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A balanced budget for trying times

Deloitte commentary on South Africa Budget 2022/23

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"The President reminded us that even as we face steep and daunting challenges, like we have done in the past, we will overcome... [nevertheless] Our economic recovery has been uneven and risks remain high. We must proceed with caution."

Minister of Finance
Mr Enoch Godongwana, 23 February 2022

Foreword

A balanced budget for trying times

Bernadette Abbott,
Chief Operating Officer, Africa Tax & Legal

South Africa has had a trying two years, but today Finance Minister Enoch Godongwana presented a budget with a surprising amount of good news in it. However, this good news needs to be tempered with the current economic situation, which remains challenging. As the minister said, quoting Shakespeare, "One swallow does not a summer make".

The improved revenue performance the minister spoke of is not a reflection of a structural improvement in the economy. South Africa's economy is expected to grow at 2.1% in 2022 and average 1.8% over the three years 2022-2024. This growth rate is below the rate required to meet South Africa's needs.

South Africa faced a consolidated Budget deficit of 10% of GDP in 2020/21. This is expected to improve to 5.7% of GDP in 2021/22, 6% of GDP in 2022/23 and 4.2% of GDP in 2024/25. However, government debt has reached R4.3 trillion and is projected to rise to R5.4 trillion over the medium term. Gross debt will peak at about 75.1% of GDP in the 2024/25 fiscal year. The cost of servicing South Africa's debt has now reached greater levels than each of policing, basic education and health.

Although there is rising debt, the minister indicated that we now expect to realise a primary fiscal surplus – where revenue exceeds non-interest expenditure – by 2023/24. He provided additional context that we are bringing debt down for the first time since 2015 as we are reducing the borrowing requirement, over the next three years, by R267.3 billion.

Also positive is that government now projects to collect R1.55 trillion in taxes during 2021/22, R62 billion more than projected at the time of the MTBPS and R182 billion more than expected at the start of the year. This appears to be due to a windfall from the commodities boom and the Commissioner of the South African Revenue Service (SARS) indicated that we will likely not be able to bank on this going forward. It is clear that SARS' goal of boosting capacity, and intensifying their work to counter criminal and illicit activity, has also made a difference.

From a tax policy perspective, the Finance Minister indicated that government was focussing on broadening the tax base rather than increasing the major revenue generating taxes.

The following is a summary of some significant tax aspects:

- An inflationary 4.5% adjustment to personal income brackets to avoid fiscal drag.
- Taxes have been increased for alcohol and tobacco (by between 4.5% and 6.5%).
- SARS is setting up a high-wealth-individuals department.
- Provisional taxpayers with business interests and assets above R50 million will be required to disclose specified assets and liabilities at market value in the 2023 tax return.
- Changes have been proposed to retirement funds to allow earlier access to a portion of the funds through a "two-pot" system. Consultations on draft legislation are proceeding.
- No increases to the general fuel levy or the Road Accident Fund levy. However, the carbon fuel levy will increase by 1c to 9c per litre for petrol, and 10c per litre for diesel, from 6 April 2022.
- The corporate income tax rate reduction to 27%, for companies with years of assessment ending on or after 31 March 2023, was confirmed. This rate decrease was enabled by the new rules relating to the limitation of assessed losses and by reducing certain incentives.
- It was confirmed that, as regards base erosion and profit shifting, South Africa intends introducing the Organisation for Economic Co-operation and Development's two pillar solution by 2023. This is an ambitious target as implementing these new measures will require the signing of multilateral international treaties as well as a significant re-engineering of domestic tax laws.
- The multi-year customs infrastructure modernisation programme is underway, with an initial focus on digitising border operations, notably including Beitbridge.
- Regarding carbon tax, the good news is that phase 1, which provides various allowances to reduce taxable emissions, has been extended to 31 December 2025. But the bad news is that, after this date, the rates will increase substantially to around US$20 a tonne by 2026 and will continue to increase rapidly thereafter.
- The energy efficiency incentive has been extended to 31 December 2025.
- The research and development deduction has also been extended to 31 December 2023.

This was a very positive budget speech for Minister Godongwana and we commend his commitment to the reconstruction and recovery of the economy; saving lives and restoring livelihoods, as well as securing the long-term prosperity of South Africa.

Economic outlook

The journey to economic recovery continues...

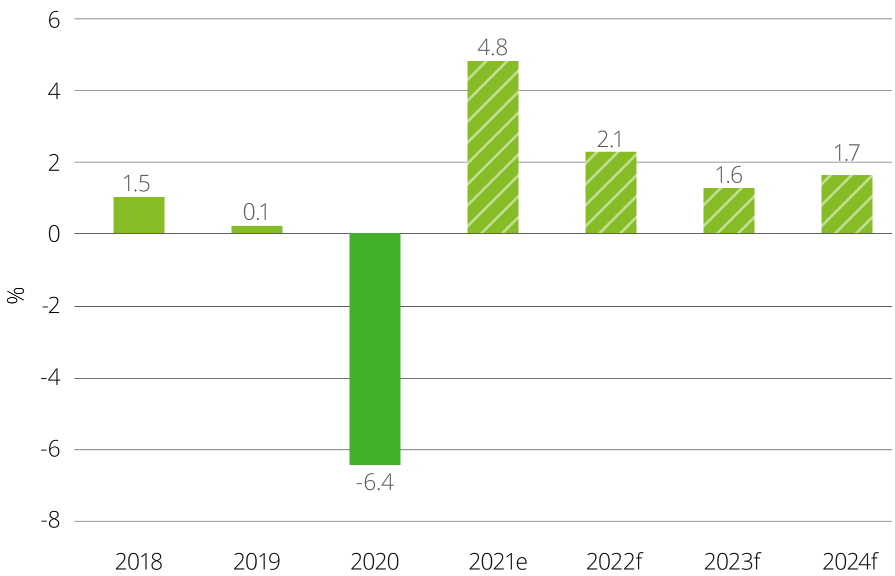
South Africa has been stuck in a low growth rut for several years. With growth being restrained by long-standing obstacles such as inadequate electricity supply, high unemployment (further fuelled by pandemic-induced job-losses), a growing debt-to-GDP ratio and other structural impediments, staging a sustained post-pandemic economic recovery is by no means an easy task. "As we face steep and daunting challenges as in the past, we will overcome", stated Finance Minister Enoch Godongwana as he proceeded to read his 2022 Budget Speech.

After recording a sharp growth plunge in 2020 on account of the effects of the COVID-19 pandemic, the South African economy bounced back by 4.8% real GDP growth in 2021. The strong bounce back of 2021 however is a temporary spike, partially a result of base effects, strong commodity prices and the gradual opening of the economy.

Economic growth is projected to moderate to 2.1% in 2022 with the country expected to return to pre-pandemic levels of production that same year. Economic expansion will moderate further to 1.6% and 1.7% in 2023 and 2024, respectively, in the absence of addressing the above-noted long-standing structural impediments to growth. Notably, Minister Godongwana emphasised that "our economic recovery and risk remain high and we must proceed with caution."

With a limited toolset to stimulate growth, a faster growing economy will be dependent on meaningful progress on productivity-enhancing structural reforms in key sectors (electricity, communication, transport) as well as building business and investor confidence through addressing uncertainty and other key barriers to doing business. In the face of low growth rates projected in the medium term, Minister Godongwana rightfully noted that "we do not aspire to be a below 2% growth economy" and that as an emerging market, South Africa's economic potential is so much greater.

Real GDP growth and projections, % (2018 – 2024f)



Source: National Treasury, 2022

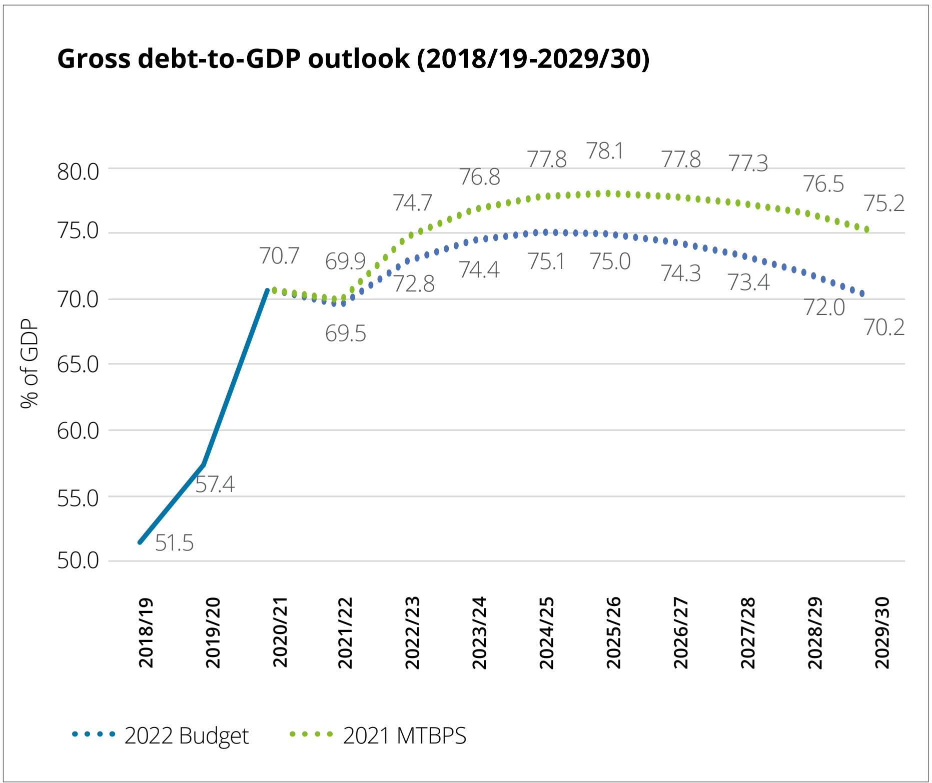
Although South Africa's public finances continue to be strained, the minister outlined Treasury's continued commitment to a path of fiscal consolidation, including stabilising the gross debt-to-GDP ratio. In the absence of accelerated rates of economic growth in the short to medium term, stabilising debt requires key measures to be put in place, such as narrowing the budget deficit and curbing government spending growth.

A primary surplus is expected by 2023/24, and the consolidated budget deficit is forecast to narrow from 6% in 2022/23 to 4.2% of GDP in 2024/25. Higher tax revenues in the current period (compared with the 2021 Budget estimates) have directly supported the current year deficit reduction. Although the gross debt-to-GDP ratio has deteriorated significantly since 2019 due to spending increases during the pandemic, this is now expected to reach 72.8% in 2022/23 and stabilise in 2024/25 at 75.1% of GDP (or R5.43 trillion).

Debt-service costs continue to push aside other crucial areas for spending, such as basic services. As the fastest-growing spending item (10.7% on average over the medium term) and one of the highest allocated items in government spending, debt service costs are expected to reach R1 trillion over the period 2022/23 – 2024/25. Learning and culture as well as social development have been allocated similar portions of R1.3 trillion and R1 trillion, respectively. While the debt burden remains a notable concern, Minister Godongwana outlined that for the first time in 15 years South Africa is reducing its borrowing requirements.

Also, with more R308 billion having been allocated towards bailing out failing state-owned companies (SOCs) in the past, the minister noted plans to apply "tough love" on struggling SOCs and redirect such spending to other functions given government's focus of restoring the health of public finances.

Although South Africa's tax revenue performance was on the upside, bolstered by commodity prices, the economy's productive capacity remains unchanged.



Source: National Treasury, 2022

South Africa's ongoing struggle with unemployment and a narrowing tax base continues to place mounting pressure on taxpayers. The minister acknowledged that households are under financial pressure, and announced R5.2 billion in tax relief in support of the country's economic recovery. In addition, the acceleration of infrastructure development is also expected to unlock employment opportunities and help curb the country's struggle with unemployment.

The minister further emphasised that the Economic Reconstruction and Recovery Plan remains essential to the reversal of the country's decade-long growth stagnation, particularly the implementation of productivity-enhancing structural reforms in key network industries.

Accelerating the government's economic reform agenda, which includes improving electricity supply and spearheading infrastructure investment through public-private partnerships, is much needed to stimulate demand, support a sustained economic recovery, and to unlock the country's economic potential and competitiveness. To drive these reforms, progress on infrastructure plans were highlighted in the Budget, with a public sector infrastructure spending allocation of R812.5 billion over the next three years.

While the pace of reform has been slow and uneven to date, increasing emphasis of the Budget in support of wide-ranging structural reforms, as well as gains achieved, coupled with new infrastructure investment and support for small businesses, will set the stage for building investor confidence, a sustained recovery and higher future growth rates over the long term.

As the country continues on its long journey to recovery, more work still needs to be done. "You won't realise the distance you have walked, until you look around and realise how far you have been."

Tax policy proposals

Overview

Government's stated policy is to raise revenue in an equitable, efficient, and sustainable manner to support South Africa's development objectives. It hopes to achieve this by broadening the tax base, improving administration, and lowering rather than raising tax rates. Government has stated its intention to avoid tax rate increases, to the extent possible, and subject to major expenditure decisions.

The 2022 Budget provides R5.2 billion in tax relief. Of this amount, R2.2 billion is attributable to the expansion of the employment tax incentive and R3 billion is mainly due to no increase to the general fuel levy and the Road Accident Fund levy.

From a corporate tax perspective, the restructuring of the corporate income tax system (as announced in the 2020 Budget) is estimated to have no impact on corporate tax revenue over the medium term – the R2.6 billion reduction in gross tax revenue in 2022/23 as a result of the reduction in the corporate tax rate to 27% (see further detail below) is expected to be offset by the additional revenue from the base protection and broadening measures such as the restriction of assessed losses and additional interest limitations (also discussed in further detail below).

Government notes that it has progressed the rebuilding of the South African Revenue Service (SARS) and that this is evidenced by improved revenue collection and compliance trends. SARS has recruited additional staff across various levels and areas of expertise and has invested R430 million in refreshing and modernising its ICT infrastructure. It further notes that SARS' dedicated new unit focused on high-net-worth individuals is taking shape and the multi-year customs modernisation program is under way, with an initial focus on improving Beitbridge border operations. SARS has implemented the majority of the Nugent Commission recommendations and is now aligning the outstanding recommendations with those of the State Capture Commission. A discussion document as well as proposed legislative amendments regarding the broader governance and oversight reforms outlined by both commissions will soon be published for public comment.

Individuals

- Personal income tax brackets and rebates, including the medical rebate, are to be adjusted to compensate for the impact of inflation which is estimated to be 4.5%. In the absence of any adjustment to the brackets and rebates it is estimated that tax collections would be R13.5 billion greater.
- Currently, provisional taxpayers with business interests are required to provide a statement of assets and liabilities in their annual tax returns on a yearly basis. The statement is required to be based on the cost of the assets in question. To collect additional information and to help in determining the levels and structure of wealth holdings as recommended by the Davies Tax Committee, it is proposed that all provisional taxpayers with assets above R50 million be required to declare specified assets and liabilities at market values in their 2023 tax returns.

Retirement funds

- In the 2021 budget, it was proposed that on ceasing to be South African resident, individuals should be subject to capital gains tax on the market value of their retirement funds. This change was proposed because a number of treaties that South Africa had concluded with foreign countries give the sole taxing rights on any pensions which are subsequently paid out of these funds to the countries in which the individuals are resident. This meant that notwithstanding the tax relief that South Africa had granted on contributions made to the retirement fund in question, no South African tax could be levied on the pension ultimately payable. Hence the proposed amendment. As a result of consultations undertaken regarding last year's proposed change it now appears that the proposal has been scrapped and that instead South Africa is going to renegotiate its treaties with the foreign jurisdictions in question to ensure that South Africa retains the taxing rights on the pensions ultimately paid out. Government intends to initiate these negotiations this year.
- A discussion paper proposing a "two-pot retirement system" was published in December 2021. The proposal would enable pre-retirement access to a portion of one's retirement assets while ensuring that the remainder is preserved for retirement. Public comments on the tax treatment of contributions to the two pots are being reviewed in preparation for public workshops which will be followed by legislative amendments.

Corporate tax

- As announced in the 2020 Budget it is proposed to reduce the corporate tax rate by 1% to 27%. These measures will come into effect for years of assessment ending on or after 31 March 2023.
- Hand-in-hand with the reduced tax rate the previously announced proposal to further restrict certain deductible interest for tax purposes will be introduced. In addition, the proposal to restrict the use of assessed losses to 80% of taxable income in any one year will also now be implemented. It will however be made clear that, with regard to mining companies, the assessed loss limitation rule will be applied before determining deductible capital expenditure. It is also proposed that smaller companies, that are more likely to struggle with cash flow, will be exempt from the proposed changes to the assessed loss provisions.

- Government proposes clarifying that the interest limitation rules in section 23M of the Income Tax Act will not be applied to the interest expense of non-producing mining operations that forms part of capital expenditure of such mining operations (in terms of section 36 of the Income Tax Act).
- South Africa is a member of the Steering Group of the OECD/G20 Inclusive Framework tasked with finding consensus-based solutions to tax challenges associated with the digitalisation of the economy. The Inclusive Framework agreed on a two-pillar solution and will work on and implementation framework to take effect by 2023. South Africa will propose legislative amendments to implement these rules once the framework has been finalised and translated into a local context.

Corporate tax – administrative amendments

Annexure C to the Budget Review details a number of legislative changes that are under consideration or are proposed for the upcoming legislative cycle. These include:

- Expanding the definition of "variable remuneration" which is only deductible when paid by a business rather than when expenditure in question is actually incurred.
- Apportioning the annual interest exemption and capital gains tax annual exclusion for tax periods that are less than a year. When an individual ceases to be resident in South Africa their year of assessment is deemed to end and a new year of assessment commences immediately thereafter. This means that individuals have two years of assessment in a 12-month period, each of which is entitled to the full interest exemption and capital gains tax exclusion. The proposal seeks to deal with this anomaly.
- A number of amendments are proposed to the retirement provisions to deal with anomalies that have come to light.
- The postponing of the effective date of a 2021 proposal to address anti-avoidance concerns and clarify the definition of contributed tax capital. As the proposal was originally framed it would have precluded the use of contributed tax capital to buy back specific shares in a company. This would mean that any specific share buybacks would be subject to dividends tax except if the shareholder was an exempt entity/person. The effective date of this amendment has now been postponed to 1 January 2023 to give National Treasury and affected stakeholders more time to consider the impact of the proposed amendments.
- Further refinements to the intra-group relief provisions are proposed to limit some of the potential negative consequences of the anti-avoidance provisions contained in the relief.
- It has come to government's attention that lay-by arrangements do not benefit from the debtors allowance rules contained in section 24 of the Income Tax Act because such arrangements are for periods shorter than 12 months. To remedy this, government proposes that the current debtors allowance rules be reviewed to limit the adverse effect on lay-by arrangements.
- Certain changes to the income tax provisions dealing with the taxation of insurers are anticipated in order to deal with the impact of IFRS17 (effective 1 January 2023) which may have a material impact on the valuation method for insurance contract liabilities and insurers' cash flow and profit profiles.
- In 2018 amendments were proposed to clarify and provide certainty on the tax treatment of gains made by collective investment schemes on the disposal of securities. The proposal was to tax short-term gains as income rather than as capital. The proposal was withdrawn following public comment to allow more time to find solutions with the industry. It is now proposed to issue a discussion document, dealing with the tax treatment of amounts received by or accrued to portfolios of collective investment schemes, for public comment before any amendments are proposed to the tax legislation.
- A number of amendments are proposed to deal with anomalies and loopholes relating to the taxation of controlled foreign companies.
- To align the tax treatment of an asset acquired as a government grant in kind with the tax treatment of assets acquired using a cash government grant, government proposes that changes be made to the legislation so that wear and tear allowances cannot be claimed in respect of the former.

Tax incentives

Following the publication of a discussion document and an online survey reviewing the research and development tax incentive, a decision has been made to extend the incentive in its current form until 31 December 2023. Other incentives, as detailed below, will however not be renewed when they reach their sunset date. These include:

- Section 12DA (rolling stock) on 28 February 2022
- Section 12F (airport and port assets) on 28 February 2022
- Section 12O (films), which lapsed on 31 December 2021
- Section 13*sept* (sale of low-cost residential units through an interest free loan) on 28 February 2022.

Employment tax incentive

It is proposed that the employment tax incentive be increased by 50% to a maximum monthly value of R1 500 to encourage businesses to increase youth employment. The proposed change will be effective from 1 March 2022. Improved targeting of the incentive will be considered to support jobs for long-term unemployed work seekers, alongside an expansion of the eligibility criteria for qualifying employees to improve the incentive for small businesses.

Presidential employment initiative

The presidential employment initiative was launched in October 2020 to mitigate the economic impact of COVID-19. A total of R12.6 billion allocated for this first phase of the initiative and R10.9billion allocated for phase two commencing October 2021. An amount of R18.4 billion has now been prioritised for phase three of the presidential employment initiative over the next two years. This budget includes the allocation of R1.7 billion to the Social Employment Fund established by the Department of Trade, Industry and Competition.

Bounce-back scheme to support SMEs

R20 billion has been allocated to the new bounce-back scheme to support small businesses in distress owing to the COVID-19 pandemic through a two-fold financial support mechanism that will be introduced sequentially.

Firstly, loan guarantees for small businesses of R15 billion will be facilitated through various financial institutions and small medium loan providers, with government support used to guarantee the first 20% of the losses for the loan providers. This support mechanism will be operational during March.

Secondly, a business equity-linked loan guarantee support mechanism that will be available to qualifying 'non-bank' small and medium finance providers is intended to be launched by April and will be facilitated through development finance institutions.

VAT – Reviewing section 72 arrangements and decisions

In 2019, changes were made to section 72 of VAT Act, which deals with the SARS Commissioner's discretion to make arrangements or decisions regarding the application of the VAT Act to specific situations where the manner in which a vendor or class of vendors conducts their business leads to difficulties, anomalies or incongruities. In the past two years, government reviewed the impact of these decisions to ascertain whether they should be discontinued or extended in accordance with the new provisions of section 72. As a result, changes were made to the VAT legislation. It is proposed that further changes be made to account for further reviews of some of the section 72 decisions.

VAT – Updating the regulations prescribing electronic services

In 2019 the ambit of the legislation that governs electronic services was widened to align it with the Organisation for Economic Co-operation and Development (OECD)/ Group 20 Base Erosion and Profit Shifting Action 1 Report. It is proposed that the current regulations be reviewed to give effect and recognise further developments in this area.

Customs and excise – Advance rulings

It is proposed that an enabling framework for advance rulings be provided for in the Customs and Excise Act. Once introduced, advance rulings will be binding on both SARS and the applicant. The indicative implementation date is 30 November 2022.

Customs and excise – Time of entry for break-bulk cargo imported by sea, air and rail

There is currently no provision in the Customs and Excise Act enabling the SARS Commissioner to prescribe the period within which entry must be made in respect of loose or break-bulk cargo imported by sea, air or rail. Government proposes that the act be amended to allow the Commissioner to make rules for the entry time of any category of goods, which may include such cargo.

Customs and excise – Clarifying the requirements for invoices in respect of import and export goods

Because of existing uncertainty, it is proposed that amendments be made to the Customs and Excise Act to clarify the legislative requirements for invoices in respect of import and export goods. The amendment is aimed at providing greater clarity on the invoice requirements with a view to encourage greater compliance and engender trade facilitation.

Customs and excise – Progress with the review of the diesel refund administration

Draft amendments to the diesel refund notes and rules to the Customs and Excise Act were published for public comment in 2020 and 2021. Industry-specific workshops were conducted in the second half of 2021 to refine and finalise the proposed reforms. Government proposes that legislation effecting these amendments be put forward.

Government has previously announced that it intends including "wet" contracts in the diesel refund scheme. Hopefully the consultative process referred to above will ensure that eligible participants enjoy the full benefits of the diesel refund dispensation.

Carbon tax

Effective 1 January 2022, the carbon tax rate increased from R134 to R144 per tonne of carbon dioxide equivalent. Effective 6 April 2022, the carbon fuel levy will also increase by 1c/litre for petrol and 10c/litre for diesel.

The first phase of the carbon tax will be extended to 31 December 2025. The transitional support measures afforded to companies in the first phase (such as the tax-free allowances) will continue over this period, alongside adjustments outlined below:

- Extending the energy-efficiency-savings tax incentive from 1 January 2023 to 31 December 2025.
- Extending the electricity price neutrality commitment until 31 December 2025. The electricity-related deduction will be limited to the carbon tax liability of fuel emissions of electricity generators and will not be offset against the total carbon tax liability.
- Adjusting the threshold for the maximum trade exposure allowance from 30% to 50% from 1 January 2023. Updated sectors and allowances will be published for public consultation.
- Penalising emissions exceeding mandatory carbon budgets. The mandatory carbon budgeting system comes into effect on 1 January 2023. A proposed higher carbon tax rate of R640 per tonne of carbon dioxide equivalent will apply to greenhouse gas emissions exceeding the carbon budget. The voluntary carbon budget allowance of 5% will no longer be applicable. These amendments will be legislated once the Climate Change Bill is enacted.

Simultaneously, South Africa's exports of carbon-intensive goods such as iron and steel are likely to face carbon taxes in Europe, which will reduce their competitiveness.

To prepare South Africa for the structural transition to a climate-resilient economy, government proposes to progressively increase the carbon price every year by at least US$1 to reach US$20 per tonne of carbon dioxide equivalent by 2026. For the second phase, government intends to increase the carbon price more rapidly every year, to at least US$30 by 2030, accelerating to higher levels by 2035, 2040 and up to US$120 beyond 2050.

The basic tax-free allowances will also gradually be reduced. To encourage investment in carbon offset projects, government intends to increase the carbon offset allowance by 5% from 1 January 2026. These and other proposals will form part of a review for the second phase.

Othertaxes

Plastic bag levy

It is proposed that the plastic bag levy be increased from 25c/bag to 28c/bag with effect from 1 April 2022. The Budget Review also notes that an upstream plastic tax and a tax on single-use plastics will be investigated.

Motor vehicle emissions and incandescent light bulbs

Government proposes an increase to the vehicle emissions tax rate on passenger cars from R120 to R132/gCO_2/km and increase the tax on double cabs from R160 to R176/gCO_2/km from 1 April 2022. An increase in the incandescent light bulb levy from R10 to R15 per light bulb is proposed from 1 April 2022.

Excise duties on alcoholic beverages and tobacco products

Government proposes to increase excise duties on alcohol by between 4.5 and 6.5% for 2022/2023. An increase in the excise duty rate on tobacco products by between 5.5 and 6.5% is proposed.

Beer powders

The Budget Review notes that in the interest of equity, the flat excise rate of 34.7c/kg which is currently applying for traditional African beer powder will also apply to other similar beer powders from 1 October 2022.

Vaping

A new flat excise duty rate of at least R2.90/ml is proposed to apply from 1 January 2023 to both nicotine and non-nicotine solutions.

Health promotion levy

The levy for beverages with more than 4g of sugar content per 100ml will be increased from 2.21c/g to 2.31c/g from 1 April 2022. The Budget Review notes that consultations will be initiated to consider lowering the 4g threshold and extending the levy to fruit juices.

Upstream petroleum tax regime

One of the key proposals included in the review of the tax regime for the upstream petroleum industry published at the end of 2021 was the proposal to replace the variable mineral and petroleum resources royalty rate with a flat rate of 5%. Government has acknowledged that public comments have been received, including some concerns raised about the aforementioned proposal and that it intends hosting a workshop to engage stakeholders on the various issues, with a view to including finalised proposals in the 2022 Taxation Laws Amendment Bill.

Tax administration

The following tax administrative initiatives were noted in the Budget Review:

- It is proposed that the Income Tax Act be amended to allow a regulated intermediary to recover refundable dividends tax from SARS in instances where the refundable amount exceeds the dividends tax withheld by the regulated intermediary at least one year after the amount became refundable. This remedy is currently available to dividend paying companies.
- Government proposes a review of the provisional tax system with the intention of publishing a discussion paper on the subject.
- In order to prevent unnecessary VAT registrations, costs and administrative burden for both non-resident suppliers and SARS, it is proposed that a specific exception be considered to the normal compulsory VAT registration in the case of once-off electronic supplies in excess of the R1 million VAT registration threshold made by non-resident suppliers to a recipient in South Africa.
- Government proposes that the South African domestic legal framework be amended to make provision for the full use of joint audits with other tax administrations in order to improve the effective exchange of information under international tax agreements.
- Given the abuse of employment tax incentives, government proposes that the Employment Tax Incentive Act, 2013 be amended to impose understatement penalties on reimbursements that are improperly claimed.
- Taxpayers with outstanding tax debts may make arrangements with SARS that will allow the latter to reflect their tax status as being tax compliant, despite the outstanding tax debts. The Budget Review notes that this may not be possible in the early stages of a business rescue, which may negatively affect the prospects of a successful rescue. Empowering SARS to assist in these circumstances is to be investigated.
- Updates to the tax compliance status system is to be investigated to counter the increased abuse of the system and ensure that the system provides a more accurate reflection of the actual tax compliance status of taxpayers.

Tax research and reviews

- A discussion document will be published in 2022 on a personal income tax regime for remote work.
- A review of the exemption of foreign retirement benefits in domestic tax legislation will be conducted.
- A review of depreciation and investment allowances will take place during 2022/23, followed by the release of a discussion document.
- Government will review the approach to adjusting thresholds for inflation.
- Review papers on the alcohol and tobacco excise duties policy framework will be released shortly for comment.

Exchange control

In line with the policy to modernise the capital flows management framework, further proposals have been made, which include the following:

Individuals

1. Will be able to export dual listed domestic securities to a recognised foreign share exchange provided it falls within the R1 million discretionary allowance and/or the R10 million foreign capital allowances available to natural persons. This will need to be advised to the exchange control authorities and all tax and money - laundering requirements will apply.
2. May now use their single discretionary allowance to participate in online foreign exchange trading activities but may not use credit or debit cards for this purpose.
3. May now retain gifts from non-residents offshore without first seeking approval from the exchange control authorities;
4. May lend or dispose of authorised/regularised foreign assets to other South African residents subject to local tax disclosure and compliance. This dispensation does not apply retrospectively, and previous transactions of this nature will still require regularisation.
5. Will now be able to transfer in excess of R10 million, for investment purposes, via offshore trusts subject to all the conditions previously required, i.e. tax clearance from SARS and approval from the Financial Surveillance Department of the Reserve Bank.
6. Remaining cash balances of up to R100 000 of individuals who have ceased to be resident for tax purposes will become transferable without the need for further approval.

Companies

1. Following public consultation, it has now been decided that all debt securities referencing foreign assets and listed on South African stock exchanges are to remain classified as foreign.
2. The foreign direct investment limit for companies investing abroad will be raised from R1 billion to R5 billion subject to tax and reporting conditions being met.
3. Companies will be able to retain excess profits and income from their offshore branches and offices abroad subject to fulfilling reporting requirements.
4. Parent companies will be able to transfer, via their local banks, increased amounts to their domestic treasury management companies for the purpose of new offshore investments, expansions as well as other transactions of a capital nature. The previous limit for listed companies has been raised from R2 billion to R5 billion and for unlisted entities from R1 billion to R3 billion.

Institutional investors

1. The previous limits of 40 and 30% respectively applicable to various institutional investors have now been consolidated in a new limit of 45%, including the 10% African allowance, for all institutional investors.
2. Institutional investors will now be able to open and conduct foreign currency accounts with local banks which are authorised dealers. These accounts are to be used for funding purposes and to receive disinvestment proceeds from abroad, which are destined to be reinvested offshore.

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