SA Budget Review 2024/25 - At a glance

February 2024

EY

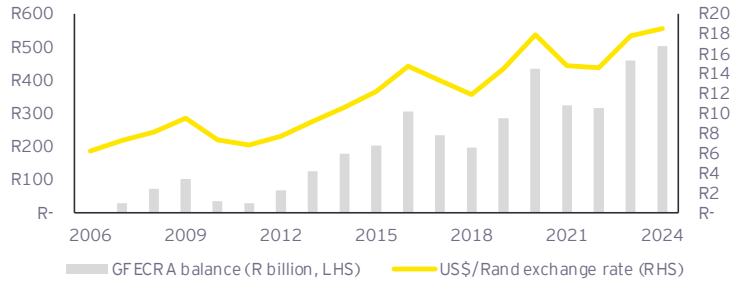
Building a better working world

01 Economic Outlook

Treasury expected South Africa to have grown by 0.6% in 2023, lower than the average 0.8% growth since 2012. GDP growth projections have been revised upwards for 2024 to 1.6%, from 1.0% at the time of MTBPS, reaching 1.8% in 2026 according to Budget 2024. Treasury expects this improved outlook to yield increases in consumer spending as inflation eases, and increased investment in energy infrastructure. This view is more optimistic compared to other forecasters, including the SARB, which projects growth of 1.2% in 2024. There are risks to the downside arising from geopolitical tensions, weaker growth globally and challenges in South Africa's electricity and transport infrastructure. The Treasury projects that inflation will average 4.9% in 2024 and 4.6% in 2025 & 2026. Developments in the Middle East risk the inflation outlook through a potential impact on oil prices, with further risks associated with a potentially weaker Rand exchange rate in the coming years.

GFECRA balance and Dollar/Rand exchange rate (2006-2024)

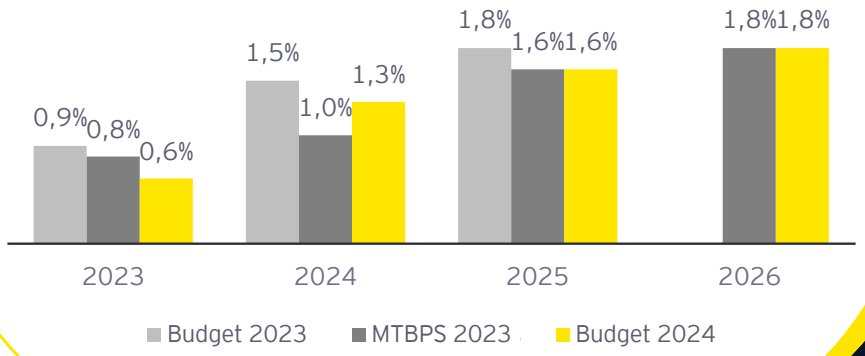
The Gold and Foreign Contingency Reserve Account (GFECRA) is an account held by the Reserve Bank capturing losses and profits on foreign currency movements. This account is budgeted to be drawn down by R150 million to decelerate government borrowing



Source: National Treasury

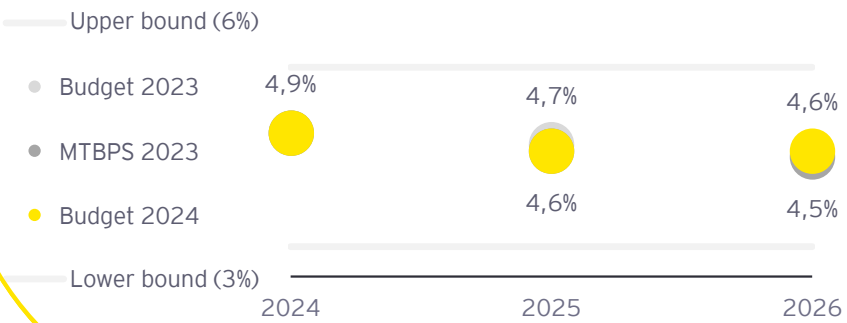
The most noteworthy development from Budget 2024 is the R150 billion withdrawal from the Gold and Foreign Exchange Contingency Reserve Account (GFECRA), to reduce South Africa's debt service costs through a reduction in borrowing. The last settlement of this kind was done in 2003, according to Treasury. Due to the weakening of South Africa's exchange rate, the value of the reserves in Rand terms increased from R1.8 billion in 2006 to R507.3 billion at the start of this year. Under the critical condition of having a strong legal framework in place to maintain the stability of the account going forward, use of this allocation in the context of reducing national debt is reasonable, albeit only a temporary measure. Without the draw-down on the GFECRA, South Africa's debt to GDP ratio could be up to 1.6 percentage points higher over medium term. As this is only a temporary measure, use of the GFECRA needs to be coupled with managing key expenditure risks going forward and strong economic growth to drive revenue collection. Reducing South Africa's debt, and structurally shifting spending from consumption towards investment, will help improve the ability of fiscus to support economic growth.

Real GDP growth projections are more subdued according to Budget 2024 relative to Budget 2023



Source: National Treasury

Budget 2024's view on inflation broadly aligns to the outlook from both Budget and MTBPS 2023. Consequently, inflation is forecast to hover between 4.5 and 4.9% over the MTEF

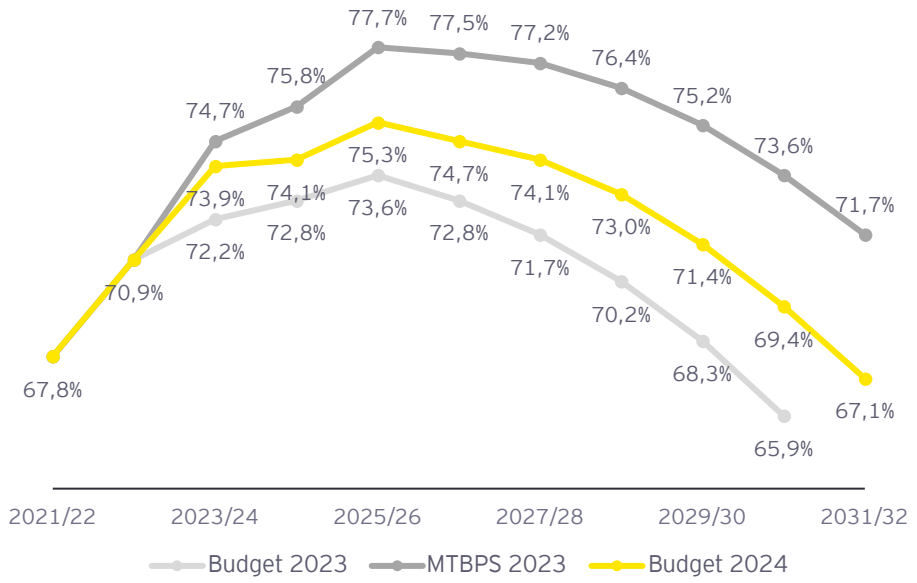


Source: National Treasury

02 Fiscal Outlook

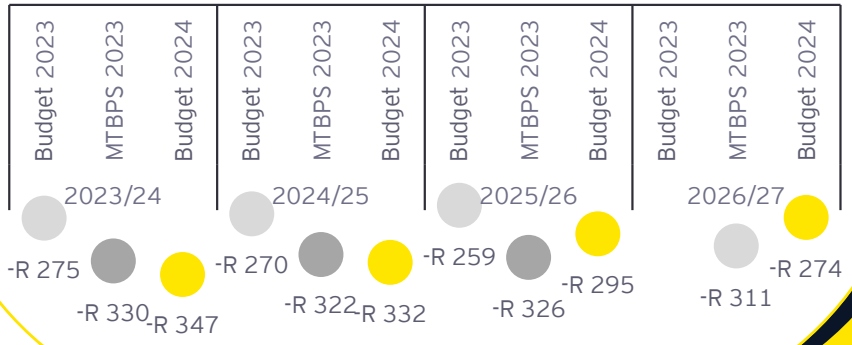
Narrowing in the budget balance is due to fiscal consolidation, and a decelerating debt trajectory relative to what was expected during Budget 2023. This deceleration comes about as a result of Treasury drawing down on the South African Reserve Bank's GFECRA balance.

Debt-to-GDP ratio



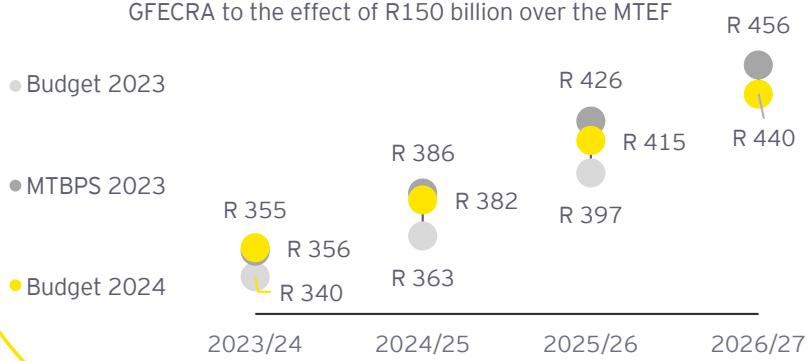
This budget does not announce any new support for State Owned Entities (SOEs) but provides an update on the progress of reforms - particularly Eskom and Transnet - with the aim of reducing fiscal risk and driving key economic reforms. Regarding the National Health Insurance (NHI), despite much public scrutiny and the President stating that he will imminently sign the NHI bill, no allocation has been made in this budget for the NHI. The Treasury's wait-and-see approach is because it is still early in the process and the details of how the fund will be structured still need to be developed.

The main budget balance (the difference between revenues and expenditures) is expected to improve relative to the expectations set out in the MTBPS over the MTEF, notwithstanding a worsening in 2023/24:



Source: National Treasury

Debt service costs are expected to increase, albeit at a slower rate than was predicted during the MTBPS. This is as a result of decelerating borrowing given a run down of the GFECRA to the effect of R150 billion over the MTEF

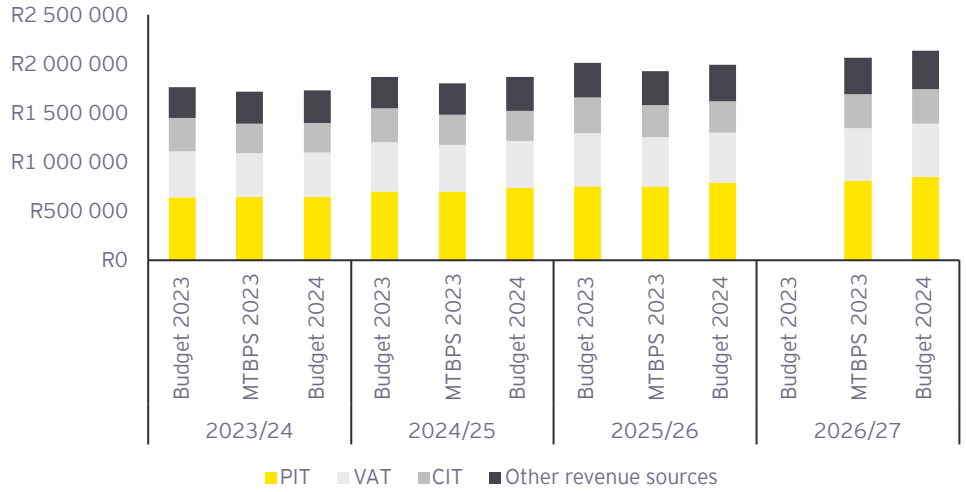


Source: National Treasury

03 Taxes (Summary)

Although corporate income tax collections are expected to fare worse than was predicted during the MTBPS according to Budget 2024, increased personal income tax collections (as a result of bracket and rebate adjustments, and increases to gross employee compensation) are set to offset some corporate income tax under-collections.

Revenues by source (R millions) over the MTEF



Source: National Treasury

Key measures announced during the 2024 budget related to tax include the following:

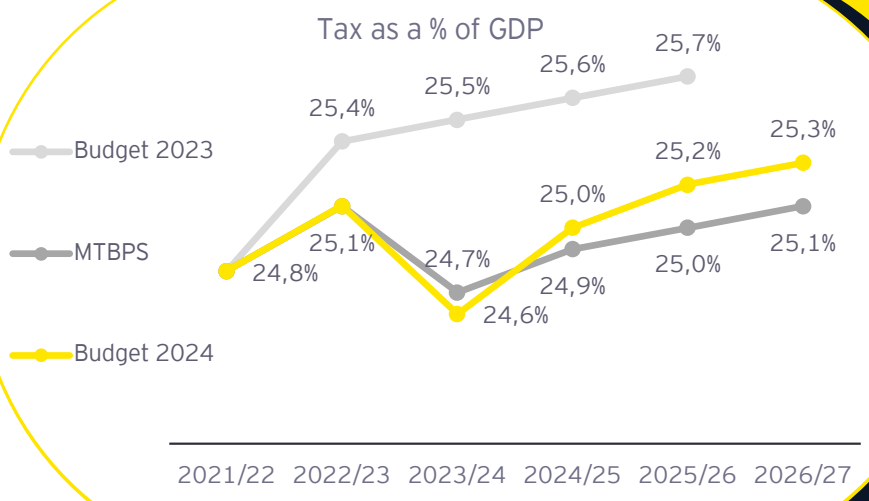
1. No inflation adjustments have been made to personal income tax tables and medical tax credits
2. South Africa will implement a global minimum corporate tax for companies with annual revenue exceeding Euro750m – multinational corporations will be subject to an effective tax rate of at minimum 15%, regardless of where said company's profits are located.
3. Producers of electric vehicles in South Africa can claim 150% of qualifying investment spending as an incentive to aid in the transition towards new energy vehicles.

These measures result in a tax-to-GDP ratio which has worsened relative to Budget 2023 but is improved relative to MTBPS 2023.

Impact of tax proposals on medium-term revenue

R million	2024/25		2025/26		2026/27	
	Effect of tax proposals					
Gross tax revenue (before 2024 budget tax proposals)	**R**	**1 848 035**	**R**	**1 975 277**	**R**	**2 108 458**
2024 Budget Proposals	**R**	**15 000**			**R**	**7 500**
Direct Taxes	**R**	**18 200**	**R**	**19 330**	**R**	**28 182**
Personal Income Tax						
No inflatonary adjustment to tax brackets and rebates	R	16 300	R	17 342	R	18 603
No inflatonary adjustment to tax medical tax credits	R	1 900	R	1 989	R	2 079
Corporate Income Tax						
Global minimum corporate tax					R	8 000
Electric vehicles tax incentive					-R	500
Indirect taxes	**-R**	**3 200**	**-R**	**3 397**	**-R**	**3 617**
Fuel levy						
No adjustment to general fuel levy	-R	4 000	-R	4 248	-R	4 521
Specific excise duties						
Above-inflation increase in excise duties on alcohol	R	800	R	851	R	904
Net impact of tax proposals	**R**	**15 000**	**R**	**15 933**	**R**	**24 565**
Gross tax revenue (after tax proposals)	**R**	**1 863 035**	**R**	**1 991 210**	**R**	**2 133 023**

Source: National Treasury



Source: National Treasury

04 Personal Taxes

Highlights

- No adjustment to personal income tax tables, rebates, and medical tax credits
- Two-pot retirement system will become effective from 1 September 2024
- Further amendments to anti-avoidance rules on low-interest or interest-free loans to trusts (or companies where more than 20% of the equity shares/voting rights are held by trusts), in a cross-border context, are proposed.

- Personal income tax remains the major contributor to the fiscus and contributes 39.65% of the gross tax revenue. During the 2024/2025 fiscal year, no adjustments / relief are made to the personal income tax tables, rebates, medical tax credits or retirement tax tables which will raise additional revenue of R 18,2 billion. The average taxpayer will therefore be worse off, as no provision was made for fiscal drag.
- It is proposed that the so-called two-pot retirement system is going ahead and effective from 1 September 2024. The retirement fund contributions will be split between the retirement component and the savings component. Retirement fund member will have access to the savings component before retirement. Provision is made for an initial seed capital amount which will be the lower of 10% of the fund value on 31 August 2024 or R30,000. Withdrawals from the savings component will remain fully taxable at the marginal tax rates.
- It is proposed that amendments be made to the anti-avoidance rules in relation to low interest or interest-free loans to trusts (or companies where more than 20% of the equity shares/voting rights are held by trusts) in order to effectively address the interaction between the trust anti-avoidance measures and transfer pricing rules where the arm's length interest rate is less than the official rate on these cross-border loan arrangements.

Impact of tax proposals on medium-term revenue

2023/24		
Taxable Income (R)	**Rates of tax**	
R0 - R237 100	18% of each R1	
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	
Rebates		
Primary	R	17 235
Secondary	R	9 444
Tertiary	R	3 145
Tax threshold		
Below age 65	R	95 750
Age 65 and over	R	148 217
Age 75 and over	R	165 689

Source: National Treasury

05 Value-Added Tax

Highlights

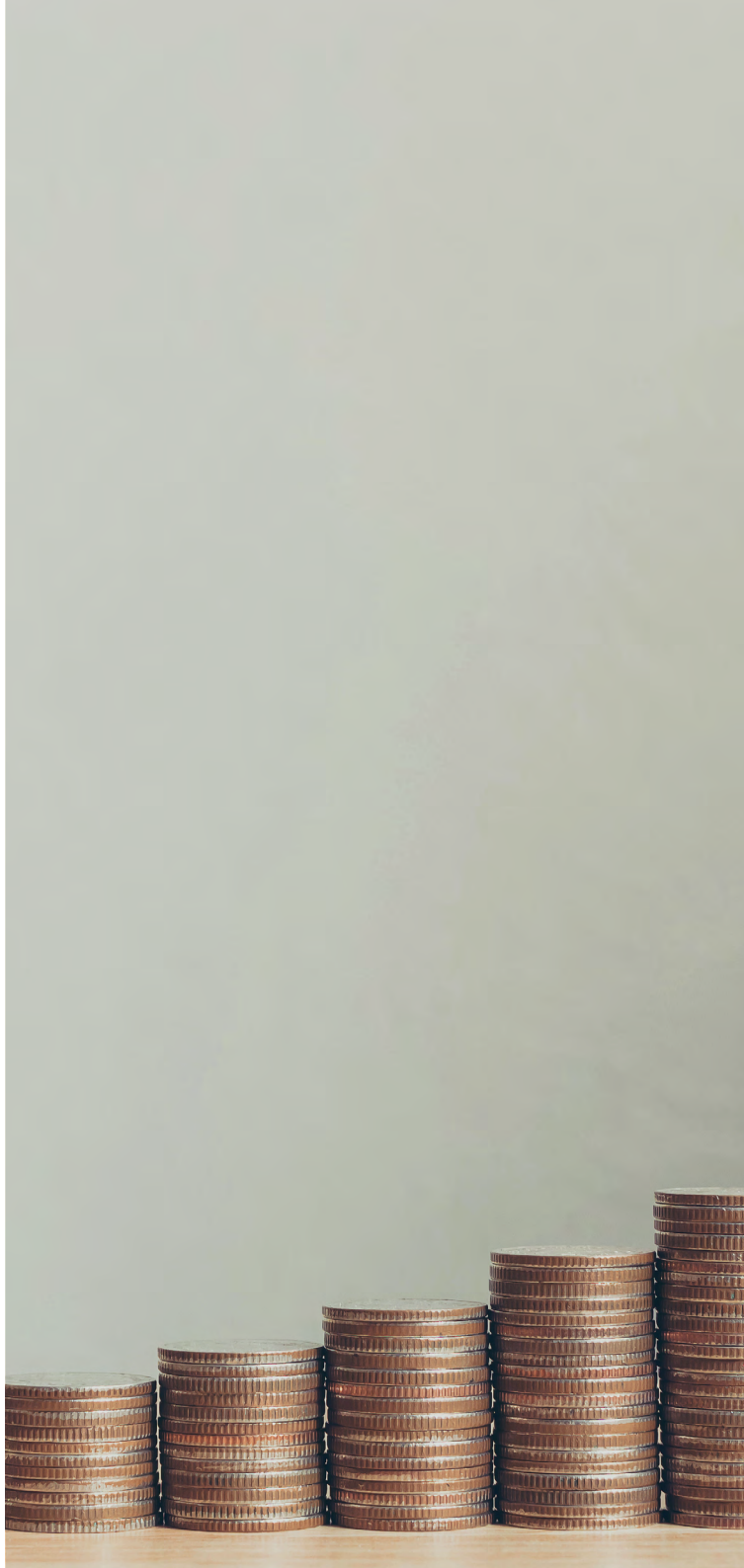
- Potential turnaround on the existing 'Electronic Services' rules to exclude business to business transactions to align to global practices
- Proposed amendments to the prescription period related to the recovery of input tax
- Clarifying the application of the zero-rate relating to pre-cut and prepared fruit and vegetables, the extension of the period allowed for paying VAT on imported services, all non-resident companies to appoint a VAT representative.

The VAT rate remains unchanged at 15%. In the current year, the projected VAT Collections show a subdued growth of only 5.4%. This low growth rate is aligned with the poor economic performance of the country and is further impacted by an increase in VAT refunds paid by SARS.

The proposed amendment to the Electronic Services rules will, if implemented, result in a large number of electronic services vendors that have registered for VAT over the last 10 years to now deregister.

Since the inception of VAT on electronic services, Treasury had not made a distinction between the VAT treatment of business-to-business (B2B) and business-to-consumer (B2C) supplies. This does not align to global practice and Treasury is now considering that electronic services be limited only to B2C transactions.

The intention to revisit prescription periods for claiming input tax may have far reaching implications for VAT vendors. Details relating to this proposed amendment are currently not clear, taxpayers will need to closely follow the proposed amendments. Although indications are that this would ease the administrative burden for both taxpayers and SARS, we are concerned that this may have negative financial implications.



06 Financial Services

Highlights

- Clarity for covered persons (as defined in section 24JB)
- Proposed changes to taxation of insurers

Clarity for covered persons (as defined in section 24JB)

Section 24JB of the Income Tax Act applies to certain persons (defined as covered persons). This section specifically deals with instruments held at fair value through profit or loss in term of the International Financial Reporting Standards 9 (IFRS 9) by the covered person.

Section 24JB (3) seeks to ensure that any income or expenses and gains or losses attributable to these instruments are only included in or deducted from the income of the covered person under section 24JB (2) of the Income Tax Act. To ensure specific clarity in respect of the interaction of section 24JB and the "gross income" definition, Government intends to amend section 24JB (3) to specifically exclude the application of the definition of "gross income".

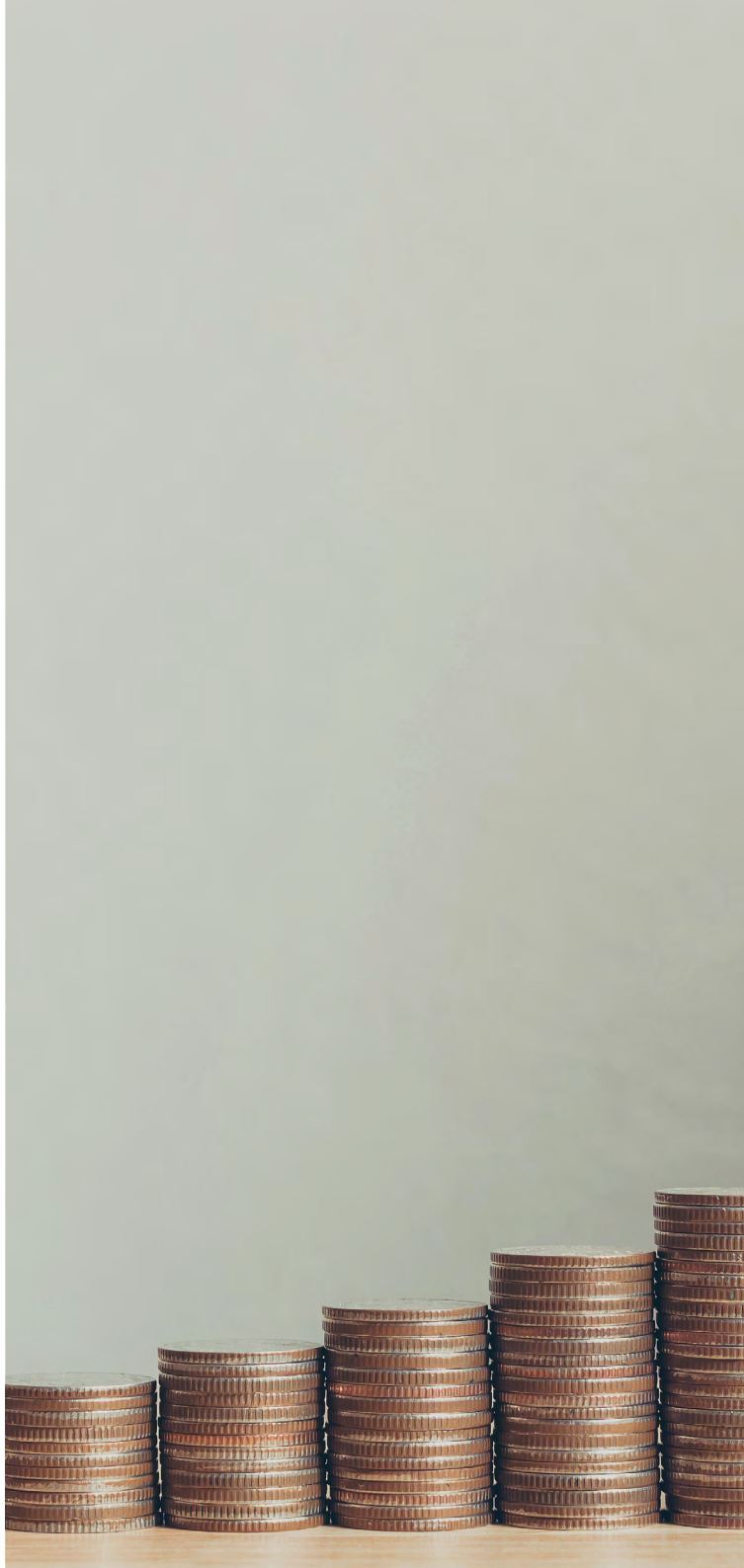
Proposed changes to taxation of insurers

IFRS 17 is a new accounting standard for insurance contracts and replaces the previous accounting standard, IFRS 4. The income tax legislation dealing with the taxation of insurers, contained in sections 28 and 29A of the Income Tax Act, has been amended through recently promulgated legislation to deal with the impact of the newly implemented IFRS 17.

However, due to the complexity of certain insurance arrangements, IFRS 17 and the tax legislation, certain anomalies arose in the application of the amended sections 28 and 29A that could not be foreseen in previous legislative amendments.

One such unintended consequence of the legislation is the excessive phasing-in amount arising from the treatment of liabilities for remaining coverage (LRC) under the current legislation.

We therefore expect amendments to section 28 of the Income Tax Act to specifically deal with the tax treatment of LRC and the phasing-in amount. Other matters such as salvages, reinsurance, insurance debtors and creditors may also be addressed.



07 International Tax

Highlights

- Global Minimum Tax Bill
- Refinements to CFC legislation and currency translations
- Changes to foreign tax credits

Base Erosion and Profit Shifting (BEPS) Pillar 2

As part of the global BEPS 2.0 Project, South Africa is to introduce a Global Minimum Tax Bill, which appears to align with the proposed global minimum effective tax rate of 15% for Multinational Enterprises (MNEs) with a consolidated revenue of EUR750m. This is expected to raise an additional R8bn in revenue for 2026/2027.

Any potential top-up tax would likely affect both SA-headquartered MNEs and SA companies that form part of MNEs within the threshold. If not already performed, taxpayers should conduct an impact assessment in preparation for any amendments. While the intended effective date is 1 January 2024, Treasury has welcomed comments from interested parties.

Refinements to certain foreign currency translation aspects

Treasury is introducing various refinements to foreign currency translations, including:

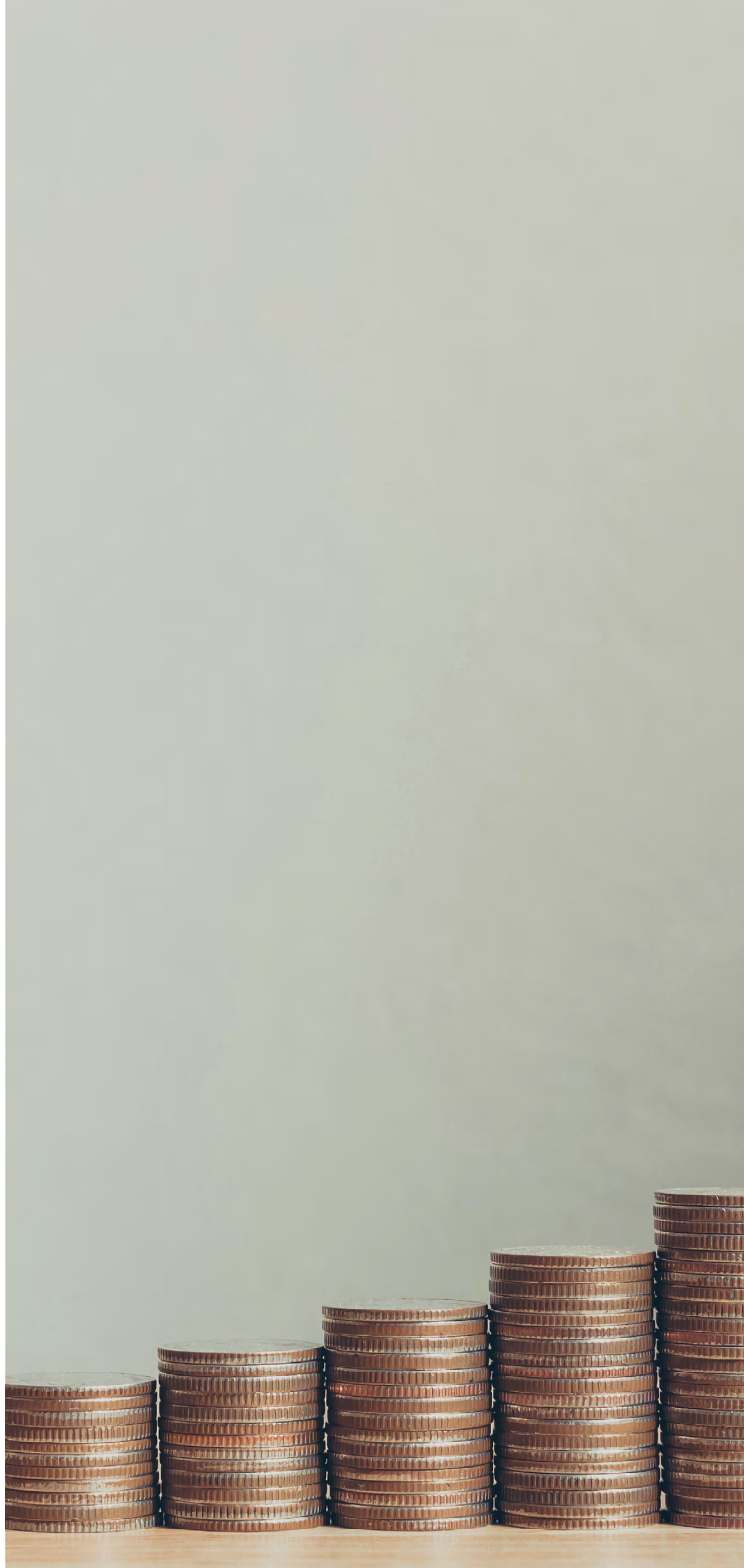
- Using the same average exchange rate for net income imputations in relation to Controlled Foreign Companies (CFCs) and any attendant foreign tax credits.
- Limitations to using hyperinflationary functional currencies of CFCs.
- Extending the definition of an "exchange item" to include shares disclosed as "financial assets" – this will likely result unrealized foreign exchange gains on foreign currency denominated preference share assets being taxed on an annual basis.
- Proposed ring-fencing of exchange losses on exchange items from a future year of assessment. The exact ring-fencing mechanism should be closely monitored when draft rules are published.

Foreign tax credits (section 6quat)

Section 6quat is to be amended to explicitly allow for a foreign tax credit against tax payable in SA on a capital gain for taxes payable in the relevant foreign jurisdiction on the disposal of an asset.

Relief to 18 month holding period requirement for foreign returns of capital

In 2023 an 18 month holding period requirement was introduced to rely on the participation exemption for foreign returns of capital. The amendment did not, however, cover a scenario where multiple group companies held the shares in the foreign company during an 18 month period. It is proposed that the holding period rules be amended to cater for this scenario.



08 Corporate Income Tax

Highlights

- Interest deductibility rules to be extended so that all current legislation is aligned
- Application of interest limitation rules to tax-exempt entities to be reviewed
- Limitation of assessed loss rules to be reconsidered for entities in the process of liquidation, deregistration or winding up.

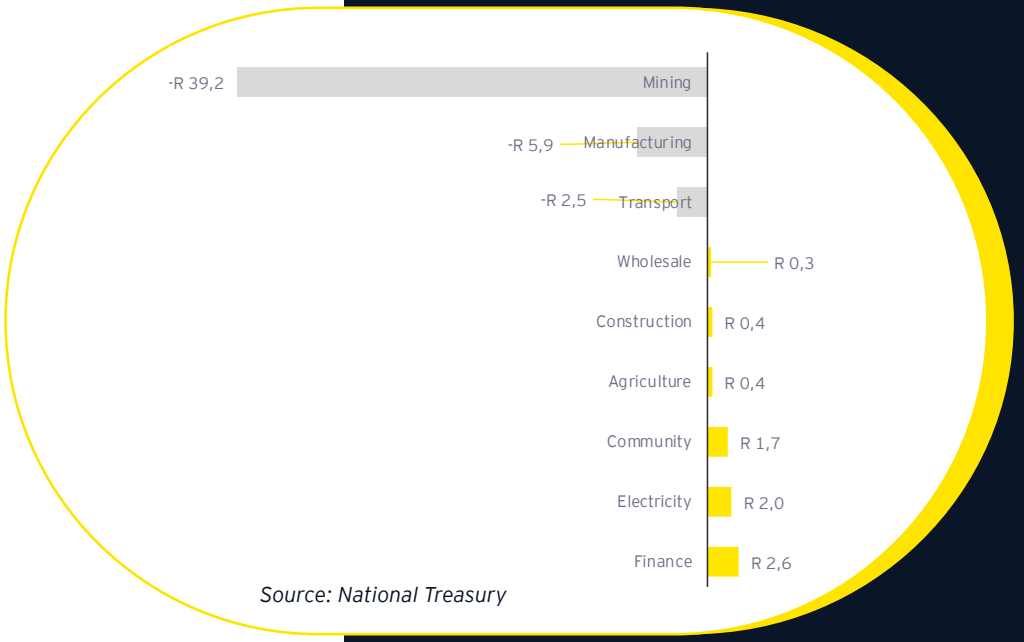
Deductibility of interest

Current legislation limits interest deductions when there is a relationship between a debtor and a creditor, and the corresponding interest income is not taxed fully in South Africa. Tax-exempt investors, such as pension funds, may be unfairly prejudiced when they lend to a related party. Government will therefore reconsider the impact of current legislation on tax-exempt investors.

Further, current legislation relating to the limitation of interest on loans acquired for the purposes of reorganisation and acquisition transactions (section 23N of the Income Tax Act) will be aligned with the recent amendments made to the interest limitation rules in section 23M (specifically, the definition of "adjusted taxable income" and the formula applied to limit an interest deduction).

Limitation of assessed losses

Effective for years of assessment ending on or after 31 March 2023, the utilisation of assessed losses is limited to the greater of R1 million or 80% of taxable income. When a company is in the process of liquidation, deregistration or being wound up, it cannot therefore make use of its full assessed loss. It is proposed that the legislation be amended to consider such circumstances.



Source: National Treasury

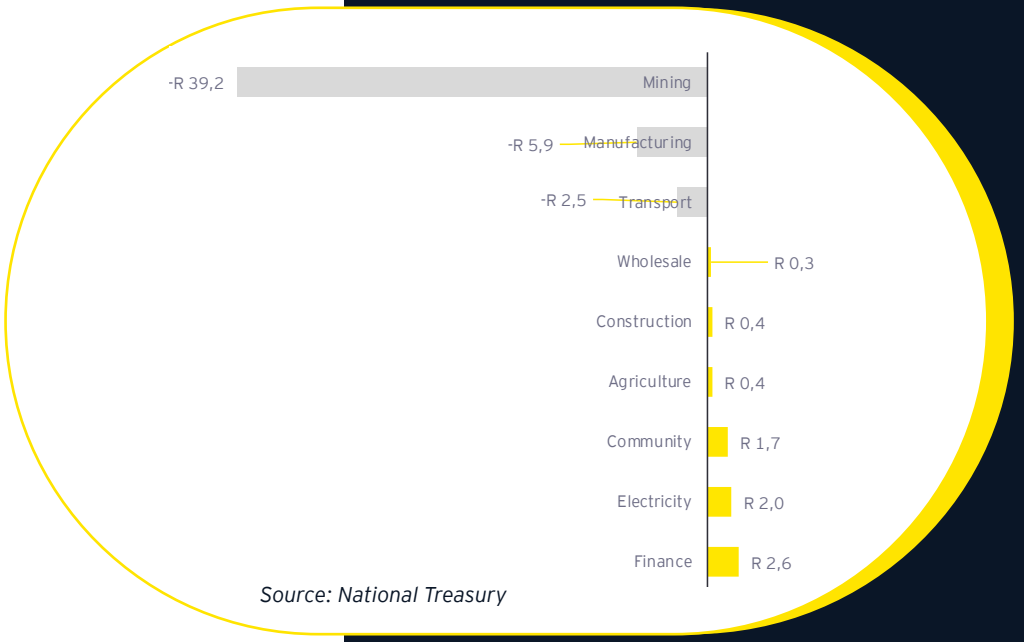
08 Corporate Income Tax (contd)

Highlights

- Interest deductibility rules to be extended so that all current legislation is aligned
- Application of interest limitation rules to tax-exempt entities to be reviewed
- Limitation of assessed loss rules to be reconsidered for entities in the process of liquidation, deregistration or winding up.

Other tax proposals

- The definition of a "connected person" in relation to partnerships will be reviewed.
- The definition of "amalgamation transaction" and the related tax relief will be reviewed and clarified for the instance in which a resultant company is a foreign company that does not have a place of effective management in South Africa.
- The definition of "value shifting arrangement" to 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.
- The scope of the degrouping charge following an intragroup transaction will be narrowed to avoid the degrouping charge being triggered when there is a change in shareholding affecting a group of companies, while the companies involved in the original intragroup transactions are still part of another group of companies.
- Clarification of the anti-avoidance rules dealing with third party backed shares.
- Government proposes reviewing the impact of the 2023 amendments to the definition of "contributed tax capital" (which have an effective date of 1 January 2025) during the 2024 legislative cycle. It is also proposed that the impact of section 8G (an anti-avoidance measure that limits "contributed tax capital" in a shareforshare transaction with a nonresident group company) be reviewed to minimise any inadvertent tax consequences.



Source: National Treasury

09 Tax Administration

Highlights

- Improved administrative efficiency
- Favourable proposed amendments to ADR proceedings
- Amendments to provisions in the PAIA and the TAA

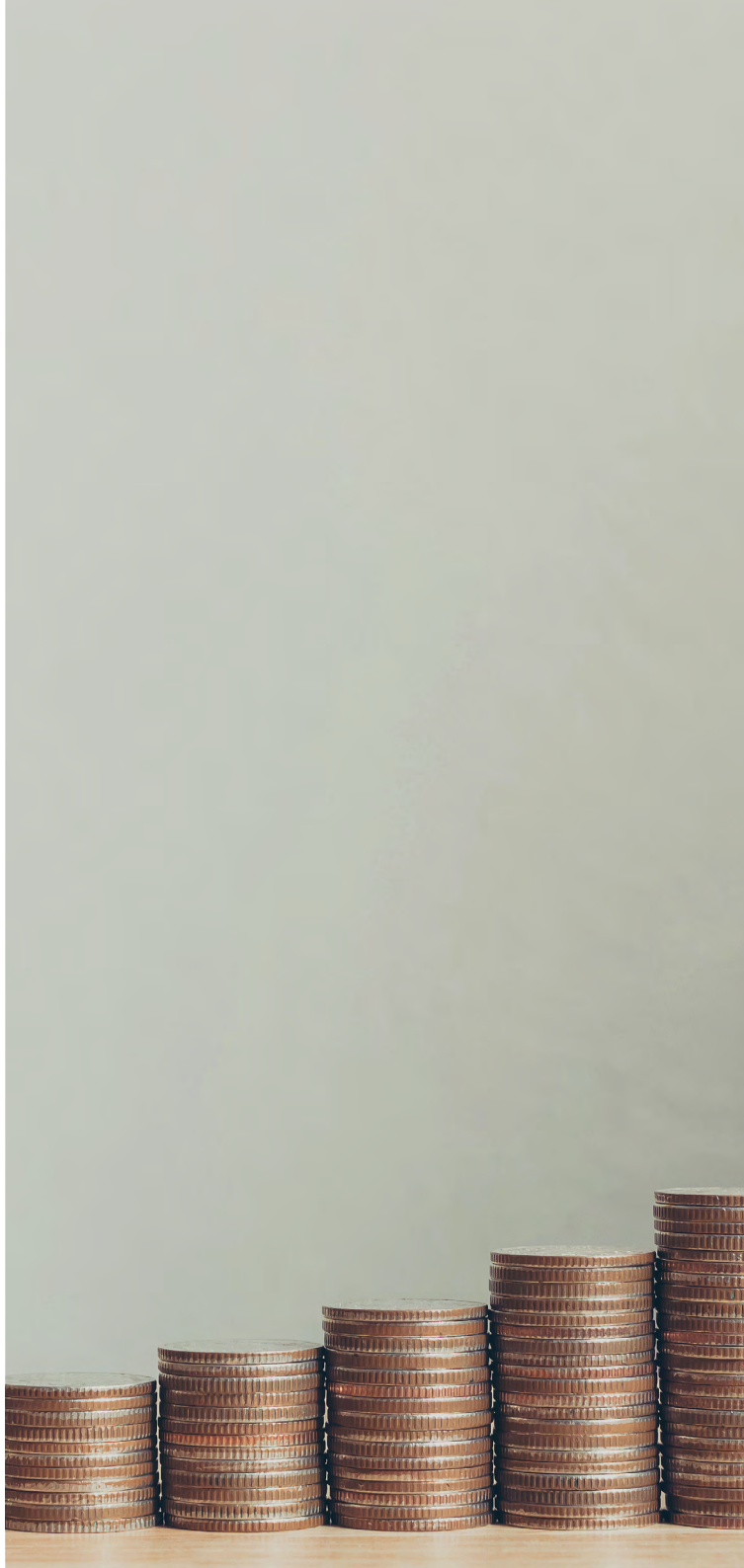
Government's long-term policy strategy remains focused on broadening the tax base while improving tax compliance and administrative efficiency.

Administrative efficiency is illustrated in the proposed changes to the Alternative Dispute Resolution (ADR) process which may become available to taxpayers at the objection stage of a tax dispute, rather than at the appeal stage.

Taxpayers can meet their tax obligations more efficiently due to improved service offerings and digital platforms offered by SARS. Additionally, there has been an increase year-on-year in the number of auto assessed taxpayers. This illustrates Government's commitment to improving administration.

It has been proposed that the provision which allows a SARS official to conduct an in-person interview be expanded to include taxpayers who are subject to debt recovery proceedings for outstanding tax debt or have applied for debt relief.

The Constitutional Court made findings regarding the constitutional invalidity of certain provisions of the Promotion of Access to Information Act (PAIA) and the Tax Administration Act (TAA). Parliament has therefore been ordered to consider measures to address the areas of concern. As an interim measure the Constitutional Court ordered a "read-in" to relevant provisions of the PAIA and the TAA. The measures and necessary amendments should be addressed in the next legislative cycle.



10 Customs & Excise

Highlights

- Increases in green taxes
- Above inflation rate increases in "sin taxes"
- Various administrative changes in Customs

Customs

Various administrative changes were proposed:

- A review of the process on packages imported through eCommerce to ensure compliance with customs requirements.
- Amendment to the timeframe for delivery of export bills of entry.
- Simplification of the process to substitute bills of entry where such entry was passed in error or where the importer, exporter or manufacturer requested the substitution on good cause shown.

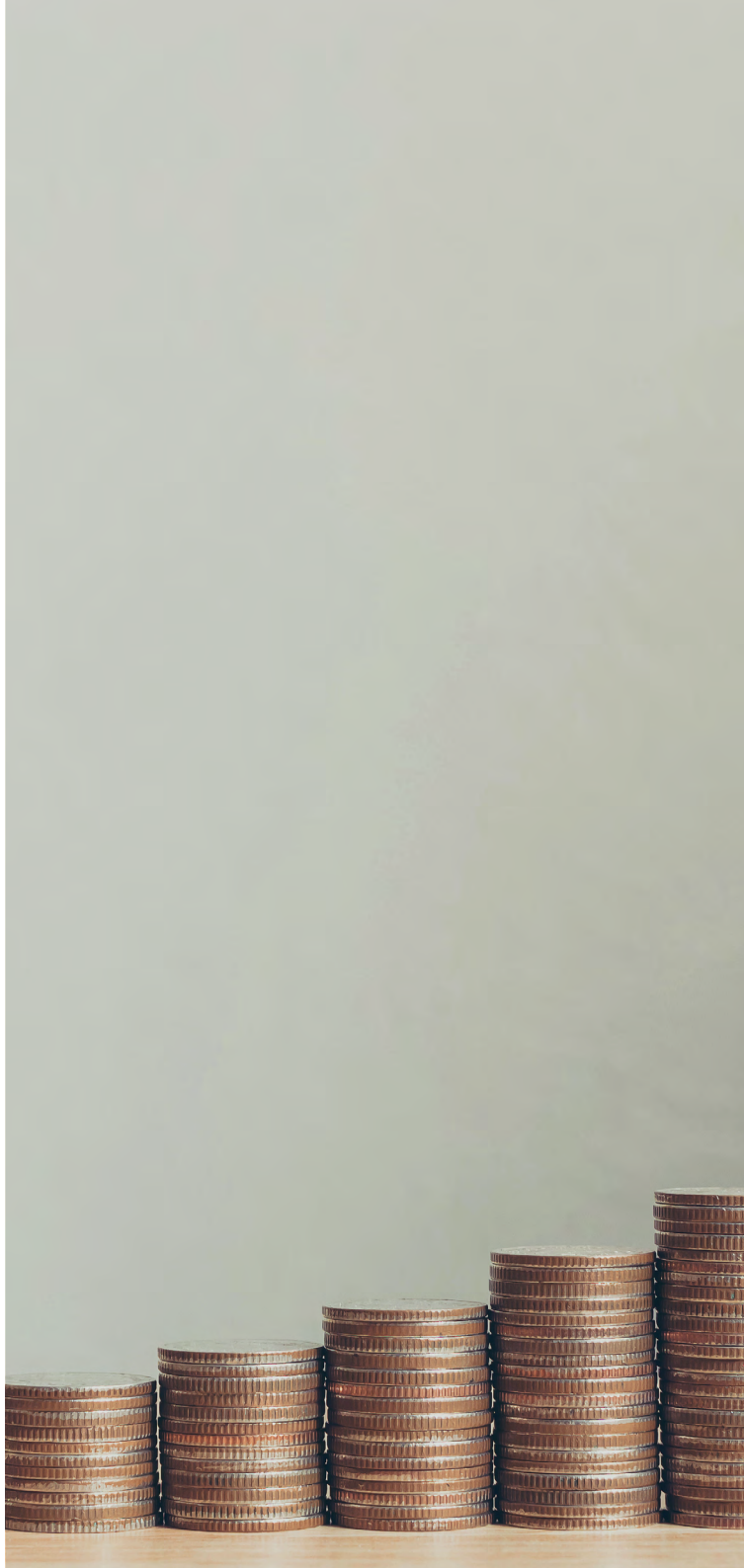
Excise

Green taxes like the plastic bag levy, incandescent light bulb levy and motor vehicle emissions tax are proposed to increase from 1 April 2024.

The plastic bag levy will increase from 28c to 32c per bag. The incandescent light bulb levy will increase by R5 to R20 per light bulb. Motor vehicle emission taxes will increase by about 11% per gram of CO2 per kilometre.

Excise duties on tobacco and alcohol will generally be increased above inflation. Excise duties on alcohol will increase by between 6.7% and 7.2%. Excise duties on tobacco and electronic nicotine delivery systems will increase by between 4.67% and 8.17%.

As in the 2022 and 2023 budget, no increase in the fuel levy and RAF levy has been proposed in the 2024 budget. However, the carbon fuel levy will increase by 1c to 11c/l for petrol and by 3c to 14c/l for diesel.



11 Energy & Sustainability

Highlights

- Rates for carbon taxes increase as expected
- Increase in carbon offset allowance to promote renewable energy generation
- Section12L to remain unchanged

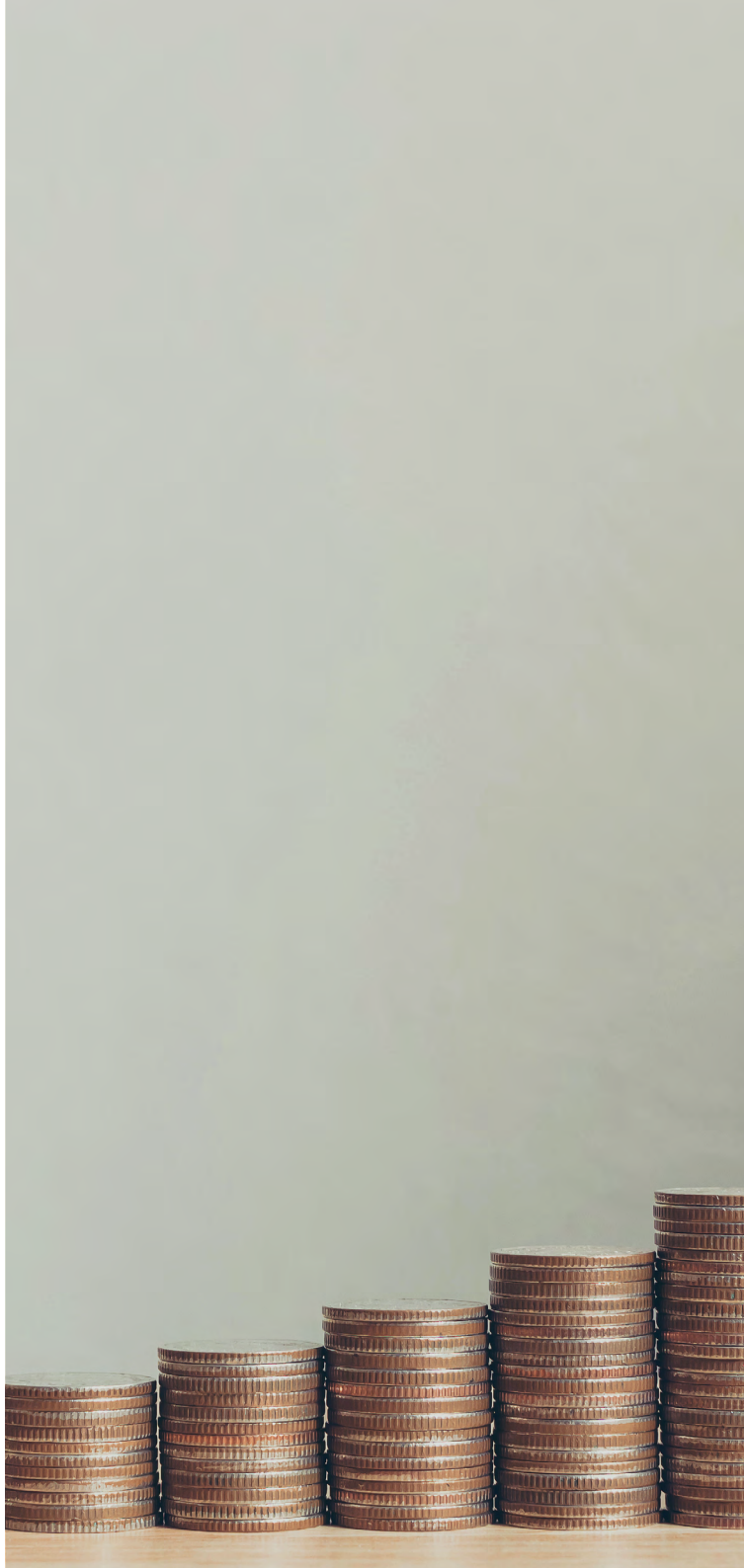
The carbon tax rate rose to R190 per tonne of CO2, up from R159. The carbon fuel levy will increase to 11c/litre for petrol and 14c/litre for diesel with effective date starting 1 January 2024.

The Government plans to raise the eligible renewable energy project threshold from 15 MW to 30 MW for carbon offset allowance, starting January 1, 2024.

A higher carbon tax rate of R640 per ton CO2 on emissions exceeding carbon budgets will come into effect after the Climate Change Bill is enacted and the DFFE gazettes the relevant regulations, to be implemented on 1 January of the calendar year upon finalization of the legislation.

After The promulgation of the Climate Change Bill, the DFFE will enact mandatory carbon budget regulation, after which the 5% carbon budget allowance will be scrapped, with a proposal to boost the carbon offset allowance by 5% to drive investment in green energy projects.

A discussion paper on the second phase of the carbon tax will be published in 2024. The section 12L tax incentive for energy efficiency will continue to offer a rate of 95c/kWh and the incentive will remain in effect until 31 December 2025.



12 Incentives

Highlights

- 150% investment allowance for qualifying spend on electric and hydrogen-powered vehicle production capacity.
- Reprioritisation of R600m into service sector incentives (global business services and film and television).
- Implementation of recommendations from tax incentives review.

As anticipated and crucial in the competitive electric vehicle (EV) sector, the highlight of this year's budget speech was the government's push to incentivize EV production to retain major Original Equipment Manufacturers (OEMs) in the country.

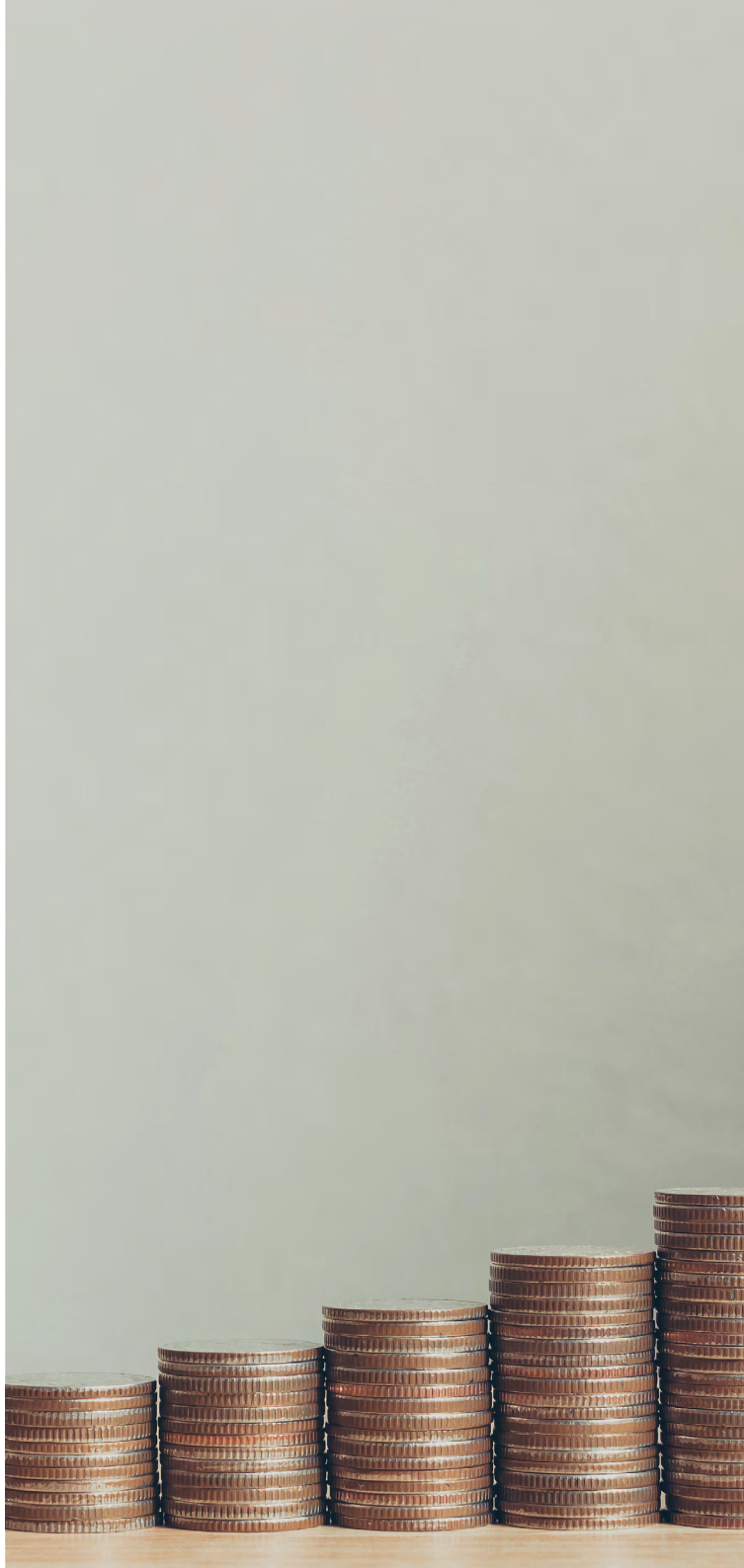
The proposal suggests a 150% investment allowance for qualifying spend on electric and hydrogen-powered vehicle production capacity in the initial year of investment, starting from March 1, 2026. This incentive, spanning a 10-year period, is intended to complement the current support provided by the Automotive Production and Development Programme. What is not clear is whether this allowance will apply to component manufacturers.

Due to fiscal constraints, the Department of Trade, Industry and Competition (DTIC) anticipates a reduction in its budget over the medium term. The incentives program will still constitute 49.2% (R14.7bn) of the department's total budget for the next three years, but funds will be reallocated between programs, such as the transfer of R600m into service sector incentives (global business services and film and television).

This reaffirms the government incentive support for 3 main sectors namely automotive, global business services and film sector.

To further maximize resources in a constrained fiscal environment, National Treasury has also been implementing recommendations from the tax incentives review initiated after the 2020 budget speech.

The review aims to cease ineffective incentives (but not section 11D on research and development), with recommendations including establishing a single register of all incentive beneficiaries, creating a national policy incentive framework, and developing a methodology to assess the costs and benefits of incentives.



EY Africa Tax Accolades

Globally recognised by peers - **International Tax Review Winner**

2019	2020	2021	2022	2023
Africa Transfer Pricing Firm of the Year	**Africa** Transfer Pricing Firm of the Year	**Africa** Transfer Pricing Firm of the Year	**Africa** Transfer Pricing Firm of the Year	
	South Africa Transfer Pricing Firm of the Year	**South Africa** Transfer Pricing Firm of the Year	**South Africa** Transfer Pricing Firm of the Year	**South Africa** Transfer Pricing Firm of the Year
			Nigeria Transfer Pricing Firm of the Year	**Nigeria** Transfer Pricing Firm of the Year
			TP Practice Leader of the Year	**Tax** Practice Leader of the Year

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