Key proposals that may affect you.

Budget 2024

March 2024

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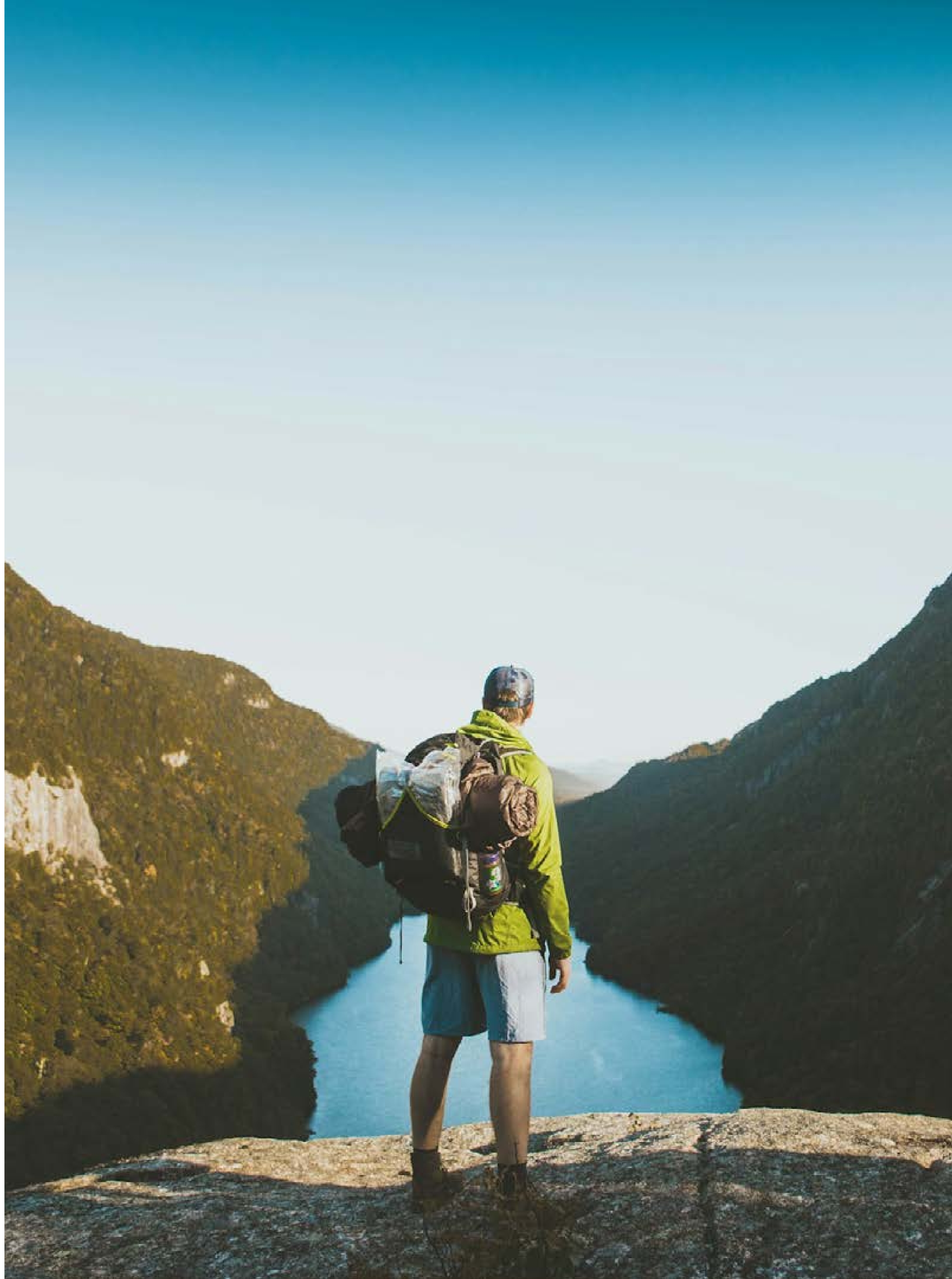
This 2024 Budget Speech summary provides an overview of how South Africa’s budget changes and proposals may affect your everyday finances, future planning and wealth.

Contents

Key changes and proposals in more detail:



Highlights

VAT
15%
(unchanged)

Personal income tax
Personal income tax brackets and rebates remain unchanged.

Corporate tax
27%
27% for years of assessment ending on or after 31 March 2023 (unchanged). This will affect capital gains tax (CGT) effective rates for companies too.

Estate duty rate
20%
on dutiable estates up to R30 million (unchanged).

25%
on dutiable estates greater than R30 million (unchanged).

Donations tax rate
20%
on donations up to R30 million (unchanged).

25%
on donations exceeding R30 million (unchanged).

Fuel taxes
General fuel levy (unchanged).
15c/litre

Road Accident Fund (RAF) levy (unchanged).
11c/litre

Carbon tax
Petrol
▲ **11c/litre**

Diesel
▲ **14c/litre**
(effective from 3 April 2024)

Your everyday finances

Tax on what you earn

Personal income tax

- Personal income tax brackets and rebates remain unchanged.
- Maximum personal income tax rate (unchanged): **45%.**

Rebates (unchanged)

Primary	Secondary	Tertiary
R17 235	R9 444	R3 145

Tax thresholds (unchanged)

< 65 years	65+ years	75+ years
R95 750	R148 217	R165 689

What you spend

VAT (unchanged): **15%**

Fuel taxes (unchanged)

General fuel levy	RAF levy
15c/litre	11c/litre

Carbon tax (effective from 3 April 2024)

Petrol	Diesel
▲ 11c/litre	▲ 14c/litre

Medical tax credits (unchanged)

First 2 beneficiaries (per person)	Remaining beneficiaries (per person)
R364	R246

Your investments

Exemptions and allowances

Interest exemption (unchanged)
(Applicable to South African-sourced income only)

For individuals:

< 65 years	65+ years
R23 800 per year	R34 500 per year

Tax-free savings (unchanged). Annual contribution limit: R36 000

Annual donations relief (unchanged). Exemption of R100 000

Reviewing Practice Note 31 of 1994

In November 2022, the South African Revenue Services (SARS) announced its intention to withdraw Practice Note 31 (PN 31). The legislation replacing PN 31 will come into operation on 1 January 2025 and applies to years of assessment starting on or after this date.

Please refer to the Key changes and proposals for more detail.

South African resident lenders to non-resident trusts

Government is proposing that amendments be made to the legislation to provide clarity on anti-avoidance rules for low-interest or interest-free loans to non-resident trusts and transfer pricing rules where the arm's length interest rate is less than the official rate of interest.

Please refer to the Key changes and proposals for more detail.

Non-resident beneficiaries of trusts

The promulgated legislation on the taxation of income accruing to South African resident trusts but vested to non-resident beneficiaries is aligned to that of capital gains, and therefore is also taxed in the trust. Such income will be taxed in the trust for the year of assessment commencing on or after 1 March 2024.

Please refer to the Key changes and proposals for more detail.

Tax on your investments

CGT (unchanged)

Taxpayer	Inclusion rate	Maximum effective rate
Individuals	40%	18%
Special trusts	40%	18%
Companies (Applicable to companies with a financial year-end on or after 31 March 2023.)	80%	21,6%
Trusts	80%	36%

Dividend withholding tax (SA) (unchanged): **20%**

Foreign dividends tax (unchanged): **20%**

Withholding tax on interest (unchanged): **15%**

Your legacy

Donations tax (unchanged)

- Tax rate on donations exceeding R30 million after 1 March 2018: **25%**.
- Tax rate on donations up to R30 million after 1 March 2018: **20%**.
- Annual donations tax exemption: **R100 000**.

Trusts tax rate (unchanged): **45%**.

Estate duty (unchanged)

- Dutiable estates up to R30 million: **20%**.
- Dutiable estates greater than R30 million: **25%**.

Property transfer duty (unchanged):

Transfer duty rates			
2023/24		**2024/25**	
Property value (R)	**Rates of tax**	**Property value (R)**	**Rates of tax**
R0 – R1 000 000	0% of property value	R0 – R1 100 000	0% of property value
R1 000 001 – R1 512 500	3% of property value above R1 000 000	R1 100 001 – R1 512 500	3% of property value above R1 100 00
R1 512 501 – R2 117 500	R12 375 + 6% of property value above R1 512 501	R1 512 501 – R2 117 500	R12 375 + 6% of property value above R1 512 501
R2 117 501 – R2 722 500	R48 675 + 8% of property value above R2 117 500	R2 117 501 – R2 722 500	R48 675 + 8% of property value above R2 117 500
R2 722 501 – R12 100 000	R97 075 + 11% of property value above R2 722 500	R2 722 501 – R12 100 000	R97 075 + 11% of property value above R2 722 500
R12 100 001 and above R11 000 001 and above	R1 128 600 + 13% of property value above R12 100 000	R12 100 001 and above	R1 128 600 + 13% of property value above R12 100 000

Your retirement

Retirement fund lump sum tax benefits			
2023/24		2024/25	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R550 000	0% of taxable income	R550 000	0% of taxable income
R550 001 – R770 000	18% of taxable income above R550 000	R550 001 – R770 000	18% of taxable income above R550 000
R770 001 – R1 155 000	R39 600 + 27% of taxable income above R770 000	R770 001 – R1 155 000	R39 600 + 27% of taxable income above R770 000
R1 155 001 and above	R143 550 + 36% of taxable income above R1 155 000	R1 155 001 and above	R143 550 + 36% of taxable income above R1 155 000

Retirement fund lump sum withdrawal tax benefits			
2023/24		2024/25	
Taxable income (R)	**Rates of tax**	**Taxable income (R)**	**Rates of tax**
R0 – R27 500	0% of taxable income	R0 – R27 500	0% of taxable income
R27 501 – R726 000	18% of taxable income above R27 500	R27 501 – R726 000	18% of taxable income above R27 500
R726 001 – R1 089 000	R125 730 + 27% of taxable income above R726 000	R726 001 – R1 089 000	R125 730 + 27% of taxable income above R726 000
R1 089 001 and above	R223 740 + 36% of taxable income above R1 089 000	R1 089 001 and above	R223 740 + 36% of taxable income above R1 089 000

Retirement-related reforms

Please refer to the Key changes and proposals for more detail.

Your business

Corporate tax

Companies with their year-end before 31 March 2023 (unchanged): **28%**

Companies with their year-end on or after 31 March 2023 (unchanged): **27%**

Relaxing the assessed loss restriction rule under certain circumstances.

- Assessed loss is limited to 80% of taxable income to coincide with rate reduction.
- In the 2024 Budget Speech, government proposes that companies in the process of liquidation or deregistration should be exempt from the 80% assessed loss utilisation limitation.

Please refer to the Key changes and proposals for more detail.

Income tax changes and proposals

Tax proposals were announced in the Budget Speech and draft legislation to give effect to these tax proposals are generally published in July 2024. Treasury then considers any consultations made or responses received and final changes are made before legislation is introduced, typically towards the end of the year.

Who may be affected?	The proposals and changes
South African resident lenders to non-resident trusts	**Clarifying anti-avoidance rules for low-interest or interest-free loans to trusts** • Section 7C of the Income Tax Act: Anti-avoidance rules for low-interest or interest-free loans (including those denominated in foreign currency) by an individual or by specified companies at the instance of an individual to discretionary trust: - These rules deem any interest foregone in respect of low-interest or interest-free loans, advances or credit by a South African resident individual and/or connected company (sometimes denominated in foreign currency, ie Swiss franc) to a trust to be a donation subject to a donations tax. - If these loans are denominated in a foreign currency, an official rate of interest equal to the rate of interest that is the equivalent of the South African repurchase rate applicable to that currency plus 1% is used to calculate interest foregone, ie where a loan is denominated in Swiss franc, the official interest rate will be the Swiss National Bank rate plus 1%. - These anti-avoidance rules do not apply where the loans, advances or credit is an 'affected transaction' dealt with by the transfer pricing provisions (section 31 of the Income Tax Act) and no actual income is derived as a consequence of a low-interest or interest-free loan that is attributable to the lender deemed as donor of the interest foregone (section 7(8) of the Income Tax Act). • Transfer pricing for affected transactions including low-interest or interest-free loans denominated in foreign currency to trusts (section 31): - The transfer pricing provisions applies to low-interest or interest-free loans, advances, or credit by a South African resident (including an individual) to a non-resident where both persons are connected person and 1 party derives a tax benefit ('affected transaction'). - In case 'affected transactions' between a South African individual and a non-resident trust, the interest foregone is deemed to be a donation. - The Interest foregone is calculated using the 'arm's length interest rate', which is subjectively determined based on several factors, including credit worthiness of the non-resident trust as a borrower. - Government is now of the view that despite transfer pricing taking priority over the anti-avoidance measures, the interaction between them is not effectively addressed where the arm's length interest rate is less than the official rate of interest. • Government is proposing that amendments be made to the legislation to provide for clarity in this regard.

Income tax changes and proposals (continued)

Who may be affected?	The proposals and changes
South African resident lenders to non-resident trusts (continued)	See below

Example

Mr B is a South African resident individual who is a beneficiary of the offshore B trust. It is a discretionary trust based in Guernsey. Mr B lent US$1 million interest-free to this offshore trust. A fixed interest rate of 3% that would have been charged by a financial institution to the trust based on the factors considered, ie the interest rate regarded to be the 'arm's length interest rate'. There was no actual income derived as consequence of the loan to be attributed to Mr B as a lender for any of the 3 years.

The US Fed interest rate for the each of the 3 years were as follows:

Year	1	2	3
Fed interest rate	1%	4%	5%

The trust invested the full amounts in roll-up funds, therefore, no income accrued for all years 1, 2, and 3.

Solution

1 Section 7C of the Income Tax Act anti-avoidance rules do not apply since:
   a there was no actual income to attribute (section 7(8) of the Income Tax Act), and
   b the transaction is an 'affected transaction', subsequently transfer pricing provisions take priority.
2 Transfer pricing rules – based on 'arm's length interest rate' means the following:
   a Primary adjustment – included in the taxable income

Year	1	2	3
Loan US$	1 030 00	1 060 900	1 092 727
Arm's length interest rate	3%	3%	3%
Interest foregone US$	30 000	30 900	31 827

   b Secondary adjustment (deemed donation)

Year	1	2	3
Interest foregone US$	30 000	30 900	31 827
Translated in the following year at spot rate or average exchange rate for the year US$/ZAR.			
Apply donations 20% rate up to R30m and 25% above R30m			

3 What if the 'official rate of interest' was used as the 'arm's length interest rate'?
   a Primary adjustment – included in the taxable income

Year	1	2	3
Loan US$	1 020 00	1 071 000	1 135 260
Arm's length interest rate (US Fed rate +1%)	2%	5%	6%
Interest foregone US$	20 000	51 000	64 260
Translated at spot rate or average exchange rate for the year US$/ZAR.			

Income tax changes and proposals (continued)

Who may be affected?	The proposals and changes
South African resident lenders to non-resident trusts (continued)	b Secondary adjustment (deemed donation)

Year	1	2	3
Interest foregone US$	20 000	51 000	64 260
Translated in the following year at spot rate or average exchange rate for the year US$/ZAR.			
Apply donations 20% rate up to R30m and 25% above R30m.			

Who may be affected?	The proposals and changes
Non-resident beneficiaries of trusts	**Taxation of non-resident beneficiaries of trusts** • Capital gains made by the South African tax resident trust will not flow through to non-resident trust beneficiaries and are taxed in the South African trust. • Income accruing to the South African resident trust can, however, be vested and may flow through to non-resident beneficiaries. Therefore, income can be taxed in the hands of the non-resident beneficiary, if applicable. The promulgated legislation does not allow income accruing to a South African tax resident trust to flow through to non-resident trust beneficiaries. Such income will be taxed in the trust for the year of assessment commencing on or after 1 March 2024.
Taxpayers with debt or loan assets denominated in foreign currency.	**Reviewing the interaction of the set-off assessed loss rules and rules on exchange differences on foreign exchange transactions** • A taxpayer can set-off the balance of assessed losses carried forward from the preceding tax year against income, provided that the taxpayer continues **trading** in terms of section 24I read with section 20 of the Income Tax Act. • Taxpayers (other than individuals and non-trading trusts) who have incurred exchange losses arising from currency movement on debt, advance, loan (whether debtor or creditor) denominated in a foreign currency may not be able to set off such exchange losses against exchange gains from the same debt if the **trading requirement** has not been met. • Government proposes that it should be considered to ring-fence all foreign exchange losses on exchange items allowed against exchange gains from future years of assessment. **Example** Company C invests in financial instruments including bonds denominated in US$. In year 1, the rand strengthens against the US$, resulting in exchange loss of R500 000 for Company C. In year 2, the rand weakens considerably against the US$, resulting in exchange gain of R800 000 for Company C. **Solution** 1 For year 1 tax year Company C has an assessed loss of R500 000. 2 For year 2 tax year Company C cannot utilise the assessed loss from year 1 (since it is not trading) to reduce the taxable income of R800 000. Government proposes addressing this anomaly by allowing the carry forward of exchange losses and allow their set-off against exchange gains.

Income tax changes and proposals (continued)

Who may be affected?	The proposals and changes
Long-term investors in financial instruments	**Practice Note 31 of 1994 – applicable for years of assessment starting before 1 January 2025** • PN 31 currently allows a deduction of certain expenses against interest income, such as interest paid, trustee fees and portfolio fees, for long-term investors who are not carrying on a trade, ie investors who are not speculating in financial instruments to make a profit. • In November 2022, SARS announced its intention to withdraw PN 31. **Legislation replacing PN 31 – applicable for years of assessment starting on or after 1 January 2025** • The promulgated legislation replacing PN 31 will allow a person to deduct interest incurred: - in the production of interest income that is included in the income of that person for tax purposes; - not in carrying on a trade; and - that does not exceed the interest income received or accrued, which is included in the income of that person for tax purposes. • A person will not be allowed to deduct other expenses such as trustee fees and portfolio fees. • The legislation replacing PN 31 will come into operation on 1 January 2025 and applies to years of assessment starting on or after this date. • Click here for more information on PN 31.
Multinationals operating businesses internationally	**Implementing the global minimum corporate tax: Pillar Two (minimum effective tax rate)** • Government, based on Pillar Two, which is one of the measures of the Organization for Economic Cooperation and Development to combat tax-base erosion and profit shifting, introduces the global minimum tax. It will ensure that any multinational with annual revenue exceeding €750 million will be subject to an effective tax rate of at least 15%, regardless of where its profits are located. • Government proposes to introduce 2 measures to effect this change – an income inclusion rule and a domestic minimum top-up tax – for qualifying multinationals from 1 January 2024. • The income inclusion rule will enable qualifying South African multinationals operating in other countries to apply a top-up tax on profits with effective tax rates below 15%. The domestic minimum top-up tax will enable SARS to collect a top-up tax for qualifying multinationals paying an effective tax rate of less than 15% in South Africa.

Income tax changes and proposals (continued)

Who may be affected?	The proposals and changes
Companies investing in renewable energy	**Section 12B renewable energy allowance: Lifting of generation thresholds and leasing restrictions** • The tax incentives, mainly capital and depreciation allowances (on assets used for the purpose of trade) against the income of the taxpayer, are available to promote renewable energy and to encourage rapid private investment to alleviate the energy crisis. • However, the capital allowances are restricted, based on the following generation thresholds, for example: - Photovoltaic solar energy not exceeding 1 megawatt – 100% of the cost of the asset is allowed in the year the asset is brought into use. - Hydropower to produce electricity of not more than 30 megawatts - 50%, 30%, and 20% of the cost of the asset allowed in the 1st year, 2nd year and 3rd year respectively. • Government will reconsider the generation thresholds and leasing restrictions of section 12B of the Income Tax Act and proposals will be designed to take effect from 1 March 2025. • This relaxation of tax incentives restrictions is welcome.
Companies with assessed losses and in the process of liquidation or deregistration.	**Relaxing the assessed loss restriction rule under certain circumstances** • The assessed losses that companies can offset against their taxable income will be limited to R1 million or 80% of company taxable income for the current year, whichever is the highest. It is effective for years of assessment ending on or after 31 March 2023. • In the 2024 Budget Speech, government proposes that the legislation be amended to exempt companies from applying the assessed loss restriction rule while in the process of liquidation, deregistration or winding up.

Income tax changes and proposals (continued)

Who may be affected?	The proposals and changes
South African shareholders of controlled foreign companies	**Clarifying the foreign business establishment exemption for controlled foreign companies** • Controlled foreign company (CFC) provisions are income-deferral anti-avoidance provisions contained in section 9D of the Act. - These provisions apply to a South African shareholder who holds more than 50% in a foreign company and owns at least 10% equity shares or voting rights. - The shareholder is taxed on a proportional amount of income that would have been taxable had the CFC been a South African resident taxpayer. This is done according to the shareholding of the South African shareholder in a CFC. • A South African shareholder is granted an exemption from this tax if the CFC has a foreign business establishment (FBE) in the country where the CFC was established or the CFC outsources primary operations to another group company with an FBE. • An FBE has a fixed place of business located outside South Africa and the business: - is conducted through offices or other structures; - is suitably staffed with on-site managerial and operational employees to conduct its primary operations; - is suitably equipped for conducting its primary operations; - has suitable facilities for conducting its primary operations; and - is located outside South Africa solely or mainly for a purpose other than tax avoidance. • *CSARS v Coronation Investment Management SA (Pty) Ltd* (1269/2021) [2023] ZASCA 10 (7 February 2023) deals with the interpretation of an FBE, mainly concerning outsourcing primary operations. • Government is concerned that some taxpayers are outsourcing other primary operations by being compensated for these functions. • The initial proposed amendment was aimed to clarify the legislative position: To qualify for an FBE exemption, the CFC or another company in the same group of companies must perform all important functions for which a CFC is compensated. • The proposed amendment is withdrawn, pending Constitutional Court judgment in the appeal of *CSARS v Coronation Investment Management SA (Pty) Ltd.* • The Constitutional Court heard this case on 13 February 2024, and we are awaiting judgment.

Rebuilding SARS

Who may be affected?	The proposals and changes
All taxpayers	**Tax administration update** • SARS continues to rebuild and implement recommendations (including governance and effectiveness) from the Nugent Commission of Inquiry. • Using big data and artificial intelligence, SARS's automated risk engines prevented over R60 billion in impermissible refunds and fraud this past year.

Retirement-related reforms

Who may be affected?	The proposals and changes
South African households – providing adequate retirement savings	**The introduction of a 'two-pot' system** • The 'two-pot' retirement system was a major proposed tax change during the 2023 legislative cycle; however, it was not finalised. • The retirement system effectively splits members' overall benefits into 2 pots (referred to as components), namely: - 1/3 contributions plus growth, ie a savings component; and - 2/3 contributions plus growth, ie a retirement component. • Members would be able to access contributions to the savings component while contributions to the retirement component would be saved until annuitisation on retirement. • The existing retirement contributions plus growth will be valued a day before the implementation date and be designated as a 'vested component'. Members of the retirement funds will keep their existing rights to the vested component, including the ability to withdraw a lump sum upon resignation or retrenchment. Please note that retirement annuity (RA) members will not be able to withdraw a lump sum from the vested component. • The once-off seed capital, which will enable a member to access a portion of the available balance in the retirement fund on 1 September 2024, is proposed to be calculated as 10% of the benefit accumulated in the 'vested component' on 31 August 2024, capped at R30 000. • In terms of this system, individuals would be able to access contributions to the 'savings component' while contributions to the 'retirement component' would be saved until retirement. • Following extensive public consultation during 2023, the effective date of implementing the **1st phase** is now proposed in the 2024 Draft Revenue Laws Amendment Bill, as 1 September 2024. • Future legislative amendments, which will enable members to access funds from the 'retirement component' if they are retrenched and have no alternative sources of income, will be considered in the **2nd phase** of the implementation of the 'two-pot' retirement system. However, this will be coupled with measures to ensure that saving for retirement is not compromised, and to protect the liquidity of such funds at all stages.
Anyone planning their retirement	**Transfers between retirement funds by members who are 55 years or older** • Effective from 1 March 2024, members of **pension or provident funds** who have reached the normal retirement age as stipulated in the rules of that fund, but have not yet opted to retire, must, as part of the involuntary transfer, be able to have their retirement interest transferred from a less restrictive to a more restrictive retirement fund without incurring a tax liability. • In the 2024 Budget Speech, government proposes that this tax-free transfer should also apply to transfer from 1 retirement annuity fund to another.

Exchange control

Exchange control changes are normally implemented immediately by the issuing of exchange control circulars via the Financial Surveillance Department of the South African Reserve Bank to authorised dealers and other role players. There were no changes announced during the 2024 Budget Speech.

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