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“NO RADICAL TAX CHANGES. SA INC’S SPENDING TO BE FUNDED BY ADDITIONAL BORROWINGS”

Our Finance minister, Tito Mboweni delivered the 2021 Budget Speech on Wednesday, 24 February 2021.

The minister’s speech contained no radical tax changes. Tax rates for the coming year are set to remain largely the same (other than for slightly above inflationary related adjustments to personal tax tables and the usual increases to excise taxes).

Detailed below are some of the highlights from the 2021 National Budget Speech

Economic outlook and budget framework:

1. Main budget revenue is projected to be R1,35 trillion or 25.3% as a share of Gross Domestic Product (“GDP”) in 2021/22. Budgeted expenditure, however, is expected to be R2 trillion for the same period.
2. Real GDP is expected to grow at 3.3% in 2021 and 2.2% in 2022.
3. Gross debt has increased from 65.6% to 80.3% of GDP for the year 2020/21.
4. The proposed fiscal framework will stabilise debt at 88.9% of GDP in 2025/26.
5. Over the medium term, debt-service costs are expected to average 20.9% of gross tax revenue. Put differently, 20 cents out of every Rand collected will go towards servicing interest.
6. South Africa has recorded the largest tax shortfall on record, collecting R213 billion less than was expected for 2020/21.
7. Funds in excess of R10 billion have been set aside for the purchase and delivery of COVID-19 vaccines. National Treasury sees a successful vaccine drive as key to the full reopening of the economy.
8. No solidarity taxes or wealth taxes are being introduced to fund the purchase and rollout of vaccines.

Tax Proposals:

- 1. Personal Income Tax:** Above inflation adjustments to the personal income tax brackets and primary, secondary and tertiary rebates. The increase of 5% in the personal tax tables results in the tax-free threshold increasing from R 83,100 to R87,300 (for taxpayers below 65 years of age).
- 2. Medical Scheme Fees Tax Credits:** The value of the medical tax credit is proposed to increase by inflation from R319 to R332 per month for the first two beneficiaries. The monthly credit for the remaining beneficiaries is proposed to go up from R215 per month to R224 per month.
- 3. Corporate Income Tax Rate:** The Corporate Income Tax rate for companies will reduce to 27% for years of assessment commencing on or after 1 April 2022. The reduction in taxes arising from the lower tax rate will be funded through the limitation of interest deductions and assessed losses. Further rate decreases, funded in a revenue neutral manner through the broadening of the tax base, are also being considered by Treasury.
- 4. Venture Capital Company Incentives (S12J):** The sunset date for the venture capital company (VCC) incentive, which was initiated in 2009 will not be extended beyond 30 June 2021. National Treasury's research has indicated that the majority of investments supported by the initiative were made into low risk or guaranteed return ventures that would have attracted funding without the incentive.
- 5. Fuel Levies:** The general fuel levy and Road Accident Fund Levy will increase by 15c/litre and 11c/litre effective 7 April 2021. This is slightly higher than inflation.
- 6. Sunset Date for Special Incentives:** A sunset date of 28 February 2022 has been introduced for tax incentives dealing with airport and port assets, rolling stock, and loans for residential units. Together with the incentive providing exemptions for films, these incentives will lapse once they reach their respective sunset dates.
- 7. Learnership Tax Incentives:** The sunset date for learnership tax incentives will be extended for two years while National Treasury completes a review of the effectiveness of this incentive.
- 8. Excise Duties:** There will be an increase in excise duties on alcohol and tobacco of 8%.
- 9. Plastic Bags:** A reduced levy of 12.5c/bag will apply to bio-based plastic bags (ordinary plastic bags will continue to be taxed at 25c/bag).
- 10. UIF Contribution Ceiling:** For the first time in four years, the UIF contribution ceiling will be adjusted. The contribution ceiling changes from R14,872 to R17,711.58 effective 1 March 2021.
- 11. Strengthening of SARS:** The South African Revenue Services will receive an additional spending allocation of R3 billion. The funding will be used to expand and improve the use of data analytics and artificial intelligence capabilities and participate meaningfully in global tax compliance initiatives. The Minister also indicated that there will be additional focus placed on wealthy taxpayers with complex financial arrangements. Several of these taxpayers have already been identified by SARS and engagements with these individuals will start during April 2021.
- 12. Property developers VAT relief:** Where a developer temporarily leases a residential property, a VAT adjustment based on the open market value is required. As this is disproportionate to the rental income a more equitable value and rate of adjustment will be considered".

Further important budget proposals to note:

- National Treasury will review current travel and home office allowances to investigate their efficacy, equity in application, simplicity of use, certainty for taxpayers and compatibility with environmental objectives.
- Unlike the previous budget, National Treasury did not elaborate as to how the proposals relating to limitation of interest deductions and assessed losses will work in practice. We await further commentary from National Treasury later in the year.

It is clear that there is a drive to improve the South African Revenue Services ability to collect tax revenues. With a tax policy framework that continues to increase in complexity, it's important that taxpayers get the right advice so that unnecessary penalties and interest charges are avoided.

We continue to keep up to date with legislation so that we can take the compliance burden off your hands. Speak to one of the PKF partners or specialist tax advisors to understand how these new proposals impact both your business and personal tax positions.

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