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BUDGET PROPOSALS

Tabled by the Minister of Finance on 26 February 2014:

INDIVIDUAL TAX

Tax brackets

The tax brackets have been restructured to increase the tax threshold at which the maximum rate is reached to R673 100 (2014 – R638 600). Tax thresholds have been increased for persons under 65 to R70 700 (2014 – R67 111), for persons 65 to 75 years to R110 200 (2014 – R104 611) and for persons 75 and over to R123 350 (2014 – R117 111).

SMALL BUSINESS CORPORATIONS

It was proposed to remove the progressive tax rates applicable to those corporations and replace that with a tax rebate for tax compliant small and medium businesses.

MICRO BUSINESSES

It was proposed that the level of turnover taxable at a zero rate be increased to R335 000 (2014 – R150 000) and the maximum tax rate be reduced from 6% to 5%.

TAX-PREFERRED SAVINGS PLANS

These savings accounts will proceed in 2014 with an initial annual contribution limit of R30 000 and a lifetime contribution limit of R500 000. Certain investments in bank deposits, collective investment schemes, exchange-traded funds and retail savings bonds will apply.

RETIREMENT LUMP SUMS

The tax free portion of retirement lump sums is increased to R500 000 from R315 000.

COMPANY CAR FRINGE BENEFITS

The actual retail market value will be used to determine the value of the company car fringe benefit, regardless of the nature of business of the employer. The reform will be phased in over 4 years.

TAX TREATMENT OF GRANTS

It was proposed to make grants received by small and medium enterprises exempt, regardless of the source, while taking due care to prevent abuse.

DEBT REDUCTION RULE

Tax relief measures for companies undergoing business rescue and other forms of debt compromise will be considered.

VAT – SECOND HAND GOODS

It was proposed that second-hand goods made from precious metals be excluded from obtaining the notional input tax.

EMPLOYEE TAX INCENTIVE

To enhance this incentive, a mechanism is being developed to reimburse employers in instances where the incentive exceeds PAYE payable.

COMPANIES AND CLOSE CORPORATIONS

Company tax rates apply to years of assessment commencing after 31 March of each year.

| | 2015 | 2014 |
|---|-------------|-------------|
| Normal tax | | |
| Companies and close corporations | 28% | 28% |
| Personal service companies | 28% | 28% |
| South African income of foreign companies | 28% | 28% |

Small business corporations – per table (page 13)

Micro businesses – on turnover per table (page 12)

INDIVIDUALS

TAX TABLES

For the year ended 28 February 2015

| R | R | |
|-------------------|---------|-------------------------------|
| 0 – 174 550 | | 18% of each 1 |
| 174 551 – 272 700 | 31 419 | + 25% of income above 174 550 |
| 272 701 – 377 450 | 55 957 | + 30% of income above 272 700 |
| 377 451 – 528 000 | 87 382 | + 35% of income above 377 450 |
| 528 001 – 673 100 | 140 074 | + 38% of income above 528 000 |
| 673 101 and above | 195 212 | + 40% of income above 673 100 |

For the year ended 28 February 2014

| R | R | |
|-------------------|---------|-------------------------------|
| 0 – 165 600 | | 18% of each 1 |
| 165 601 – 258 750 | 29 808 | + 25% of income above 165 600 |
| 258 751 – 358 110 | 53 096 | + 30% of income above 258 750 |
| 358 111 – 500 940 | 82 904 | + 35% of income above 358 110 |
| 500 941 – 638 600 | 132 894 | + 38% of income above 500 940 |
| 638 601 and above | 185 205 | + 40% of income above 638 600 |

REBATES

| | 2015 | 2014 |
|-------------|-------------|-------------|
| Under 65 | R12 726 | R12 080 |
| 65 to 75 | R7 110 | R6 750 |
| 75 and over | R2 367 | R2 250 |

TAX THRESHOLDS

| | | |
|-------------|----------|----------|
| Under 65 | R70 700 | R67 111 |
| 65 to 75 | R110 200 | R104 611 |
| 75 and over | R123 350 | R117 111 |

EXEMPT INCOME

Local interest is exempt up to the following limits:

| | | |
|-------------|---------|---------|
| Below 65 | R23 800 | R23 800 |
| 65 and over | R34 500 | R34 500 |

Awards for bravery and long service R5 000 R5 000

Certain local dividends.

War and certain disability pensions.

Pensions received from sources outside South Africa.

Unemployment and Workmen's Compensation benefits.

Compensation paid by employer on death as a result of employment up to R300 000.

Compensation received from the Road Accident Fund.

Certain insurance payouts where an employer paid the insurance premiums and the premiums were taxed as a fringe benefit to the employee.

Bursaries are exempt from tax where:

- The bursary is granted to an employee who agrees to reimburse the employer for the bursary if the employee fails to complete his studies, or
- The bursary is granted to a relative of an employee who earns less than R250 000 (R100 000 in 2013), in which case it will be exempt up to the following limits

| | 2015 | 2014 |
|--------------------------------|-------------|-------------|
| Bursaries for higher education | R30 000 | R30 000 |
| Bursaries for basic education | R10 000 | R10 000 |

DEDUCTIONS

Pension fund contributions

Greater of: R1 750, or
7.5% of income from retirement funding employment.

Retirement annuity fund contributions

Greater of: R1 750, or
R3 500 less current pension fund contributions deductible, or
15% of taxable income from non-retirement funding income, before deducting medical aid contributions and expenses, and before deductible donations.

Reinstated fund contributions are limited to R1 800, whilst excess contributions may be carried forward to the following year.

Retirement reform

Currently provident fund contributions are not deductible. From 1 March 2015 the tax treatment of all retirement funds will be aligned. From this date all employer contributions to funds will be a taxable fringe benefit, and all contributions to funds will qualify for a deduction in the employee's hands. Annual deduction is the lesser of:

- R350 000; or
- 27.5% of the higher of:
 - *Remuneration (excl lump sums);
 - or
 - *Taxable income (excl lump sums and before this deduction)

Loss of income insurance

Employees are entitled to claim a deduction for premiums paid under a loss of income insurance policy. If such premiums were paid by the employer and the premiums were taxed as a fringe benefit, the employee will be deemed to have paid the premiums and may therefore claim a deduction. The deduction will only be allowed if amounts paid out under the policy will be taxable.

From 1 March 2015 no deduction will be allowed for premiums paid on income protection policies, and payouts from such policies will be exempt from tax.

Medical, dental and physical disability expenses

Year commencing 1 March 2014:

No deduction is allowed for medical expenses incurred. Instead, all persons are entitled to the following monthly tax credit:

| | 2015 |
|---------------------------|-------------|
| Taxpayer | R257 |
| First dependent | R257 |
| Each additional dependent | R172 |

An additional annual tax credit will be available as follows:

- Persons under 65: Total qualifying contributions less four times the above tax credit (annualised), plus other qualifying medical expenses, less 7.5% of taxable income, multiplied by 25%.
- Persons above 65 and persons where the taxpayer, spouse or child is disabled: Total qualifying contributions less three times the above tax credit (annualised), multiplied by 33.3%.
A further credit of 33.3% of qualifying medical expenses paid is available.

Year ended 28 February 2014:

Taxpayers 65 and older may claim all qualifying expenses.

Taxpayers under 65 may claim all qualifying expenses where the taxpayer, spouse or child is disabled.

Other taxpayers under 65 may claim the following monthly tax credits where contributions are paid to a medical scheme:

| | 2014 |
|---------------------------|-------------|
| Taxpayer | R242 |
| First dependent | R242 |
| Each additional dependent | R162 |

A dependent includes a dependent recognised under the medical aid rules. Persons under 65 may further deduct medical expenses which exceed 7.5% of taxable income.

Medical expenses include all expenditure incurred not refunded by the medical aid, including non-South African expenses, plus the amount by which medical aid contributions exceed four times the annual tax credit amount.

Physical disability expenditure includes necessary expenditure incurred as a result of the disability. The definition of disability covers a moderate to severe limitation of a person's ability to function normally as a result of physical, sensory, communication, intellectual or mental impairment if it has lasted or has a prognosis to last more than a year as diagnosed by a duly registered medical practitioner.

Donations to public benefit organisations

The deduction for donations made is limited to 10% of taxable income before deducting medical expenses and donations, and excluding retirement lumps sums or severance benefits, provided they are made to organisations which issue receipts in terms of

S18A. From 1 March 2014, any donations made in excess of the 10% may be carried forward and treated as a donation made in the following year.

EMPLOYEES' TAX

All employees have to be registered for income tax. Taxpayers earning less than R250 000 per year from a single employer do not need to submit a tax return.

Employers are required to deduct PAYE on all remuneration paid to employees, including directors and members of close corporations, unless a tax deduction directive is issued by SARS. Fringe benefits are included in remuneration.

The medical aid credit must be deducted from the employee's tax payable, where the employer pays the medical aid contributions or, at the employer's option, if provided with proof of payment of the medical aid contributions by the employee.

Employer's responsibility

SARS can raise an assessment on the employer if the value of a fringe benefit has not been taken into account or undervalued for PAYE purposes. The payment of additional PAYE does not constitute a taxable fringe benefit in the hands of the employee.

Shareholders, company directors or members of a close corporation who are involved in the management of the company's financial affairs are personally liable for employees tax, additional taxes, penalties and interest not paid by the company.

FRINGE BENEFITS

Fringe benefits – VAT

Certain fringe benefits may result in a deemed supply of goods or services for VAT purposes. A specific inclusion is the right of use of a motor vehicle. The monthly VAT is calculated as $14/114 \times 0.3\%$ of the determined value of the vehicle where the VAT on the vehicle may not be claimed as an input. Where VAT may be claimed as an input the percentage is increased to 0.6%. The determined value is the cost price including VAT less 15% depreciation (on reducing balance method) for each year that the employer owned the vehicle before it was given to the employee to use.

Medical aid

Contributions made by an employer to a medical aid scheme constitute a taxable fringe benefit.

Low interest loans

The benefit arises on the difference in the official rate of interest and that charged to the employee on loans greater than R3 000. Study loans are excluded. Loans to directors and members arising from their shareholding or membership and not from employment are also excluded.

Official interest rate

The official interest rate is linked to the repo rate: 100 basis points above the repo rate.

| | Repo rate | Official interest rate |
|--------------------------------|-----------|------------------------|
| 1 March 2011 – 9 July 2012 | 5.5% | 6.5% |
| 10 July 2012 – 29 January 2014 | 5.0% | 6.0% |
| 30 January 2014 – current | 5.5% | 6.5% |

Long term insurance policies

An insurance premium paid by the employer in respect of an insurance policy that is directly or indirectly for the benefit of an employee or his beneficiary is a taxable fringe benefit.

The value of the fringe benefit is the amount paid by the employer. If the amount relating to a specific employee cannot be determined the value of the fringe benefit is the total contribution divided by the number of employees for whom the contribution is made.

Employer contributions that are taxed as fringe benefits may be claimed as a deduction by the employee.

Right of use of motor vehicle

The monthly fringe benefit on all motor vehicles is 3.5% of the determined value.

The determined value is the cash cost including VAT, or the market value when the employer first obtained right of use in the case of a lease or donation.

If the cost of the motor vehicle includes a maintenance plan the monthly fringe benefit is reduced to 3.25%.

Where the motor vehicle is acquired by the employer under an operating lease from a non-connected person the monthly fringe benefit is the actual cost of rental plus any fuel costs paid by the employer.

80% of the fringe benefit is subject to PAYE. This can be reduced to 20% if the employer is satisfied that at least 80% of the use of the motor vehicle will be for business travel. Travel between an employee's home and place of work is private travel.

The fringe benefit can be reduced on assessment if the employee can prove actual business use and/or private expenses incurred on licensing, insurance, maintenance or fuel. The employee would need to keep a logbook for this purpose. A table has been issued to determine the fuel cost per kilometre based on the cost of the vehicle where this cost is borne by the employee.

Should the employee have the right to use more than one vehicle at a time, the taxable benefit is based on the highest determined value, provided it is used primarily for business purposes.

Travelling allowance

The allowance may be paid at a fixed monthly rate or per kilometre.

PAYE on 80% of the allowance is deductible where the allowance is not based on actual business travel costs. This can be reduced to 20% if the employer is satisfied that at least 80% of the use of the motor vehicle will be for business travel.

A logbook must be kept detailing the business and total kilometres travelled.

The fringe benefit can be reduced on assessment for actual business travel expenditure. This is calculated using the ratio of business kilometres to total kilometres travelled and actual costs incurred or deemed costs as per the table below.

Scale for determining the costs of travelling

| Value of the vehicle (including VAT) | Fixed Cost (R p.a.) | Fuel Cost (c/km) | Maintenance Cost (c/km) |
|--------------------------------------|---------------------|------------------|-------------------------|
| 0 – R80 000 | 25 946 | 92.3 | 27.6 |
| R80 001 – R160 000 | 46 203 | 103.1 | 34.6 |
| R160 001 – R240 000 | 66 530 | 112.0 | 38.1 |
| R240 001 – R320 000 | 84 351 | 120.5 | 41.6 |
| R320 001 – R400 000 | 102 233 | 128.9 | 48.8 |
| R400 001 – R480 000 | 120 997 | 147.9 | 57.3 |
| R480 001 – R560 000 | 139 760 | 152.9 | 71.3 |
| exceeding R560 000 | 139 760 | 152.9 | 71.3 |

Where actual costs are used the employee may include wear and tear in the costs. The wear and tear is calculated over 7 years and for this purpose the value of the vehicle is limited to R560 000.

Where total business travel for the year does not exceed 8 000 km the employee can opt to deduct a fixed rate of R3.30 per km from the travel allowance instead of using the table above, provided no other travel allowance is received.

Subsistence allowance

The allowance relates to expenditure on meals and incidental costs incurred whilst being absent from home for at least one night. It is taxable to the extent that the employee has not spent the required nights away from home by the last day of the following month. No proof is required where allowance is R335 per day for meals and incidental costs or R103 per day for incidental costs in South Africa.

SARS has issued a table listing the daily allowance for meals and incidental costs outside South Africa denominated in the appropriate currency, such as:

| | 2015 | 2014 | |
|----------------|------|------|------|
| Australia | 208 | 208 | AU\$ |
| Botswana | 518 | 518 | PULA |
| Lesotho | 750 | 750 | ZAR |
| Namibia | 835 | 835 | ZAR |
| Swaziland | 818 | 818 | ZAR |
| United Kingdom | 124 | 124 | GBP |
| USA | 154 | 160 | US\$ |

For a full list of all countries go to:

<http://www.sars.gov.za/Legal/Secondary-Legislation/Pages/Income-Tax-Notices.aspx>

Equity instruments issued to directors and employees

Regulations are applicable to equity instruments acquired by virtue of employment or office.

Gains or losses are taxed on the vesting of the equity instrument. The gain or loss is calculated as the market value of the instrument on date of vesting less any consideration paid by the

employee. Vesting occurs on the acquisition of an unrestricted equity instrument, or in the case of a restricted equity instrument, the earliest of:

- when all restrictions cease to exist
- immediately before the disposal of the instrument
- immediately after an option terminates or a convertible instrument is converted

Gains made on the vesting of equity instruments must be taken into account when calculating employee's tax (PAYE). A tax directive must be obtained from SARS to determine the amount of tax to be withheld.

Cellphones and computers

No fringe benefit accrues through the private use of cellphones and computers provided by the employer used mainly for business purposes.

Payment of professional fees on behalf of employees

If membership of a body is a condition of employment such payment is not a taxable fringe benefit. Other fees paid by the employer will also be tax free if such payments largely benefit the employer.

Transfer or relocation costs

Where an employee is appointed or transferred at the insistence and expense of the employer, the costs incurred are exempt from tax in the employee's hands. These costs include transportation costs, settling in costs and the hire of temporary residence for less than 183 days. The costs must be reflected appropriately on the IRP5.

Low cost housing

Housing provided to employees is generally a taxable fringe benefit. From 1 March 2014 certain low cost housing provided to employees will not be a taxed. This will only apply to property with a market value of less than R450 000, and employees earning less than R250 000 per annum.

Other fringe benefits

Fringe benefits will arise from any free or cheap service.

RING FENCING OF ASSESSED LOSSES

Ring fencing can only be applied to natural persons subject to the maximum marginal tax rate. A trade loss is ring fenced if that trade has incurred a loss in 3 out of the past 5 years, or if it relates to a suspect trade, as listed in the Income Tax Act.

The suspect trades relate to sport practices, dealing in collectibles, animal showing, performing or creative arts, betting or gambling carried on by the taxpayer or a relative; or the rental of residential accommodation, vehicles or aircraft unless 80% used by persons not related to the taxpayer for at least 6 months; farming or animal breeding unless on a fulltime basis.

The ring fencing can be prevented where the trade constitutes a business and "facts and circumstances" are presented for consideration, unless the losses were incurred in 6 out of 10 years commencing on 1 March 2004.

LUMP SUM BENEFITS

On retirement

Lump sum benefits received from an employer on retirement or retrenchment are added to lump sums received from funds and taxed accordingly.

Lump sum benefits from pension and retirement funds are limited to one third of the value of the fund, unless the remaining two thirds is equal to or less than R50 000. In effect, retirement fund values of R75 000 or less can be withdrawn as lump sum.

On retirement or death

A benefit received on retirement or death is taxed in terms of the following table:

For year ended 28 February 2015

| R | R | R |
|----------------------|-----------------------------------|-----------|
| 0 – 500 000 | 0% | |
| 500 001 – 700 000 | 18% of the amount above | 500 000 |
| 700 001 – 1 050 000 | 36 000 + 27% of the amount above | 700 000 |
| 1 050 000 – and over | 130 500 + 36% of the amount above | 1 050 000 |

For year ended 28 February 2014

| R | R | R |
|--------------------|-----------------------------------|---------|
| 0 – 315 000 | 0% | |
| 315 001 – 630 000 | 18% of the amount above | 315 000 |
| 630 001 – 945 000 | 56 700 + 27% of the amount above | 630 000 |
| 945 001 – and over | 141 750 + 36% of the amount above | 945 000 |

On withdrawal, resignation or divorce

A benefit received on withdrawal, resignation or divorce is taxed in terms of the following table:

For the year ended 28 February 2015

| R | R | R |
|--------------------|-----------------------------------|---------|
| 0 – 25 000 | 0% | |
| 25 001 – 660 000 | 18% of the amount above | 25 000 |
| 660 001 – 990 000 | 114 300 + 27% of the amount above | 660 000 |
| 990 001 – and over | 203 400 + 36% of the amount above | 990 000 |

For the year ended 28 February 2014

| R | R | R |
|--------------------|-----------------------------------|---------|
| 0 – 22 500 | 0% | |
| 22 501 – 600 000 | 18% of the amount above | 22 500 |
| 600 001 – 900 000 | 103 950 + 27% of the amount above | 600 000 |
| 900 001 – and over | 184 950 + 36% of the amount above | 900 000 |

These tax rates are applied cumulatively to lump sum benefits received after October 2007, lump sum withdrawal benefits received after 1 March 2009, and severance benefits received after 1 March 2011.

Post-retirement annuity payments converted into a lump sum will be treated in the same way as retirement lump sum benefits.

The taxpayer's own contributions which were not previously allowed as a deduction plus amounts transferred to another qualifying fund are deducted from the lump sum received. The net lump sum after these deductions is taxed according to the tables above.

The taxable lump sum cannot be offset against any assessed loss of the taxpayer. Lump sums are independently taxed and the tax cannot be reduced by rebates.

ESTATE DUTY

Estate duty is levied at 20% on the dutiable amount of the estate after taking into account an abatement of R3,5 million.

Where the person was at date of death the spouse of a previously deceased spouse, the estate duty abatement can be doubled and reduced by the amount of the abatement utilised by the pre-deceased spouse. This amendment applies to the estates of persons dying on or after 1 January 2010.

The deemed property of the estate includes all assets and liabilities of the deceased, insurance policies on the life of the deceased as well as any accrued claim against the surviving spouse. Benefits arising from pension funds, pension preservation funds, provident funds, provident preservation funds and retirement annuity funds are not included in the estate of persons dying on or after 1 January 2009.

Certain deductions are allowed, which include funeral, tombstone and deathbed expenses; costs of administering and liquidating the estate, CGT, bequests to approved PBO, all assets bequeathed to the surviving spouse.

TRUSTS

SPECIAL TRUSTS

Defined as a trust created solely for the benefit of a person suffering from a severe mental illness or physical disability, or a testamentary trust established solely for the benefit of minor children related to the deceased.

Normal tax rate: Same rate as individuals.

No primary rebate or interest exemption.

OTHER TRUSTS

Any trust that is not a special trust as defined.

Normal tax rate: 40%

No primary rebate or interest exemption.

Trust income is taxed in the trust if it does not vest in a beneficiary and is retained in the trust. Income that vests in a beneficiary is taxed in the hands of the beneficiary. Any distribution to a beneficiary that has previously been subject to tax in the trust is not taxed again in the hands of the beneficiary. Losses incurred in a trust cannot be distributed to beneficiaries; it is retained in the trust to be utilised against future trust income.

Anti-avoidance rules exist whereby a person who makes a donation in cash or kind to a trust can be deemed to have earned the income generated by the assets donated. An interest free loan, or a loan on which interest charged is at a rate less than normal market rates, is seen as a continuous donation.

TURNOVER TAX ON MICRO BUSINESSES

Turnover tax is an alternative, optional basis, for computing tax payable where the annual turnover is R1 million or less.

In addition to the turnover tax, micro businesses may submit VAT and Employees Tax returns twice yearly, effective 1 March 2012.

Natural persons, companies and close corporations can qualify as micro businesses. Trusts cannot.

Turnover tax for years of assessment ending on or after 1 April 2012

| R | R | R |
|-------------------|-------------------------------|---------|
| 0 – 150 000 | 0% | |
| 150 001 – 300 000 | 1% of turnover above | 150 000 |
| 300 001 – 500 000 | 1 500 + 2% of turnover above | 300 000 |
| 500 001 – 750 000 | 5 500 + 4% of turnover above | 500 000 |
| 750 001 and above | 15 500 + 6% of turnover above | 750 000 |

If elected, the turnover tax will apply for at least 3 years unless the conditions for registration no longer apply.

Micro businesses will be exempted from CGT, but 50% of the amounts recovered from disposal of the business assets will be included in taxable turnover.

Dividends paid by a micro business will be exempt from dividends tax to the extent that dividends do not exceed R200 000. Any excess will be subject to dividends tax at a rate of 15%.

COMPANIES AND CLOSE CORPORATIONS

NORMAL TAX

Normal companies

Close corporations are included in the definition of company and are taxed in the same way.

The normal tax rate for years ending on or after 31 March 2008 is 28%.

Small business corporations

These entities are entitled to certain allowances and reduced tax rates. They are defined as corporations where all the shareholders or members were natural persons for the entire year, the gross income for the year of assessment does not exceed R20 million, no shareholder holds any interest in any other company during the year and less than 20% of the income is investment income or personal service income. A shareholder's or member's interest in any of the following would not disqualify the entity as a small business corporation:

- Listed company, shareblock company or body corporate
- Company or close corporation that has never traded or owned assets of more than R5 000 in value (dormant entities)

Normal tax rate for years of assessment ending after 31 March 2014

| R | R | R |
|-------------------|--|---|
| 0 – 70 700 | 0% | |
| 70 701 – 365 000 | 7% of taxable income above 70 700 | |
| 365 001 – 550 000 | 20 601 + 21% of taxable income above 365 000 | |
| 550 001 and above | 59 451 + 28% of taxable income above 550 000 | |

Normal tax rate for years of assessment ending after 31 March 2013

| R | R | R |
|-------------------|--|---|
| 0 – 67 111 | 0% | |
| 67 112 – 365 000 | 7% of taxable income above 67 111 | |
| 365 001 – 550 000 | 20 852 + 21% of taxable income above 365 000 | |
| 550 001 and above | 59 702 + 28% of taxable income above 550 000 | |

LABOUR BROKERS AND PERSONAL SERVICE PROVIDERS

Labour brokers and personal service providers (companies and trusts) are classified as employees and the persons paying them are required to deduct employee tax.

The employee tax deduction is: 40% where the personal service provider is a trust and 28% if a company. The employee tax deduction for a labour broker is determined according to the tax tables for individuals.

A labour broker is a natural person who provides a client with other persons to render a service or perform a service and who remunerates such persons.

A labour broker can apply for an exemption certificate.

A personal service provider is a company or trust which renders any service personally by a person who is a connected person to such company or trust and:

- such person is regarded as an employee of the client if the services were rendered directly; or
- the duties are performed mainly at the premises of the client or are subject to the control and supervision of the client as to the manner in which the duties are performed; or
- more than 80% of the income of such company consists of amounts paid directly or indirectly by one client; except where such company or trust employs 3 or more full-time employees throughout the year of assessment who are not connected persons.

Personal service companies cannot qualify as micro businesses.

A labour broker without an exemption certificate cannot deduct any expenses other than salaries/wages paid to employees.

A personal service provider cannot deduct any expenses other than salaries/wages, legal expenses, bad debts, employer contributions to funds and expenses in respect of premises, finance charges, insurance, repairs & maintenance and fuel relating to assets used exclusively for the purposes of trade.

DIVIDENDS AND DIVIDENDS TAX

A dividend means any amount transferred or applied by a company for the benefit of or on behalf of any person in respect of any share in that company. It includes amounts transferred as consideration for a share buy-back and excludes the following:

- A reduction of the company's share capital or share premium
- Issue of capitalisation shares
- Buy back of shares by a listed company

A dividend could be cash or an asset. Assets distributed as dividends are referred to as dividends in specie.

Dividends received from SA companies (local dividends) are generally exempt from normal income tax. The following local dividends are not exempt:

- Dividends from headquarter companies as these are treated as foreign dividends
- Dividends from property unit trusts
- Dividends received by share dealers on a buy-back of shares
- Dividends from share incentive schemes if the dividend relates to an instrument which is not a true equity share
- Dividends received in consequence of a cession
- Dividends on borrowed shares, hybrid equity instruments, or third-party backed shares.

Dividends tax

Dividends tax came into effect on 1 April 2012.

Dividends tax is levied at 15% of the amount of dividends paid and is payable by the beneficial owner of the dividend, i.e. the shareholder. The tax is treated as a withholding tax; therefore the company paying the dividend must pay the tax over to SARS, and the shareholder will receive the net amount after dividends tax.

Dividends tax is applicable to:

- A dividend paid by a South African company, or
- A dividend paid by a non-resident company if listed on the JSE.

The dividends tax arises on payment of the dividend.

A dividends tax return must be submitted to SARS, and payment of the relevant dividends tax must be made by the end of the month following the month in which the dividend was paid. Late payment will result in interest being charged at the prescribed interest rate (see page 23).

The dividends tax that arises on dividends paid to foreign shareholders can be reduced if permitted by the relevant double tax agreement.

Exemptions

The dividend is exempt from dividends tax if the beneficial owner is:

- South African resident company or close corporation
- Public benefit organisation which is tax exempt
- Pension, provident, retirement annuity or benefit fund
- Shareholder in a registered micro business, if the dividend is from the micro-business. (This exemption applies to the first R200 000 of dividends paid by the micro-business in a year of assessment).

From 16 January 2014, any person receiving a dividend that is exempt in terms of the above must submit a return to SARS by the end of the month following the month in which the dividend was received.

Deemed dividend

A loan or advance to a person that is a SA resident shareholder and not a company, or connected person to such shareholder, is deemed to be a dividend. The deeming provision therefore does not apply to loans between group companies.

The amount that is regarded as a dividend and therefore subject to dividends tax is the interest benefit on the loan, calculated as interest at the official interest rate (currently 6.5%) less the amount of interest payable to the company. If the interest payable is higher than the official interest rate the deemed dividend is nil.

The deemed dividend is treated as having been paid on the last day of the year of assessment.

STC credits

STC credits can be used for up to 3 years after 1 April 2012.

If a dividend is paid after 1 April 2012 and no dividends tax needs to be withheld as a result of a STC credit the company must notify the shareholders how much of the STC credit has been used. If the company fails to give this written notice the dividend will be subject to the 15% dividends tax.

RESIDENCE BASED TAXATION

A resident is:

- a natural person ordinarily resident in South Africa
- a natural person who complies with the physical presence test
- any entity incorporated, established or formed in South Africa or which has its place of effective management in South Africa, but excludes any person deemed to be resident of country with which a double taxation agreement is in force.

The physical presence test is applied when a person is not ordinarily resident in South Africa, and must be performed each year. In terms of this test a person is deemed to be a resident for tax purposes if he or she was present in South Africa for:

- 91 days in aggregate during the current year of assessment, and
- 91 days in aggregate during each of the previous five years of assessment, and
- 915 days in aggregate during the previous five years.

A person who is deemed to be a resident due to the physical presence test ceases to be a resident if physically absent from South Africa for 330 continuous days.

FOREIGN INCOME

All foreign income must be included in taxable income.

SARS has the discretion to impose a deemed amount as foreign income on assets taking into account any information it may have relative to assets held, transferred or disposed of during the period. The income is attributed at the official interest rate – currently 6.5%.

Investments

Interest, net rental income and income from unit trusts must be included in income.

Losses incurred on rental property may not be set off against South African income but may be carried forward to be offset against future foreign income.

Employment

Income from foreign employment is taxable in South Africa, unless the income relates to services rendered outside South Africa for an aggregate of 183 days or more during any 12 month period, and for a continuous period exceeding 60 days during that 183 day period.

Pensions

Pensions are taxable except where they are received in terms of the social security system of another country or relate to past employment in another country.

Trading activities

Income earned from a business owned as a sole proprietor outside South Africa is taxed in the normal course, except where restrictions are imposed by the foreign country on the remittance of income. In this instance the income is taxed when remitted. Foreign trading losses may not be set off against income earned in South Africa.

Foreign dividends

A foreign dividend is any amount received from a foreign company if the amount is treated as a dividend under the laws of that country.

Foreign dividends are taxable, except where:

- taxpayer holds more than 10% of the equity in the foreign entity
- the taxpayer is a CFC and is situated in the same country as the company declaring the dividend
- the company holds a listing in South Africa as well (a dual listed company)
- the taxpayer is a controlled foreign company (CFC) and the dividends do not exceed amounts deemed to be the resident shareholder's income under the CFC rules

Foreign dividends not included in the exceptions above are taxed at a reduced rate of 15%, effectively determined by exempting part of a foreign dividend in terms of the following formula:

$$A = B \times C$$

Where:

A = The exempt amount

B = 25/40 if the taxpayer is a natural person, estate or special trust, or

B = 13/28 for all other taxpayers

C = total foreign dividends received that are not otherwise exempt.

Withholding tax paid on foreign dividends received is allowed as a credit against tax payable in South Africa.

Controlled foreign companies (CFC)

A CFC is a non-resident entity that is not listed in which South African residents (excluding South African headquarter companies) hold more than 50% of the participation rights or voting control.

The net income of the CFC is imputed as income of the taxpayer in the ratio of the participation share if the taxpayer holds more than 10% of the participation rights. Any loss must be carried forward for set off against future income.

This does not apply if the taxpayer is a headquarter company in SA. The net income of a CFC is determined in the functional currency of the CFC, and translated to Rands using the average exchange rate for the SA resident's year of assessment.

The proportionate share of foreign tax payable by the CFC will be allowed as a tax rebate against tax payable by the South African resident shareholder.

The net income of a CFC attributable to a foreign business establishment is excluded.

Headquarter companies

A company can elect to be a headquarter company if it is a South African resident company of which:

- each shareholder holds at least 10% of equity,
- at least 80% of assets are represented by interests in equity shares, loans and advances and intellectual property licensed to any foreign company of which at least 10% of the equity is held by the headquarter company, and
- at least 50% of gross income was derived from rentals, dividends, interest royalties or service fees from foreign companies in which at least 10% of equity is held; or from proceeds on the disposal of equity shares in foreign companies in which at least 10% of equity is held if total gross income for the year is more than R5 million.

Dividends declared by headquarter companies will not be subject to dividends tax.

Dividends received from a headquarter company are treated the same as foreign dividends and will be exempt from normal tax as the shareholder will hold at least 10% of the equity in the headquarter company.

Interest paid on a loan from a non-resident is deductible, but the deduction is limited to interest earned from non-resident entities in which the headquarter company holds at least 10% of equity.

NON-RESIDENTS

Non-residents are taxed on all income from a South African source.

Interest

Interest paid to non-residents is exempt from normal income provided the taxpayer is physically absent from South Africa for 183 days and did not carry on a business and is not deemed to be ordinarily resident in South Africa. From 1 January 2015 the exemption will not apply if the debt resulting in the interest is effectively connected to a fixed place of business in South Africa.

From 1 January 2015 a 15% withholding tax will be levied on interest paid to non-residents, subject to the double tax agreement in force.

Dividends

Dividends paid to non-residents are subject to the 15% dividends withholding tax, subject to the double tax agreement in force.

Royalties

A withholding tax of 12% is levied on royalty payments subject to the double tax agreement in force. This rate will increase to 15% on 1 January 2015.

Service fees

A withholding tax on service fees paid to non-residents will apply from 1 January 2016, subject to the double tax agreement in force.

Foreign entertainers and sportspersons

A 15% withholding tax is levied on gross amounts paid to such persons for activities exercised by them in South Africa.

Sale of immovable property

Non-residents are subject to CGT on the disposal of immovable property or the assets of a permanent establishment, branch or agency through which a trade is carried on situated in South Africa.

The purchaser of the property is required to withhold the following amounts from the price paid on the sale of immovable property unless a directive is provided by the seller:

- 5% where the seller is a natural person
- 7.5% where the seller is a company
- 10% where the seller is a trust.

Estate duty

Assets located in South Africa will be subject to estate duty, subject to International agreements.

PUBLIC BENEFIT ORGANISATIONS (PBO)

These bodies as well as new entities wishing to conduct public benefit activities have to be approved as PBOs after complying with the qualifying provisions, the most important of which are that the main object of the entity must be to carry on substantially in the Republic in a non-profit manner one or more defined or approved public benefit activities.

Trading income is exempt up to the greater of 5% of total receipts of accruals or R200 000.

Donations to public benefit organisations are deductible as follows:

Company donations limited to 10% of taxable income.

Individual donations limited to 10% of taxable income before the deduction of medical expenses, excluding any retirement and severance benefit lump sums. Any excess above the 10% limit may be carried forward and treated as a donation made in the following year.

CAPITAL GAINS TAX (CGT)

Residents are taxed on capital profits on world-wide assets, whilst non-residents are taxed on capital profits arising on the disposal of fixed property, an interest or right in fixed property or the assets of South African permanent establishment. A capital gain or loss is calculated as the difference between the proceeds received on disposal and the base cost of the asset disposed.

Exclusions for natural persons and special trusts

An annual exclusion of R30 000 applies to both gains and losses during the person's lifetime whilst R300 000 applies in the year the person dies.

Effective rate of tax

| <i>Taxpayer</i> | <i>Capital gain included</i> | <i>Tax rate</i> | <i>Effective rate</i> |
|----------------------------|------------------------------|-----------------|-----------------------|
| Natural person | 33.3% | 0 – 40% | 0 – 13.3% |
| Special trust | 33.3% | 0 – 40% | 0 – 13.3% |
| Other trusts | 66.6% | 40% | 26.7% |
| Companies | 66.6% | 28% | 18.6% |
| Small business corporation | 66.6% | 0 – 28% | 0 – 18.6% |
| Employment companies | 66.6% | 28% | 18.6% |

Capital losses

Capital losses may not be set off against taxable income but must be carried forward for set-off against future capital gains.

Deemed disposals or acquisitions

Change of residence

When a person leaves South Africa permanently he is deemed to have sold all assets at market value, except immovable property and assets of a permanent establishment and shares and options granted less than 5 years before.

When a person becomes a resident in South Africa he is deemed to have disposed of his assets one day prior to becoming a resident and reacquired them at market value on the day he becomes a resident, excluding immovable property and assets of a permanent establishment.

Trading stock

The conversion of an asset from a capital asset to trading stock (or vice versa) can trigger income tax or capital gains tax.

Personal use assets

The disposal of personal use assets is not subject to CGT, a deemed disposal is triggered when an asset ceases to be a non-personal use asset.

Proceeds on disposal of an asset

These comprise the amount received or accruing to the taxpayer or deemed to have been received or accrued. Proceeds specifically include:

- amount by which a debt is reduced or discharged
- amount received by or accrued to a lessee for improvements to property
- market value of assets donated.

Base cost

The base cost of assets acquired after 1 October 2001 is the cost of the asset plus any other cost incurred directly in the acquisition, improvement or selling. Only one third of the cost of holding listed shares or unit trusts may be added to the cost in arriving at the base cost. The costs which cannot be taken into account (unless they apply to business assets and are not deductible for normal tax) include borrowing costs, raising fees, rates and taxes and insurance.

Where the asset is acquired by donation the base cost is equal to the deemed proceeds taken into account by the donor at date of donation plus a portion of the donations tax depending on who pays the tax (donor or donee).

The base cost of assets acquired before 1 October 2001 is calculated by determining a value as at 1 October 2001 and adding qualifying costs incurred after that date. The 1 October 2001 value may be determined at the option of the taxpayer on one of the following bases:

- market value on 1 October 2001, or
- time-apportioned base cost method, or
- 20% of the proceeds on disposal (after taking into account expenditure after 1 October 2001).

The time-apportioned base cost method requires that the date of acquisition and cost are known and is calculated according to the following formula:

$$Y = \frac{B + [(P - B) \times N]}{T + N}$$

Where:

Y = value as at 1 October 2001

B = expenditure before 1 October 2001

P = proceeds on disposal (or per adjustment formula)

N = number of years held before 1 October 2001

T = number of years held after 1 October 2001

The adjustment formula applies where allowable expenditure is incurred after 1 October 2001 and is used to compute P in the previous formula as follows:

$$R \times \frac{B}{A + B}$$

Where:

R = actual proceeds

A = expenditure incurred after 1 October 2001

B = expenditure incurred before 1 October 2001

The 20% of proceeds rule is generally used where none of the other information is available. This method should not be disregarded where there has been a dramatic increase in the value of the assets.

The base cost of foreign assets in respect of which amnesty was granted cannot exceed the value of that asset on 28 February 2003 and expenditure incurred after that date.

Excluded assets

Assets which are not taken into account in computing CGT include:

- Primary residence (applicable to natural persons and special trusts only)
If the proceeds on the sale of a person's primary residence is less than R2 million any capital gain is disregarded, but any capital loss may be carried forward.
If the proceeds exceed R2 million the first R2 million of the capital gain or loss calculated is disregarded.
- most personal use assets excluding gold or platinum coins, immovable property, aircraft exceeding 450kg, boat exceeding 10 metres in length, financial instrument, usufructuary or fiduciary interest which decreases over time
- lump sum benefits from pension, provident or retirement annuity funds
- long term assurance paid to original beneficiary, spouse, dependent or deceased estate
- the first R1.8 million of a gain realised on the sale of an interest in a small business if sold by an individual who is at least 55 or as a result of ill health. The exclusion only applies if the market value of the small business assets does not exceed R10 million.
- micro business assets to the extent that the proceeds from such disposals do not exceed R1.5 million over a period of 3 years
- compensation for personal injury, illness or defamation
- gains from gambling, competitions or games by natural persons
- gains or losses made by PBO
- gains and losses made by unit trust funds
- donations or bequests to PBO
- assets used to produce exempt income.

Trusts

Capital gains retained in a trust are taxed in the trust's hands whilst those distributed to SA resident beneficiaries in the same year are taxed in the beneficiary's hands. Gains distributed to non-resident beneficiaries are taxed in the trust's hands.

Donations to trusts not vesting in beneficiaries are taxed in the hands of the donor.

DONATIONS TAX

Donations tax is payable by the donor at 20% within three months of the donation. If a donor fails to pay the tax, the donor and donee becomes jointly and severally liable.

Exemptions include donations:

- by natural persons not exceeding R100 000 per year
- to a spouse
- to an approved PBO
- casual donations up to R10 000 by donors other than natural persons
- by a public company.

PROVISIONAL TAX

The following taxpayers are required to register as provisional taxpayers:

- Companies and close corporations
- Natural persons who earn income that is not remuneration as defined, unless such income is derived from interest, dividends or rentals and does not exceed R20 000, or if the total taxable income of the person will be below the tax threshold.

Natural persons over 65 years old, other than a director of a private company, whose taxable income is less than R120 000 and who do not carry on business are exempt from provisional tax.

Basic amount

The basic amount is computed as:

- the taxable income according to the last assessment issued,
- less any capital gain included in the income,
- less (in the case of individuals) the taxable portion of any lump sum payments on termination of service or retirement fund benefit.

Should the last year of assessment be more than one year prior to the current tax period, an increase of 8% per annum must be included in the basic amount. If the latest assessment was issued less than 14 days before the provisional payment is due, the previous assessment may be used, increased by 8%.

First provisional payment

The first payment is due six months before the end of the tax year. The payment must be based on the greater of an estimate of taxable income for the year, or the basic amount. If the estimate of taxable income is lower than the basic amount the lower estimate may be used, but it will be subject to SARS' right to query and adjust the amount.

Second provisional payment

The second payment is due on the last day of the tax year. The payment must be based on an estimate of the taxable income for the year. A two tier model is in force.

- income less than R1 million – the estimate must be equal to the lesser of the basic amount or 90% of the actual taxable income, or
- income greater than R1 million – the estimate must be equal to 80% of the actual taxable income.

The penalty may be 20% of the difference between the income disclosed and the actual taxable income if SARS is not satisfied that the estimate was seriously calculated or was not deliberately or negligently understated.

Note that capital gains must be included in the estimates used for the first and second provisional payments. It is only prior year capital gains that are excluded from the basic amount.

Additional provisional payment

Where the taxable income of an individual exceeds R50 000 and of a company exceeds R20 000, additional payments of tax are required six months after the year end (February year end by end of September) to obviate interest being levied on the amounts due.

Penalties and interest

Penalties may be imposed as follows:

- 10% of amount not paid by due date for the late payment of provisional tax, or
- 20% of the under-payment on under-estimation of income, or
- 20% of the actual assessed tax less amounts paid on due date on late submission of the second provisional.

Interest will be charged from the end of the period within which payment is required at the prescribed rate.

Penalties and interest paid to SARS are not tax deductible.

Interest will be paid where the taxable income of an individual exceeds R50 000 and of company exceeds R20 000 calculated from six months after the year end at the prescribed rate. Interest is taxable in the year the assessment is raised.

PRESCRIBED INTEREST RATES

| Period | Payable to taxpayer (taxable) | Payable by taxpayer (non-deductible) |
|-----------------------------|--------------------------------------|---|
| 1 Sep 2009 to 30 Jun 2010 | 6.5% | 10.5% |
| 1 Jul 2010 to 28 Feb 2011 | 5.5% | 9.5% |
| 1 Mar 2011 to 30 April 2014 | 4.5% | 8.5% |
| 1 May 2014 to onwards | 5.0% | 9.0% |

BONUSES AND OTHER VARIABLE REMUNERATION

From 1 March 2013 the tax treatment of bonuses, leave pay, over time, commissions and other variable remuneration is as follows:

- The employer may only deduct the expense in the year in which the amount is paid to the employee.
- The employee is taxed on the amount in the year that it is received and employees' tax is deducted in the month received.

Directors' normal salary is not seen as variable remuneration, even though it may change from year to year.

DEBT REDUCTION

The tax treatment of a debt that has been reduced or cancelled will be determined in terms of a new set of ordering rules which apply to debts cancelled or after 1 January 2013.

If the debt reduction or cancellation:

1. Qualifies as a donation it will be subject to donations tax;
2. Constitutes property of an estate and the debt is reduced or cancelled in favour of an heir or legatee by virtue of a bequest it will be subject to estate duty;
3. Stems from an employer / employee relationship it will be regarded as a taxable fringe benefit and will be subject to PAYE;
4. Falls outside the above three areas and it was used to fund expenditure which qualified for a tax deduction or allowance it will be treated as a recoupment subject to normal tax, unless the debt was used to fund trading stock still on hand in which case the cost of the stock that will be allowed as a deduction must be reduced;

5. Falls outside all of the above it will have capital gains tax (CGT) consequences:
- If the debt funded a capital asset the reduction amount must be used to reduce the base cost of that asset.
 - If the asset funded by the debt is no longer on hand, or if the debt did not relate to any specific asset, the reduction amount must be used to reduce any assessed capital loss the taxpayer may have.
 - If the taxpayer does not have an assessed capital loss the reduction of the debt will have no further tax implications.
 - If the debt relates to a capital loan due between companies of the same group the above rules do not apply and there will be no CGT.

LEARNERSHIP ALLOWANCES

A learnership allowance will be granted to employers who enter into a registered Learnership agreement prior to 1 October 2016 as follows:

- R30 000 (or R50 000 for learners with disabilities) for each year that the learner is registered for a learnership linked to the employer's trade. The allowance is apportioned for a part of the year if the learnership was not in place for the full 12 months, and
- in the year that the learnership is successfully completed, R30 000 (or R50 000 for learners with disabilities) for each completed year of the learnership if the learnership is for a period of more than 24 months, or
- in the year that the learnership is successfully completed, R30 000 (or R50 000 for learners with disabilities) if the learnership is for a period of less than 24 months.

EMPLOYMENT TAX INCENTIVE (ETI)

An employment tax incentive is effective from 1 January 2014 until 31 December 2016. Employers registered for PAYE are eligible to claim the ETI. The ETI amount is calculated on a monthly basis for each qualifying employee and deducted from total amount of PAYE that is payable to SARS.

A qualifying employee is a person between the ages of 18 and 29 with a valid South African ID, earning less than R6 000 per month but more than the minimum wage in terms of regulation, or more than R2 000 per month if no minimum wage is prescribed. The employee must not be related to the employer, and be newly employed after 1 October 2013. The ETI can be claimed for up to 24 months for each qualifying employee and is calculated as follows:

| Monthly Remuneration | Employment Tax Incentive per month during the first 12 months of employment of the qualifying employee | Employment Tax Incentive per month during the next 12 months of employment of the qualifying employee |
|----------------------|--|---|
| R0 – R2 000 | 50% of Monthly Remuneration | 25% of Monthly Remuneration |
| R2 001 – R4 000 | R1 000 | R500 |
| R4 001 – R6 000 | Formula: R1 000 – (0.5 x (Monthly Remuneration – R4 000)) | Formula: R500 – (0.25 x (Monthly Remuneration – R4 000)) |

Penalties will apply where an employer claims the ETI for non-qualifying employees, or when a current employee is displaced in order to employ a qualifying employee.

RESEARCH AND DEVELOPMENT

A company can qualify for a 150% tax deduction in respect of research and development expenditure incurred if the research and development relates to systematic investigative or experimental activities of which the result is uncertain, for the purpose of:

- discovering new non-obvious scientific or technical knowledge; or
- creating or developing an invention, patent, design or computer copyright or
- significantly improving any of the above.

The company must apply for approval from the Minister of Science and Technology before the deduction may be claimed.

Plant and machinery acquired and brought into use for the first time after 1 January 2012 for purposes of research and development qualify for a capital allowance on a 50:30:20 basis, and buildings used wholly or mainly for research and development qualify for a 5% annual allowance.

WEAR AND TEAR ALLOWANCES

Wear and tear can be calculated on a straight-line basis provided the taxpayer complies with certain requirements:

- adequate records must be maintained
- the method must be applied to all assets in the same class
- the taxpayer must be able to provide a detailed schedule of assets disposed of, including date of acquisition, tax value in the previous tax year, the price on disposal or scrapping, the final written down value of the asset to be reflected at R1, the records must be maintained so that each asset's value can be established at any point in time
- The asset must be used in the taxpayer's trade.

An updated Interpretation Note 47, together with a Binding General Ruling No 7, was issued on 2 November 2012. These set out write-off periods that are acceptable to SARS. The most common of which are:

| Item | No of years |
|--|--------------------|
| Air-conditioners (window type, moving parts only) | 6 |
| Aircraft (light passenger, commercial and helicopters) | 4 |
| Bulldozers, concrete mixers | 3 |
| Cellular telephones | 2 |
| Cinema equipment | 5 |
| Compressors | 4 |
| Computers (mainframe or servers) | 5 |
| Computers (personal computers) | 3 |
| Computer software (mainframes) | |
| • purchased | 3 |
| • self-developed | 1 |

| Item | No of years |
|--|--------------------|
| Computer software (personal computers) | 2 |
| Containers | 5 |
| Containers (stainless steel – transport of freight) | 5 |
| Crop sprayers, fertilizer spreaders, harvesters, ploughs, seed separators | 6 |
| Curtains | 5 |
| Delivery vehicles | 4 |
| Demountable partitions | 6 |
| Dental and doctors' equipment | 5 |
| Drilling equipment (water) | 5 |
| Drills, electric saws | 6 |
| Electrostatic copiers | 6 |
| Excavators | 4 |
| Fax machines | 3 |
| Fishing vessels | 12 |
| Fitted carpets | 6 |
| Fork-lift trucks, front-end loaders | 4 |
| Furniture & fittings | 6 |
| Gantry cranes | 6 |
| Graders | 4 |
| Grinding machines | 6 |
| Gymnasium equipment | 10 |
| Hairdressers' equipment | 5 |
| Heating equipment | 6 |
| Laboratory research equipment | 5 |
| Lathes | 6 |
| Laundromat equipment | 5 |
| Lift installations (goods and passengers) | 12 |
| Mobile caravans | 5 |
| Mobile cranes | 4 |
| Motorcycles | 4 |
| Musical instruments | 5 |
| Office equipment – mechanical | 5 |
| Office equipment – electronic | 3 |
| Ovens and heating devices | 6 |
| Paintings (valuable) | 25 |
| Pallets | 4 |
| Passenger cars | 5 |
| Photocopying equipment | 5 |
| Racehorses | 4 |
| Refrigerated milk tankers | 4 |
| Refrigeration equipment | 6 |
| Security systems | 5 |
| Shop fittings | 6 |
| Telephone equipment | 5 |
| Television and advertising films | 4 |
| Textbooks | 3 |
| Tractors | 4 |
| Trailers | 5 |
| Trucks (heavy-duty) | 3 |
| Trucks (other) | 4 |
| Workshop equipment | 5 |
| X-ray equipment | 5 |
| "Small" assets costing R7 000 or less can be written off in full in the year of acquisition. | |

The allowance must be apportioned where the asset is used for only a part of the year.

CAPITAL ALLOWANCES

Urban development zone allowance

The capital allowances will apply to buildings in an urban development zone, brought into use before 31 March 2020.

The refurbishment of existing buildings entitles the taxpayer to an allowance of 20% straight-line over 5 years, whilst the construction of a new building entitles the taxpayer to an allowance of 20% in the first year and 8% thereafter provided that the building commenced after 21 October 2008. Where the building commenced prior to that date the annual allowance is 5%.

Low-cost residential units qualify for higher allowances. A low-cost residential unit is a building whose cost does not exceed R200 000 or an apartment whose cost does not exceed R250 000. The refurbishment of such units may be written off over 4 years, whilst new units may be written off: 25% in year 1, 13% in years 2 – 6, and 10% in year 7.

Residential units

Residential units acquired or erected after 21 October 2008 qualify for an allowance provided that the unit is new and unused, used solely for the purposes of trade, situated in the Republic and the taxpayer must own at least 5 residential units for the purposes of trade. The annual allowance until the cost is written off is 5% on normal units and 10% on low-cost units.

Special depreciation allowance

Certain assets used for trade qualify for this allowance and include:

- plant and machinery used directly in a process of manufacture
- machinery, implements and utensils used by a hotelkeeper
- aircraft and ships brought into use after 1 April 1995.
- Research and development plant and machinery brought into use after 1 April 2012

These assets all qualify to be written off over 5 years, except for new and unused plant which may be written off 40% in the first year and 20% for the subsequent 3 years.

Farming plant and equipment, assets used for the production of bio-diesel or bio-ethanol or assets used for the production of electricity from wind, sunlight, gravitational water forces or biomass may be written off 50% in year 1, 30% in year 2 and 20% in year 3. The foundations and supporting structures for energy projects are included.

Industrial buildings

Buildings erected after 30 September 1999 used mainly for manufacture qualify for a 5% annual allowance. The allowance can be claimed by a purchaser of a qualifying building. From 1 April 2012 buildings used wholly or mainly for research and development purposes also qualify for a 5% annual allowance.

Hotel buildings

New buildings erected after 4 June 1988 qualify for a 5% annual allowance, whilst improvements which do not extend the exterior framework of the building qualify for a 20% annual allowance.

Commercial buildings

New and unused buildings erected for the purposes of trade which does not include residential accommodation qualify for a 5% annual allowance.

Small business corporations

New and unused manufacturing plant and machinery acquired by a small business corporation may be written off in full in the year it is brought into use. Other assets qualify for write-off of 50% in year 1, 30% in year 2 and 20% in year 3.

ASSET REINVESTMENT RELIEF

The taxpayer can elect to postpone the recoupment on disposal of an asset where:

- the disposal of the asset was involuntary, or
- the asset disposed of was subject to a capital deduction or wear and tear provided that the replacement assets are brought into use within three years.

The recoupment can be set off over the same period as the wear and tear.

RESTRAINT OF TRADE

Restraint of trade payments are taxable in the hands of individuals, labour brokers and personal service providers. Such payments are deductible by the payer over 3 years if the period of the restraint is less than 3 years, or over the period of the restraint if longer.

LEASEHOLD IMPROVEMENTS

Improvements made to leasehold property in terms of a lease agreement by the lessee must be included in the income of the lessor. Either the stipulated amount or a fair and reasonable value will be included. The lessor may be entitled to discount the value of the improvements over the period of the lease or 25 years whichever is the shorter.

The lessee may deduct leasehold improvement expenditure over the period of the lease only if it was effected in terms of an obligation imposed by the lease agreement and if the lessor is taxed thereon.

Lessees in Public Private Partnerships, or lessees leasing land or buildings from government qualify for tax deductions on voluntary improvements made.

PRE-TRADE EXPENDITURE

Expenditure which would normally be deductible from income, actually incurred prior to the commencement and in connection with a specific trade can be deducted in the year that trading commences from the income of that trade. The deduction is limited to income from that trade and any shortfall can be carried forward to the subsequent years of assessment.

VALUE ADDED TAX (VAT)

VAT is levied on the supply of most goods and services at 14%. When VAT is levied by a vendor it is termed output VAT, and VAT

paid to other suppliers is referred to as input VAT. The net VAT amount (output less allowable input) must be paid over to SARS at the end of each VAT period. VAT periods are monthly, bi-monthly, 6 monthly or annually depending on the type and size of the vendor.

Certain supplies are exempt from VAT and others are zero-rated, meaning VAT must be charged at 0%. Input VAT incurred that relates to the making of exempt supplies may not be claimed as a deduction from output VAT. Some of the more common exempt and zero-rated supplies are listed below.

Exempt supplies

Financial services, but excluding fees charged for arranging these services, e.g. bank charges.

Letting of residential accommodation (note that the sale of residential property by a VAT vendor is not exempt).

Certain education services.

Transport of passengers by road or railway.

Crèche or after school care for children.

Services to members in the course of managing a sectional title body corporate, share block company, housing development scheme for aged persons. From 1 April 2014 supplies by Home Owners Associations to members are also exempt.

Zero-rated supplies

Goods directly exported.

Supply of a business as a going concern.

Fuel and fuel levy goods.

Certain items used for farming e.g. animal feed and remedy, fertilizer, pesticide, plants and seeds.

Certain basic foodstuffs e.g. brown bread, maize meal, rice, unprocessed fruit and vegetables, eggs.

Certain cross-border transport of passengers and goods and related services.

Services supplied to non-residents not present in South Africa.

Services physically rendered outside of South Africa.

Registration

An enterprise whose turnover (excluding exempt supplies) has exceeded R1 million in any twelve month period or if there are reasonable grounds to believe that turnover will exceed R1 million, is required to register as a VAT vendor.

Penalties and interest

VAT returns are to be submitted and payment made by the last business day on or before the 25th day of the month unless the returns are e-Filed, in which case the due date is the last business day of the month. The late submission of a VAT return results in a penalty of 10% of the VAT payable and interest at the prescribed rate for the month or part thereof.

SKILLS DEVELOPMENT LEVY (SDL)

The levy is utilised to develop the skills of the workforce, improve productivity and the quality of life of the workers.

Employers are encouraged to create an active learning environment by being eligible for grants if their training programs meet the Sector Education and Training Authority (SETA) requirements.

Employers with an annual payroll in excess of R500 000 are required to register and pay the 1% levy on the total remuneration used to compute employees' tax.

TAX ADMINISTRATION ACT

The Tax Administration Act (TAA) regulates the administrative provisions applicable to all taxes except customs and excise. The TAA deals with the powers of SARS and the rights of taxpayers as well as dispute resolution procedures, interest and penalties.

The TAA gives SARS the power to conduct search-and-seizure operations without a warrant.

Tax Ombud

A Tax Ombud has been created under the TAA. A taxpayer may approach the Tax Ombud only once all available complaints resolutions mechanisms within SARS have been exhausted.

Taxpayers' rights

SARS must advise taxpayers of the status of any audit being conducted, and keep the taxpayer up to date with the progress of the audit at regular intervals.

Dispute resolution

If a taxpayer disagrees with any tax assessment, an objection may be lodged followed by an appeal to the Tax Board or the Tax Court. A matter can also be dealt with by way of an alternative dispute resolution (ADR) process.

Penalties

Penalties are divided between non-compliance and understatement penalties. A fixed amount non-compliance penalty will apply when a taxpayer fails to comply with administrative provisions, e.g. not submitting a return on time. The penalty is calculated as follows and will be applied for each month that the non-compliance exists:

Assessed loss or taxable income for preceding year

| | Penalty |
|---------------------------|----------------|
| Assessed loss | R250 |
| R0 – R250 000 | R250 |
| R250 001 – R500 000 | R500 |
| R500 001 – R1 000 000 | R1 000 |
| R1 000 001 – R5 000 000 | R2 000 |
| R5 000 001 – R10 000 000 | R4 000 |
| R10 000 001 – R50 000 000 | R8 000 |
| R50 000 001 – and over | R16 000 |

A percentage based penalty will apply when a taxpayer has not paid tax as and when required. These penalties vary between 10% and 20% depending on the type of tax involved.

An understatement penalty will apply where the incorrect amount of tax was paid due to a default, omission or incorrect statement in a return or failure to pay the correct amount of tax where no return is required. The understatement penalty will be a percentage of the shortfall of the tax paid, according to the following table:

| 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 position taken | 50% | 75% | 25% | 0% |
| Gross negligence | 100% | 125% | 50% | 5% |
| Intentional tax evasion | 150% | 200% | 75% | 10% |

No understatement penalty will be imposed if the taxpayer can show that the understatement resulted from a bona fide inadvertent error.

Voluntary disclosure

A taxpayer who approaches SARS to rectify any previous defaults will qualify for relief against penalties as per the table above.

ADVANCE TAX RULINGS

A taxpayer may apply for an advance tax ruling from SARS to obtain certainty and clarity on the Commissioner's interpretation and application of the tax laws on proposed transactions. This ruling will be binding on SARS provided full and accurate disclosure has been made. An application fee of R2 500 is payable by small, medium and micro enterprises, and R14 000 for all other taxpayers. SARS will charge further cost recovery fees which will depend on the complexity of the proposed transaction.

For transactions which have already occurred, a taxpayer may apply for guidance from SARS in the form of a non-binding private ruling at no cost.

GENERAL ANTI-AVOIDANCE PROVISIONS

The anti-avoidance provisions apply to schemes or arrangements entered into on or after 2 November 2006.

- Impermissible avoidance arrangements are those whose sole or main object is to obtain a tax benefit and are entered into in a manner not normally employed for bona fide business purposes, or lack commercial substance or create rights and obligations not normally created between persons dealing at arm's length.
- Consequences of such arrangements may result in the Commissioner disregarding, combining or recharacterising any steps of the arrangement, disregarding any accommodating or tax indifferent party, deeming connected persons to be a single person, or treatment of the arrangement as if it had not been entered into.
- Lack of commercial substance exists if the arrangement does not have a substantial effect on the business risks, utilises round trip financing or an accommodating or tax indifferent party and has elements that have the effect of offsetting or cancelling each other.
- Presumption of purpose of the arrangement as being one solely or mainly created to obtain a tax benefit by the Commissioner must be disproved by the taxpayer.

DISALLOWANCE OF ASSESSED LOSSES

SARS has the discretion to disallow the set-off of an assessed loss against the income of a company, close corporation or trust. It may do so if any agreement was entered into which affected the entity or its shareholding, membership or trustees, resulting directly or indirectly in income or a capital gain accruing to the entity, solely or mainly for the purpose of utilising any assessed loss or capital loss in order to avoid or reduce the liability for any tax on the part of that entity or any other person.

TRANSFER DUTIES

Transfer duty on immovable property

Transfer duty is payable on the acquisition of fixed property situated in South Africa, and is payable by the purchaser. In cases where the transaction will be subject to VAT no transfer duty will be payable. The rate of transfer duty for natural persons and all legal persons (including companies, close corporations and trusts) is:

| | |
|-------------------------|---------------------------------------|
| 0 – R600 000 | 0% |
| R600 001 – R1 000 000 | 3% of value over R600 000 |
| R1 000 001 – R1 500 000 | R12 000 + 5% of value over R1 000 000 |
| R1 500 000 and above | R37 000 + 8% of value over R1 500 000 |

The transfer of shares in a residential property company is subject to transfer duty as above. A residential property company is one that owns a dwelling house, holiday home, land zoned for residential use, other than apartment complexes, and where the fair value of the property is more than 50% of the total fair value of all other assets (other than financial instruments).

SECURITIES TRANSFER TAX (STT)

This tax is imposed at a rate of 0.25% on the transfer of listed or unlisted securities. The STT is calculated on the higher of the consideration paid or the market value of the security, and is payable by the purchaser. Securities consist of shares in companies or member's interests in close corporations.

ANNUAL RETURNS FOR COMPANIES AND CLOSE CORPORATIONS

Public and External Companies, Private and Incorporated Companies and Close Corporations are required to lodge annual returns. The due date is 30 business days after the anniversary date of incorporation.

These returns are lodged on the CIPC website. Failure to comply will lead to deregistration which can only be reversed by lodging of the applicable return prior to the final deregistration notice.

FOREIGN EXCHANGE

The regulations and restrictions discussed are in force as at 26 February 2014.

The Financial Surveillance Department (FSD) has delegated authority to the Authorised Dealers to approve certain payments.

Single discretionary allowance

Natural persons older than 18 years

Residents may avail themselves of a single discretionary allowance of R1 million per calendar year without requiring a Tax Clearance Certificate.

This allowance may be apportioned as follows:

- monetary gifts and loans to non-residents or residents temporarily abroad as defined;
- donations to missionaries abroad provided suitable evidence is viewed that the person is a missionary abroad;
- maintenance transfers to mother, father, brother and sister in necessitous circumstances, provided that evidence is supplied on an annual basis for as long as the transfer is made;
- alimony and child support payments;
- wedding expenses or other special occasions;
- foreign capital allowance;
- travel allowance;
- study allowance subject to evidence of enrolment and expenses incurred.

Natural persons younger than 18

Such persons are entitled to a R200 000 travel allowance.

Capital transactions

Natural persons

Taxpayers in good standing over the age of 18 may make foreign investments of R4 million per calendar year provided a duly electronically completed "Tax clearance certificate (in respect of foreign investments)" is submitted.

In addition the FSD will consider applications to invest in fixed property for investment purposes.

Companies

Foreign direct investments of up to R500 million per calendar year no longer require approval from the FSD. This applies to new foreign direct investments whereby a minimum of 10% voting right is obtained.

The Authorised Dealers are required to ensure that the investments are bona fide and to report the investments to the FSD. The investments are no longer required to be in the same line of business as the applicant, though passive real estate investments are still excluded from this dispensation. Companies are required to state how the investment is to be funded.

Foreign investments in excess of R500 million per investment require FSD approval and have stringent reporting requirements. The FSD also reserves the right to stagger the capital outflows so as to manage any potential impact on the foreign exchange market.

Borrowings

Authorised Dealers of the FSD must approve foreign loans prior to the loans being made.

Maximum interest rates:

- Foreign denominated loans may not exceed the base rate + 2% or, in the case of shareholders, the base rate as set by the commercial banks in the foreign country;

- South African Rand denominated loans may not exceed prime overdraft rate + 3% or, in the case of shareholders, prime overdraft rate.

Companies (applies to close corporations, foundations, trusts and partnerships) having a non-resident interest of 75% are regarded as affected companies. These companies may not accept or repay loans from their non-resident shareholders without approval from the FSD. These companies are required to ensure that their local borrowings fall within the restrictions imposed by the local borrowings formula.

Emigration

Emigrants should apply for emigration facilities from the Authorised Dealer before emigration. They are required to disclose all assets and liabilities (local and foreign) as well as any donations or distributions from inter-vivos trusts received within the last 3 years.

Emigrants qualify for:

- Single discretionary allowance in the normal course;
- Travel allowance of R200 000 if younger than 18;
- Annual foreign capital allowance of R8 million per family unit or R4 million for single person.

Household and personal effects, motor vehicles, caravans, trailers, motor cycles, stamps and coins with an insured value up to R2 million may be exported.

All remaining assets are classified as blocked and documents giving title to such assets must be lodged with the Authorised Dealer.

Most income is eligible for remittance to an emigrant.

Inheritances

Estate of South African resident

Cash bequests to non-resident beneficiary of a deceased estate of a South African resident may be remitted.

Securities inherited by non-resident are to be endorsed "Non-resident" and the proceeds on disposal are remittable.

Estate of non-resident

South African assets are freely remittable to non-resident beneficiaries.

Foreign assets inherited by residents from a non-resident estate do not have to be disclosed to an Authorised Dealer but are to be disclosed to the South African Revenue Service if and when applicable.

Immigrants

On arrival, immigrants are required to declare to an Authorised Dealer that they possess foreign assets and to undertake that their foreign assets will not be placed at the disposal of a third party South African resident.

Immigrants may freely deal with their foreign assets and income.

Assets introduced into South Africa may be retransferred together with normal growth during first 5 years.

After 5 years the immigrant will be classified as a South African resident and qualify for foreign capital investment and emigration allowances.

RETENTION OF RECORDS

Documents must be retained for a certain number of years, depending on the legislation. Below are the prescribed retention periods which commence from the date of the last entry in the record.

Close Corporations

| | |
|---|------------|
| Founding statement, (CK1 or CK2 and CK2A), minute books and resolutions passed at meetings | Indefinite |
| Accounting records, annual financial statements and report of the accounting officer | 15 years |

Companies

| | |
|--|------------|
| Registration certificate, Memorandum of Incorporation and alterations or amendments, rules, securities registers, register of company secretary and auditors | Indefinite |
| Notice and minutes of shareholders meetings, resolutions adopted, records of directors, minutes and resolutions of directors meetings, reports presented at the AGM, annual financial statements, accounting records. | 7 years |
| Any other company records (if longer period is not specified in terms of another act) | 7 years |

Tax

| | |
|-------------------|---------|
| Returns submitted | 5 years |
|-------------------|---------|

Capital gains tax

| | |
|--|---------|
| All records to date of sale including base costs and valuations, thereafter from date return lodged | 5 years |
|--|---------|

VAT

| | |
|---|---------|
| Returns submitted and records supporting information disclosed therein, including invoices, debit notes, credit notes, bank statements, stock lists, paid cheques | 5 years |
| Documents supporting zero rating of supplies | 5 years |

Employee records

| | |
|--|---------|
| Including records of remuneration paid, PAYE withheld, employee's income tax reference number, EMP501 | 5 years |
|--|---------|

Micro businesses

| | |
|--|---------|
| Records of income, dividends declared, assets owned and liabilities exceeding R10 000 | 5 years |
|--|---------|

Records may be retained electronically provided they can be reprinted.

DTI INCENTIVES AND DEVELOPMENT FINANCE

These include:

- S12 Income Tax allowance incentive introduced to support Greenfield projects (new projects, new manufacturing assets) and Brownfield projects (expansion of existing industrial projects). The support is for capital investment and training.
- The Automotive investment scheme provides a cash grant as an incentive to grow investment in technologically-advanced production.

- Enterprise Investment Programme which encompasses the Manufacturing Investment Programme and Tourism Support Programme.
- Export Marketing and Investment Assistance to assist with costs incurred to develop export markets and develop new foreign direct investment in South Africa.
- The South African Film and Television Production and Co-production incentive which aims to assist local film producers in the production of local content.

More information about these and other incentives is available from the DTI website at <http://www.thedti.gov.za>

FOREX RATES

Monthly average rates as published by SARS:

| | US\$ | UK£ | € | AUS\$ |
|----------------|---------|---------|---------|--------|
| December 2012 | 8.6385 | 13.9409 | 11.3243 | 9.0437 |
| January 2013 | 8.7857 | 14.0322 | 11.6700 | 9.2274 |
| February 2013 | 8.8827 | 13.7578 | 11.8691 | 9.1640 |
| March- 2013 | 9.1747 | 13.8354 | 11.9040 | 9.4796 |
| April 2013 | 9.1125 | 13.9447 | 11.8599 | 9.4627 |
| May 2013 | 9.3560 | 14.3094 | 12.1484 | 9.2534 |
| June 2013 | 10.0307 | 15.5219 | 13.2281 | 9.4480 |
| July 2013 | 9.9101 | 15.0511 | 12.9694 | 9.0861 |
| August 2013 | 10.0826 | 15.6166 | 13.4183 | 9.1000 |
| September 2013 | 9.9830 | 15.8221 | 13.3191 | 9.2605 |
| October 2013 | 9.9172 | 15.9667 | 13.5295 | 9.4375 |
| November 2013 | 10.2000 | 16.4211 | 13.7655 | 9.5162 |

Weighted average daily rates as published by the South African Reserve Bank:

| | US\$ | UK£ | € | AUS\$ |
|-------------------|---------|---------|---------|--------|
| 31 January 2013 | 9.0582 | 14.3300 | 12.2842 | 9.4251 |
| 28 February 2013 | 8.8410 | 13.4237 | 11.6192 | 9.0827 |
| 28 March 2013 | 9.2521 | 14.0326 | 11.8408 | 9.6618 |
| 30 April 2013 | 8.9686 | 13.9005 | 11.7323 | 9.2851 |
| 31 May 2013 | 10.1985 | 15.5012 | 13.2932 | 9.7847 |
| 28 June 2013 | 9.9655 | 15.1830 | 13.0040 | 9.2081 |
| 31 July 2013 | 9.8551 | 14.9940 | 13.0925 | 8.9047 |
| 30 August 2013 | 10.3348 | 16.0174 | 13.6838 | 9.2251 |
| 30 September 2013 | 10.1012 | 16.3139 | 13.6437 | 9.4251 |
| 31 October 2013 | 9.9560 | 15.9684 | 13.6482 | 9.4607 |
| 29 November 2013 | 10.1911 | 16.6411 | 13.8645 | 9.2937 |
| 31 December 2013 | 10.4675 | 17.2954 | 14.4210 | 9.3371 |
| 31 January 2014 | 11.1715 | 18.4011 | 15.1457 | 9.7943 |

PRIME OVERDRAFT RATES

| Date of change | | Rate |
|----------------|--------------|-------|
| | | % |
| 2010 | 26 March | 10.00 |
| | 10 September | 9.50 |
| | 19 November | 9.00 |
| 2012 | 19 July | 8.50 |
| 2014 | 30 January | 9.00 |