and from 0.845 to 0.8255 kilogram per litre for diesel.

The amendments will be effective from 1 January 2024.

Alignment between the carbon tax and carbon budget

The 2022 budget announced a higher carbon tax rate of R640 per tonne of CO_2 equivalent on all greenhouse gas emissions exceeding the carbon budget, to be legislated once the Climate Bill is enacted (currently under consideration in Parliament).

It is now proposed that the higher tax rate will come into effect after the Climate Bill is enacted and the Department of Forestry, Fisheries and the Environment gazettes the relevant regulations. Such implementation is expected from 1 January of the calendar year after the legislation is finalised.

In addition, once the mandatory carbon budgeting system comes into effect, the carbon budget allowance of 5% would fall away with a proposed equivalent increase of the carbon offset allowance by 5% to encourage investment in green energy projects.

Electricity – Carbon offsets projects

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 Department of Mineral Resources and Energy aims to finalise the framework for the approval of domestic carbon offset standards this year, which will reduce the cost burden on carbon offset project developers for the registration and approval of offset projects.

Carbon tax (cont.)

Including default emission factors for additional fugitive emissions source categories

The Methodological Guidelines included the default emission factors for fugitive emissions from coal mining, oil and gas operations.

It is proposed that the fugitive emissions table in schedule 1 of the Carbon Tax Act be updated to include the default emission factors for fugitive emissions from coal mining, oil and gas operations and emission factors for the relevant emission source categories, based on the 2019 refinements to the 2006 Intergovernmental Panel on Climate Change Guidelines for National Greenhouse Gas Inventories, which will take effect from 1 January 2024.

Renewable energy premium deduction

It is proposed that the Carbon Tax Act be amended to allow electricity generators to continue to claim the renewable energy premium deduction for power purchase agreements ceded to the National Transmission Company of South Africa, which will take effect from 1 January 2024.

Aligning eligible Clean Development Mechanism project offsets with the Article 6(4) mechanism under the Paris Agreement

Under the Carbon Tax Act, offsets generated from approved projects developed under the Clean Development Mechanism (CDM) of the Kyoto Protocol are eligible for use by taxpayers for purposes of the carbon offset allowance.

A new market mechanism to replace the CDM is provided by the adoption of Article 6(4) of the Paris Agreement (decision taken in November 2022), which sets out the process for transitioning activities from the CDM to the Article 6(4) mechanism and include approximately 48 projects that are eligible for the transition to the new mechanism.

National Treasury in consultation with the Department of Mineral Resources and Energy and the Department of Forestry, Fisheries and the Environment will consider the inclusion of the new mechanism as an eligible carbon offset standard and measures to facilitate and ensure alignment of the transitioning of existing CDM projects. In this regard, the Minister of Finance will publish draft amendments to the regulations for public comment and further consultation in 2024.

Transfer duty and Securities Transfer Tax

Transfer duty

Payable on transactions that are not subject to VAT (including zero-rated VAT)

Value of property	Rates payable
R1 – R1 100 000	0% of the value
R1 100 001 – R1 512 500	3% of the value above R1 100 000
R1 512 501 – R2 117 500	R12 375 plus 6% of the value above R1 512 500
R2 117 501 – R2 722 500	R48 675 plus 8% of the value above R2 117 500
R2 722 501 – R12 100 000	R97 075 plus 11% of the value above R2 722 500
R12 100 001 and above	R1 128 600 plus 13% of the value above R12 100 000

Securities Transfer Tax (STT)

This tax is imposed at a rate of 0.25% on the transfer of listed or unlisted securities.

Estate duty and donations tax

Estate duty

Estate duty is payable on properties of residents and South African properties of non-residents (less allowable deductions).

Estate duty is levied on the "dutiable value" of an estate at a rate of 20% on the first R30 million. A tax rate of 25% will apply where the dutiable value of an estate is above R30 million.

A basic deduction of R3,5 million is allowed in the determination of an estate's liability for estate duty, as well as deductions for liabilities, bequests to Public Benefit Organisations (PBOs) and property accruing to surviving spouses.

Donations tax

A rate of 20% will be payable on the value of property donated. Donations exceeding R30 million in value will be taxed at a rate of 25%.

The first R100 000 of property donated in each year by a natural person is exempt from donations tax. For taxpayers who are not natural persons, exempt donations are limited to casual gifts not exceeding a total of R10 000 per annum. Donations between spouses, South African group companies and to certain PBOs are exempt from donations tax.

Administrative non-compliance penalties

Fixed amount penalties

Taxable income for preceding year	Monthly penalty
Assessed loss	R 250
R 0 – R 250 000	R 250
R 250 001 – R 500 000	R 500
R 500 001 – R 1 000 000	R 1 000
R 1 000 001 – R 5 000 000	R 2 000
R 5 000 001 – R 10 000 000	R 4 000
R 10 000 001 – R 50 000 000	R 8 000
Above R 50 000 000	R 16 000
Maximum successive penalties: 36 months (SARS in possession of address) or 48 months (SARS not in possession of address)	

Administrative non-compliance is the failure to comply with an obligation imposed by or under a tax Act and listed in a public notice by the Commissioner. Failures attracting fixed amount penalties currently include:

- The failure by a natural person to submit an income tax return (subject to further conditions).
- The failure by a reporting financial institution to submit returns in relation to the intergovernmental agreement to implement the United States of America's Foreign Account Tax Compliance Act.
- Certain incidences of non-compliance with the Common Reporting Standard (CRS) Regulations (e.g. failure by a reporting financial institution to submit a return as required, or to remedy the partial or non-implementation of a due diligence required under the CRS Regulations within 60 days, etc.).
- Failure by a company to submit an income tax return as required under the Income Tax Act for years of assessment ending during the 2009 and subsequent calendar years, where SARS has issued the company with a final demand and such company has failed to submit the return within 21 business days of the date of issue of the final demand.

Understatement percentage-based penalties

Behaviour	Standard case	Obstructive or repeat case	Voluntary disclosure after notification of audit	Voluntary disclosure before notification of audit
Substantial understatement	10%	20%	5%	0%
Reasonable care not taken in completing return	25%	50%	15%	0%
No reasonable grounds for tax position	50%	75%	25%	0%
Impermissible avoidance arrangement	75%	100%	35%	0%
Gross negligence	100%	125%	50%	5%
Intentional tax evasion	150%	200%	75%	10%

“Understatement” means any prejudice to SARS or the fiscus as a result of:

- A failure to submit a return
- An omission from a return
- An incorrect statement in a return
- Failure to pay correct amount of tax if no return is required
- An impermissible avoidance arrangement

The burden of proving the facts on which SARS based the imposition of the understatement penalty, is on SARS.

Voluntary Disclosure Programme

Provisions for a general Voluntary Disclosure Programme (VDP) are contained in the Tax Administration Act, in terms of which taxpayers (corporate entities, individuals, etc.), can approach SARS with a view to regularise their tax affairs, with the prospect of remittance of certain penalties.

It was announced in the 2021 budget that the VDP provisions would be reviewed to ensure that the provisions align with strategic and policy objectives of the programme. There has been no subsequent announcement regarding the progress of the review of the VDP provisions.

SARS interest rates

Effective 1 June 2023	
Fringe benefits – interest free or low interest loans	9,25% p.a.
Effective 1 September 2023	
Late or underpayments of tax	11,75% p.a.
Refund of overpayments of provisional and employees' tax	7,75% p.a.
Refund of tax on successful appeal, or where the appeal was conceded by SARS	11,75% p.a.
Refund of VAT after prescribed period	11,75% p.a.
Late payments of VAT	11,75% p.a.
Customs and Excise Duties	11,75% p.a.

Budget proposals

The following amendments are considered as part of the budget proposals:

- It is proposed that the status of connected persons in relation to a "qualifying investor" (as defined) be reviewed in the definition of "connected person" in the Income Tax Act, to address the impact of the wide ambit of paragraph (c) of the definition of connected person in the context of partnerships / foreign partnerships.
- It is proposed that the definition of "adjusted taxable income" and the formula applied to limit interest deductions in terms of section 23N of the Income Tax Act be reviewed, to align with recent changes made to the interest limitation rules in section 23M of the Income Tax Act.
- It is proposed that the assessed loss utilisation restriction rule be amended to allow companies in the process of liquidation, deregistration or winding up to utilise their full assessed loss.
- The proposed amendments in relation to the translation of foreign denominated CTC to rands have been postponed to 1 January 2025.

BEPS Pillar Two

South Africa will introduce the BEPS Pillar Two legislation for multinational enterprises (MNE) whose consolidated group revenue exceeds €750 million with effective from 1 January 2024.

The aim is to achieve an effective tax rate of at least 15%, in each jurisdiction where the constituent entity of the MNE is present.

Accordingly, South Africa has introduced two methods to levy top-up tax, namely the income inclusion rule (IIR) and the domestic minimum top-up tax (DMTT).

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 jurisdictions.

The DMTT will enable SARS to collect top-up tax from qualifying local subsidiaries of foreign MNEs paying an effective tax rate below 15% in South Africa. To this end, the draft Global Minimum Tax Rate Bill, draft Global Minimum Tax Rate Administration Bill and Explanatory Memorandum have already been issued for public comment. Comments are due by 31 March 2024.

Future-ready Tax

A changing landscape – Navigating the Tax Evolution

Tax is no longer (only) a compliance function of business, but has become a Strategic Asset

There is no shortage of challenges and opportunities facing today's tax functions. Carrying on as in the past is no longer a viable option. The traditional tax function is undergoing a transformation. This is a response to the constantly evolving business, economic and technological developments happening as we speak.

Tax authorities around the world are moving towards digitised reporting requirements and seeking to collect tax information directly from your company's accounting system (ERP) in real-time. Even locally there is a fundamental shift in how data is being collected and exchanged. We are moving away from information being "pushed" to tax authorities towards a position where data is "pulled" by them.

From SARS's 2024 Vision Statement it is clear that they are moving towards risk-based reviews, that is not return driven, using data (from ERP systems and other third parties) and a stronger technological backbone. Hiring and upskilling resources with data analytical and data management skills are a priority for SARS. Having a technologically inclined workforce that can rely on factual insight directly from data in real time, requiring limited interaction with business on tax, will bring significant efficiency and growth opportunities for tax authorities.

KPMG's response:

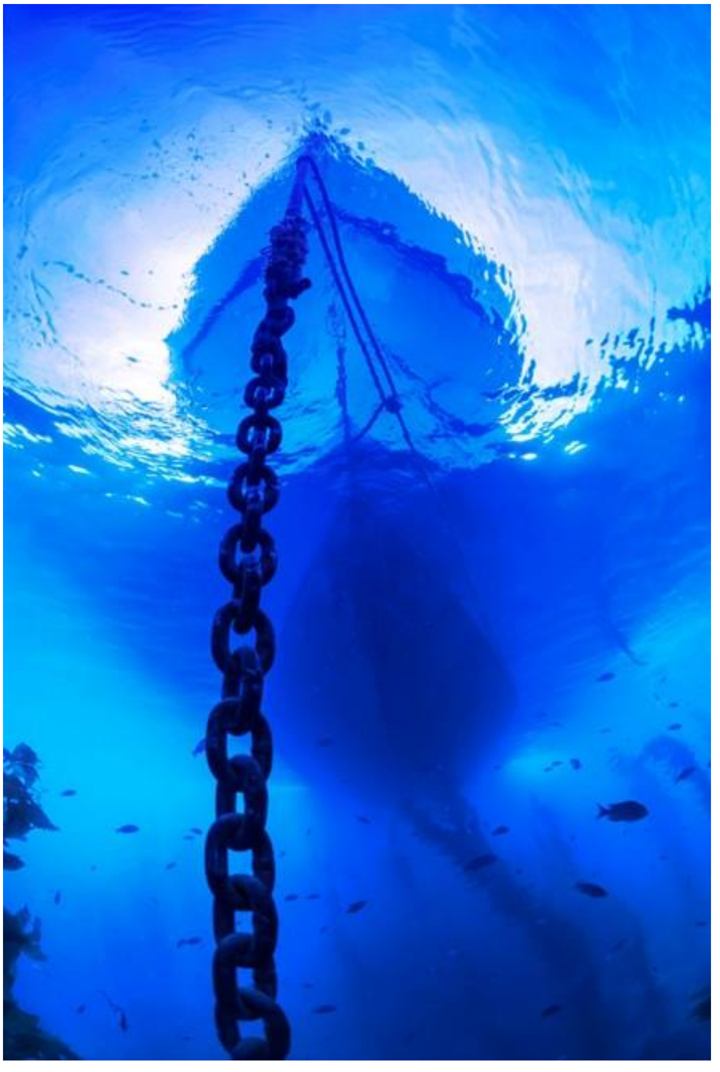
***Tax Reimagined** – KPMG's framework where we have combined our technology, transformation and compliance capabilities to meet your unique tax business needs.*

- Deploying our solution architects and leveraging this framework, we assist businesses to develop a strategy for your tax function and design a "future-ready" technology-enabled target operating model (TOM) to reduce costs, improve quality and unlock value from your tax and statutory function.
- Every company is unique. Every tax function is too. A bespoke KPMG Tax Reimagined workshop gives you the opportunity to imagine the model that works for you, then brings it to life. Our rapid diagnostics and wealth of benchmarking data can take you from dreaming of the possible to the foundations of a tangible business case in less time than you think.

A changing landscape - Harnessing the power of technology and unlocking the value of a company's data

Data has become a core asset of the 21st century tax function

Tax executives need to look beyond the implementation of a specific compliance tool or technology solution, also considering accessibility, accuracy and completeness of tax data. The concept of "compliance-by-design", whereby tax data is ready for reporting in real-time, has become a critical success factor in today's tax world.



For more information, please contact:

Madelein van Zyl,
Head of Tax Technology and Transformation
M: +27 82 718 8810
E: madelein.vanzyl@kpmg.co.za

Jolene Hill
Lead: Tax Reimagined
M: +27 82 718 8756
E: jolene.hill@kpmg.co.za

Contact Us:

Joubert Botha
Head of Tax and Legal
Head of Corporate Tax
M: +27 83 456 7734
E: joubert.botha@kpmg.co.za

Andre Meyburgh
Head of Indirect Tax
M: +27 82 851 6587
E: andre.meyburgh@kpmg.co.za

Venter Labuschagne
Head of Customs and Excise
M: +27 83 677 7744
E: venter.labuschagne@kpmg.co.za

Vian Strydom
Head of Tax Management Services
M: +27 82 564 9118
E: vian.strydom@kpmg.co.za

Natasha Vaidanis
Head of International Tax and Transfer Pricing
M: +27 82 458 1043
E: natasha.vaidanis@kpmg.co.za

Madelein van Zyl,
Head of Tax Technology and Transformation
M: +27 82 718 8810
E: madelein.vanzyl@kpmg.co.za

Anton De Bruyn
Head of Legal
M: +27 82 719 0317
E: anton.debruyn@kpmg.co.za

Carolyn Chambers
Head of Global Mobility Services & Employment Tax Advisory
M: +27 83 440 5564
E: carolyn.chambers@kpmg.co.za

Zohra De Villiers
Head of Tax and Legal: Cape Town
M: +27 82 719 0279
E: zohra.devilliers@kpmg.co.za

Mohammed Maiter
Tax & Legal Lead: Durban
M: +27 66 010 2425
E: mohammed.maiter@kpmg.co.za

Tanette Nell
Tax & Legal Lead: Gqeberha
M: +27 82 719 2179
E: tanette.nell@kpmg.co.za

Jolene Hill
Lead: Tax Reimagined
M: +27 82 718 8756
E: jolene.hill@kpmg.co.za

KPMG

kpmg.com/socialmedia

Download on the App Store

kpmg.com/app