

## **2010 TAX RELATED BUDGET PROPOSALS**

The following is a summary of the tax related budget proposals announced by the Minister of Finance on 17 February 2010.

### **BUDGET HIGHLIGHTS**

The main tax proposals include:

- Personal income tax relief for individuals amounting to R6.5bn. This partially compensates for inflation.
- Limited voluntary disclosure option for taxpayers in default
- Exchange control reforms proposed
- Interest-income exemption increased to R22 300 per year and to R32 000 for those over 65
- Standard Income Tax on Employees (SITE) system to be discontinued
- Congestion, pollution and landfill taxes considered
- Niggles remain for proposed dividend tax
- National Health Insurance scheme delayed for about five years
- "Tips for Pravin" to continue, using Facebook and other new forms of media
- Gambling winnings being exempt from personal income tax to be reviewed - impacts on casino, online gambling and lotto winners
- Wage subsidy for young people
- Clamp down on company car fringe benefits

### **INDIVIDUALS**

#### **Relief for Individuals**

##### **Personal Income Tax**

Budget 2010 provides significant tax relief to individuals amounting to R6.5bn, which partially compensates for the effects of inflation (bracket creep).

This means that individuals younger than 65 years of age earning a total amount of–

- R80 000 will pay tax at an average rate of 5.2% on earnings and save R504;
- R250 000 will pay tax at an average rate of 17.6% on earnings and save R1 614;
- R750 000 will pay tax at an average rate of 30.6% on earnings and save R3 534.

The tax threshold for individuals younger than 65 will be R57 000 and for individuals 65 or older R88 528.

#### **Increased exemption for interest and dividend income**

- The annual exemption on interest earned for individuals younger than 65 years is raised from R21 000 to R22 300.
- The exemption for individuals 65 years and older increases from R30 000 to R32 000.
- The threshold for the tax-free portion of interest and dividends from foreign investment increases from R3 500 to R3 700.

## **Medical Expenses**

From 1 March 2010 the tax deductible portion of monthly contributions to medical schemes is increased for each of the first two beneficiaries from R625 to R670 and for each additional beneficiary from R380 to R410.

## **Retrenchment Packages**

The R30 000 exemption for termination of services has not been adjusted in many years. It is proposed that this exemption be merged into the retirement fund lump sum benefit system and that the qualifying lump sums be taxed by applying the tax table for retirement fund lump sum benefits. The aggregation principle will apply.

## **Other Tax Proposals Affecting Individuals:**

### **Standard income tax on individuals (SITE)**

SITE was introduced in the late 1980s to limit the number of tax returns filed annually. Administrative modernisation and the fact that the tax threshold for taxpayers younger than 65 years is approaching R60 000 have eliminated the need for this system.

SITE is to be abolished from 1 March 2011. Administrative relief measures will be considered for low-income taxpayers with multiple sources of income.

### **Limiting salary structuring**

- The company car fringe benefit value is to be increased
- Deferred compensation and employer-provided group life insurance will be taxed as fringe benefits

### **Voluntary Disclosure Program**

In order for taxpayers to disclose their defaults (non-compliance) and regularise their tax affairs a voluntary disclosure program will be implemented.

- The program is to be effective during a window period from 1 November 2010 until 31 October 2011
- The full amount of tax remains due
- Relief with regard to interest and penalties will apply
- Relief is to be granted if–
  - the disclosure is complete
  - SARS was not aware of the default
  - a penalty or additional tax would have been imposed had SARS discovered the default in the normal course of business

## **COMPANIES**

No change is proposed to corporate tax rates.

### **Sophisticated tax avoidance schemes**

It is proposed that legislative amendments be introduced to address a number of aggressive tax schemes, for example–

- interest cost allocation for financial institutions
- offshore protected cell companies
- schemes channeling deductible amounts to residents in the form of tax free foreign dividends
- restricting the interest exemption for non-residents investing in financial instruments *other than* South African bonds, unit trusts or publicly available interest bearing instruments.

### **Headquarter companies**

Relief from exchange control and taxation will be considered for various types of headquarter companies located in South Africa.

Yours sincerely

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