

## CHARTERED ACCOUNTANTS

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# MoneyTalk

## 2006 Tax Related Budget Proposals

The following is a summary of the tax related budget proposals announced by the Minister of Finance on 15 February 2006.

### HIGHLIGHTS

- Relief for individuals
- Tax concessions for small businesses extended
- Transfer duty threshold increased by 163%
- CGT exclusions increased
- Donations Tax and Estate Duty thresholds increased
- No change in VAT, STC, CGT, Donations Tax or Estate Duty rates
- Tax on retirement funds halved

### INDIVIDUALS

#### Income tax tables and rebates

The tax brackets have been adjusted to provide relief across all levels of income for the year of assessment ending 28 February 2007.

- The income tax threshold for persons under the age of 65 is raised from R35 000 to R40 000 – that is, people under the age of 65 earning taxable income of less than R40 000 a year will pay no income tax.
- The tax threshold for taxpayers aged 65 and over increases from R60 000 to R65 000.
- The minimum tax rate of 18% now applies to taxable income up to R100 000 (previously R80 000).
- Individuals younger than 65 earning R100 000 a year will pay R2 300 less tax and those earning R500 000 will pay R9 900 less tax than in the 2006 tax year. These comparisons, however, do not take into account the extra tax that will be payable by some individuals as a result of the changes in the tax treatment of medical aid and medical expenses and the changes in the taxation of travel allowances and company cars.



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- The maximum rate remains at 40% and will apply to taxable income exceeding R400 000 a year (previously R300 000 a year).
- The primary rebate increases by R900 from R6 300 to R7 200 a year for all taxpayers. The secondary rebate for individuals aged 65 years and older remains unchanged at R4 500 a year.

### **Increase in interest and dividend income exemption**

The interest and dividend income exemption will increase from R15 000 to R16 500 for taxpayers under 65 years of age and from R22 000 to R24 500 for taxpayers aged 65 and over. The proportion of the exemption available for foreign interest income and foreign dividends is to increase from R2 000 to R2 500 per annum. These increases will take effect as from 1 March 2006.

### **Motor vehicles**

As announced in the 2005 Budget, the deemed private mileage used to determine the deductible portion of a travel allowance increased from 14 000km to 16 000km in the 2006 tax year and this increases further to 18 000km from 1 March 2006. The proportion of the monthly allowance subject to PAYE increases from 50% to 60% from 1 March 2006. A new cost table is to be published, which will also be effective from 1 March 2006.

The monthly taxable value of a company car increases from 1,8% to 2,5% of the determined value of the car from 1 March 2006. The taxable value of a second company car remains at 4% per month.

### **Subsistence**

The current allowance of \$190 per day is to be reviewed to align more closely with actual costs likely to be incurred.

### **Medical aid contributions and medical expenses**

A new method of calculating the taxable fringe benefit where an employer pays part or all of an employee's medical aid contributions and a revised deduction for medical expenses (including medical aid contributions) were announced in the 2005 Budget speech. The new system was enacted in the recently-promulgated Revenue Laws Amendment Act and becomes effective from 1 March 2006. Under the new system, the tax-free fringe benefit for medical aid contributions will be limited to a fixed amount of R500 each for the taxpayer and first dependant and R300 for each additional dependant. Medical aid contributions and qualifying medical expenses paid by the taxpayer may be deducted to the extent that they exceed 7,5% (previously 5%) of taxable income.

### **Residential accommodation**

The taxable fringe benefit arising from the provision of residential accommodation is determined as a percentage of the employee's previous year's salary, reduced by R20 000. This reduction is to be increased to R40 000.



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### Bursaries

The exemption for scholarships and bursaries is to be simplified. With effect from 1 March 2007, the exemption will be granted as long as the employer's funds are applied directly towards tuition and tuition-related expenses and the employee is required to repay the employer if s/he fails to fulfil her or his scholarship or bursary obligations.

### Estate duty

The estate duty exemption will increase from R1,5 million to R2,5 million from 1 March 2006.

The rate of estate duty on the dutiable value of the estate remains unchanged at 20%.

### Donations tax

The annual donations tax exemption for natural persons will increase from R30 000 to R50 000 from 1 March 2006.

The rate of donations tax payable at a flat rate on the value of all property donated (in excess of the exemption) remains unchanged at 20%.

## COMPANIES

### Corporate tax rate remains unchanged

The corporate tax rate of 29% and the STC rate of 12,5% remain unchanged. Other rates linked to the corporate rate are as follows:

- The tax rate for South African branches or agencies of foreign companies remains at 34%.
- The rate for company policyholder funds and corporate funds of long-term insurers remains at 29%.
- The gold mining tax formulae are unchanged.
- The tax rate for employment companies remains at 34%.

## SMALL BUSINESSES

### Small business corporations

The turnover limit for eligible companies increases from R6 million to R14 million for years of assessment ending on or after 1 April 2006.

Tax rates for qualifying small business corporations for years of assessment ending between 1 April 2006 and 31 March 2007 will be as follows:



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<u>Taxable income:</u>		<u>Tax rate:</u>
R0 – R40 000	-	0%
R40 001 – R300 000	-	10%
R300 001 and over	-	29%

The definition of “small business corporation” is to be reviewed during the course of 2006.

### **Tax amnesty for small businesses**

SARS is to offer a tax amnesty to small businesses with turnover of up to R5 million for the 2005 year of assessment. In terms of this amnesty SARS will waive taxes, penalties, additional taxes and interest for years of assessment ending up to and including 31 March 2004, provided that the taxpayer submits a tax return for the 2005 year. The cost of the amnesty will be a once-off penalty calculated at 10% of the taxpayer's taxable income for the 2005 year of assessment. The amnesty will be denied to those who have already disclosed their income, or who have been formally notified that they are under investigation.

The first phase in the roll-out of this amnesty will focus on the taxi industry, to encourage the taxi recapitalisation scheme, and will run from 1 August 2006 until 31 May 2007. The second phase, for other businesses, will commence later in 2006.

## **OTHER**

### **Value-Added Tax (VAT)**

The VAT rate remains unchanged at 14%.

Municipal property rates will be zero-rated for tax periods commencing on or after 1 July 2006.

The VAT treatment of grants to and by municipalities is to be clarified.

The VAT threshold for both farmers submitting six-monthly returns (Category D) and small businesses submitting four-monthly returns (Category F) will increase from R1 million to R1,2 million for tax periods commencing on or after 1 July 2006.

The VAT treatment of internationally traded services is to be clarified.

### **Capital gains tax (CGT)**

The following monetary limits will be increased for tax years commencing on or after 1 March 2006:

- The annual exclusion will increase from R10 000 to R12 500.
- The annual exclusion in the year of death will increase from R50 000 to R60 000.
- The primary residence exclusion will increase from R1 million to R1,5 million.



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- The exclusion of capital gains on the disposal of qualifying small business assets will increase from R500 000 to R750 000.

### Transfer duty

The transfer duty threshold for natural persons is to increase from R190 000 to R500 000. The transfer duty rates for property acquired by natural persons on or after 1 March 2006 will be as follows:

<u>Property value:</u>	<u>Rates of tax:</u>
R0 – R500 000 -	0%
R500 001 – R1 000 000 -	5% on the value above R500 000
R1 000 001 and above -	R25 000 plus 8% on the value above R1 000 000

The transfer duty rate for companies and trusts will reduce from 10% to 8% with effect from 1 March 2006.

### Fuel taxes

The general fuel levy remains at 116 cents per litre on petrol and 100 cents per litre for diesel. The Road Accident Fund levy increases by 5 cents per litre from 31,5 cents per litre to 36,5 cents per litre.

The biodiesel fuel levy rebate will increase from 30% to 40% to encourage the domestic biodiesel industry.

### Stamp duties

The threshold for stamp duties on leases will increase from R200 to R500 per agreement from 1 March 2006.

### Tax on retirement funds

The tax on retirement funds is to reduce from 18% to 9% with effect from 1 March 2006.

### Duties on beverages and tobacco products

Duties on sparkling wine, unfortified wine, beer (excluding sorghum beer), alcoholic fruit drinks, spirits and tobacco are increased with immediate effect. For example, the duty on cigarettes increases by 10,2%, on sparkling wine by 20% and on malt beer by 9%. This increases the cost of a 340ml can of malt beer by 5c and a packet of 20 cigarettes by 52c.

### RSC/JSB levies

RSC and JSB levies will be abolished on 30 June 2006. Municipalities will be compensated for this revenue by the allocation of grants and the zero-rating of property rates.



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### Learnership allowances

The learnership allowance, introduced in 2002 for a five-year period, is to be extended for a further period of five years. The maximum initial allowance will increase from R17 500 to R20 000 for existing employees and from R25 000 to R30 000 for new employees. The maximum allowance in the year of completion will increase from R25 000 to R30 000. The increased allowances apply in respect of learnership agreements entered into from 1 March 2006 onwards.

Where the learner is a disabled person, the employer will be entitled to an initial allowance equal to 150% of the annual salary of an existing learner, up to a maximum of R40 000, and 175% of the annual salary of an unemployed learner, up to a maximum of R50 000. Upon completion of the learnership agreement, the employer may deduct 175% of the learner's annual salary, up to a maximum of R50 000.

### Research and development

The deduction for research and development expenditure will increase from 100% to 150% and the depreciation allowance for assets used in research and development projects will be accelerated from 40:20:20:20 to 50:30:20.

### Wear and tear allowance

The threshold below which small assets may be written off in full in the year of acquisition will increase from R2 000 to R5 000 from 1 March 2006.

### Exchange control and tax amnesty

The amnesty unit has completed the adjudication of some 43 000 amnesty applications, with the disclosure of R68,6 billion worth of foreign assets giving rise to R2,9 billion in levies and an estimated R1,4 billion increase in the tax base, which is expected to produce an additional R400 million in annual taxes.

All approved applications will be "sanitised" and submitted to SARS and the Reserve Bank. Unsuccessful applications will be kept at the National Treasury to maintain secrecy.

### Public benefit organizations (PBOs)

Various aspects of the tax treatment of PBOs are to be reviewed, including the following:

- The list of tax-exempt PBO activities will be revised.
- The statutory tax rates for trading PBOs will be aligned.
- The rules for permissible investments are to be relaxed.

### Recreational clubs

The taxation of recreational clubs is to be reviewed.

### Tax administration



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- The advance tax ruling system is to be phased in, starting in 2006.
- The provisional tax system is to be reviewed to align provisional tax payments more closely with current incomes for tax years commencing on or after 1 March 2007.
- The STC system is to be reviewed and penalties will be introduced for non-disclosure or under-declaration of dividends.
- The revision of section 103 of the Income Tax Act will be finalised in the latter half of 2006.

### INDIVIDUAL TAX SAVINGS

Income tax payable in 2006/2007 – individuals younger than 65.

Taxable income R	2005/2006 tax R	2006/2007 tax R	Tax reduction R
50 000	2 700	1 800	900
70 000	6 300	5 400	900
100 000	13 100	10 800	2 300
150 000	26 600	23 300	3 300
200 000	42 600	37 800	4 800
500 000	159 700	149 800	9 900
1 000 000	359 700	349 800	9 900
1 500 000	559 700	549 800	9 900

Income tax payable in 2006/2007 – individuals 65 years and older.

Taxable income R	2005/2006 tax R	2006/2007 tax R	Tax reduction R
70 000	1 800	900	900
100 000	8 600	6 300	2 300
150 000	22 100	18 800	3 300
200 000	38 100	33 300	4 800
500 000	155 200	145 300	9 900
1 000 000	355 200	345 300	9 900
1 500 000	555 200	545 300	9 900



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### INCOME TAX RATES: NATURAL PERSONS AND SPECIAL TRUSTS

#### YEAR OF ASSESSMENT ENDING 28 FEBRUARY 2007

Taxable income			Tax rates		
	R				
0	-	100 000		18%	of each R1
100 001	-	160 000	R18 000 +	25%	of the excess over R100 000
160 001	-	220 000	R33 000 +	30%	of the excess over R160 000
220 001	-	300 000	R51 000 +	35%	of the excess over R220 000
300 001	-	400 000	R79 000 +	38%	of the excess over R300 000
400 001		and above	R117 000 +	40%	of the excess over R400 000

#### Natural persons:

##### Tax thresholds

	2006 R	2007 R
Below 65 years of age	35 000	40 000
Aged 65 and over	60 000	65 000

##### Tax rebates

	2006 R	2007 R
Primary	6 300	7 200
Secondary (in addition to the above)	4 500	4 500



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### CORPORATE TAX RATES

#### YEARS OF ASSESSMENT ENDING BETWEEN 1 APRIL 2006 AND 31 MARCH 2007

NORMAL TAX		2006	2007
Non-mining companies	Basic rate	29%	29%
Close corporations	Basic rate	29%	29%
Employment companies	Basic rate	34%	34%
Other companies	Basic rate	29%	29%

Tax rates for qualifying small business corporations will be as follows:

R0	– R40 000 of taxable income	- 0%
R40 001	– R300 000 of taxable income	- 10%
R300 000	+ of taxable income	- 29%

#### **SECONDARY TAX ON COMPANIES (STC)**

The STC rate remains unchanged at 12,5%.

### TRUSTS

The tax rate on trusts (other than special trusts) remains unchanged at 40%.



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### EFFECTIVE CGT RATES

Taxpayer	Inclusion Rate (%)	Statutory Rate (%)	Effective Rate (%)
<b>Individuals</b>	25	0 – 40	0 – 10
<b>Trusts</b>			
Unit	-	29	-
Special	25	18 – 40	4,5 – 10
Other	50	40	20
<b>Companies</b>			
Ordinary	50	29	14,5
Small business corporation	50	0 - 29	0 – 14,5
Permanent establishment	50	34	17
Employment company	50	34	17
<b>Life assurers</b>			
Individual policyholder fund	25	30	7,5
Company policyholder fund	50	29	14,5
Untaxed policyholder fund	-	-	-
Corporate fund	50	29	14,5

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