

WHAT DOES BUDGET 2015 MEAN?

How will the 2015 Budget impact you, your business and South Africa's competitiveness?

PERSONAL TAX

Minister says: Increase marginal personal income tax rates by one percentage point for all taxpayers earning more than R181 900, and adjusting tax brackets and rebates to account for fiscal drag.

What does this mean? There were very few changes in overall tax collections but the tax charge has been shifted to high income earners. The increased burden means less disposable income in the hands of the taxpayer which will hurt savings in SA, which is already a problem.

How does this affect the competitiveness of South Africa? The increase in personal income tax sees SA move into the top 30 countries globally with the highest Individual tax rates.

CORPORATE TAX

Minister says: Slowdown in business conditions means lower than expected company tax. Qualifying businesses with a turnover of below R335 000 a year will not pay tax.

What does this mean? The incentives are only for companies with a turnover of up to R1 million and do not benefit the bigger organisations which could, by paying less tax, possibly grow our economy by using the extra money to employ more people.

How does this affect the competitiveness of South Africa? Our normal corporate tax rate of 28% is high by international standards.

SMME

Minister says: SARS developing small business desks to assist businesses and focus on providing a more generous turnover-tax regime for small businesses.

What does this mean? Government is trying harder to encourage the formalisation of small business enterprises and bringing them into the mainstream economy. Ease of compliance and understanding of tax processes will be the biggest downfall in reaching this target. Government's suggestion of providing a more generous turnover-tax regime for small business and developing small business desks to assist businesses at SARS may assist, somewhat, in encouraging SMME development in SA. However, no meaningful incentives were given to small business corporations. This is disappointing.

How does this affect the competitiveness of South Africa? This positively affects our competitiveness, as it encourages entrepreneurship and innovation within SA.

FUEL LEVY

Minister says: Raise the general fuel levy by 30.5c/litre. The Road Accident Fund levy will also increase by 50c/litre, bringing total fuel levy increases to 80.5c/litre.

What does this mean? The total fuel levy increase of 80.5c per litre compared to last year's increase of 24c per litre, a 48% increase could have a major impact on the operating cost of businesses and ultimately the consumers, but one could say the timing of the Minister was good (or lucky) taking into account the large decrease in the fuel price over the last few months. Therefore he is starting from a much lower point than last year. Furthermore with the estimated increase of 90c per litre in March this will basically put business and consumers back where they were before the major price decreases due to the low oil price, thus absorbing the 48% increase in total fuel levy.

How does this affect the competitiveness of South Africa? In terms of competitiveness, the increased cost equals less taxable income and less money for companies/business to grow.

This will also impact competitiveness of running a business when the oil price returns to high levels. The recent benefits of the reduction in global oil prices have been short-lived for SA motorists.

ELECTRICITY LEVY

Minister says: Raise the electricity levy from 3.5 c/kWh to 5.5 c/kWh temporarily, to manage the electricity shortage.

What does this mean? This will burden businesses even more, although amounts are recycled through Energy Efficiency savings allowance.

How does this affect the competitiveness of South Africa? The increased costs affect our competitiveness in terms of foreign investment, as the increase will discourage foreign investment into SA.

TRANSFER DUTY RATES

Minister says: Change transfer duty rates and brackets to provide relief for middle-income households. Property of up to R750 000 will now be exempt from transfer duty.

What does this mean? Transfer duty increase is significant as properties over R2.3 million are now subject to a higher transfer tax and this isn't good for our property market, which as it stands has high rates by world standards, and is already struggling to recover.

How does this affect the competitiveness of South Africa? For high net worth individuals this means increased opportunities for overseas investment.

WEALTH

Minister says: Increased investment allowances from R4 million to R10 million

What does this mean? For high net worth individuals this means increased opportunities for overseas investment.

How does this affect the competitiveness of South Africa? It is encouraging investment outside of South Africa which opens up the borders of South Africa, and allows South Africans to diversify their international investment portfolios.

TRANSFER PRICING

Minister says: Take further steps to combat base erosion and profit shifting while we continue to focus on transparency and support of information.

What does this mean? The likelihood of the following transpiring as put forward by the Davis Tax Committee Interim Report:

- Transfer pricing documentation to become compulsory
- The revision of Transfer Pricing Practice Note 7 to be in line with the Revision of OECD Transfer Pricing Documentation Guidelines contained in Chapter 5
- The implementation of 3 tiered approach to Transfer Pricing in SA as published by the OECD in 2015 which entails the preparation of a master file, local file and country by country reporting which is compulsory for large Multinational Enterprises defined by the Davis Committee Interim Report to include companies with a threshold of over R1 billion group turnover
- More specific information to what is required detailed in a revised Practice Note.

How does this affect the competitiveness of South Africa?

- This will increase the cost of doing business in SA although it is proposed that SARS balance the request for documentation against expected cost and administrative burden to the taxpayer
- The competitive landscape will become more intense with increased transparency and symmetry of information between taxpayers and tax administrators. Tax administrators will be able to have a big picture view of a taxpayer's supply chain which will increase the risk of audit and potential assessments
- It will also discourage companies from using favourable jurisdictions for international tax planning which would mean that effective tax rate of MNE Groups as a whole may rise.

So what was left out that should've been addressed?

The Minister should have raised VAT by 1% instead of raising personal income tax rates and fuel levies.

However, this has set the stage for possible future increases in the VAT rate based on the recommendation of the Davis Tax Committee.