# Tax focus in 2016: What does the future hold?

By Betsie Strydom and Karuna Naidoo

18 Jan 2016

The volatility of the currency due to events that began on 9 December 2015, has placed an increased focus on government finances.

© alphaspirit – 123RF.com

On 14 December 2015, Pravin Gordhan, the current Minister of Finance released a statement saying: "We will stay the course of sound fiscal management. Our expenditure ceiling is sacrosanct. We can have extra expenditure only if we raise extra revenue. We will unreservedly continue our fiscal consolidation process and we will stabilise our debt in the medium term. If needs be, we will accelerate this by either cutting spending or making selective changes to tax policy. Similarly, any revenue raising opportunity will be considered very carefully to ensure that it does not damage growth or affect the poor negatively."

There is clear pressure on the fiscus. As a result tax focus areas for 2016 are likely to include concerted efforts by government to collect more taxes (by focusing on tax avoidance and improving collection mechanisms); to introduce new sources of revenue (like carbon tax); and to increase existing sources of revenue (like VAT).

## The Draft Carbon Tax Bill

The Draft Carbon Tax Bill is set to come into operation in phases with the first phase commencing on 1 January 2017 and running to 1 January 2020.

It will introduce carbon tax, which is a contentious pollution tax that will add to the already heavy tax burden. Carbon tax will be imposed to tax fossil fuels at source. It will also apply to industrial processes, product use and raw material use. Carbon tax is part of the implementation of government policy on climate change and it, in the words of the media release by National Treasury, "seeks to price carbon by obliging the polluter to internalise the external costs of emitting carbon...". In other words, the polluter pays.

However, there is scepticism about whether it will reduce the emission of fossil fuels meaningfully.

## VAT

In line with the statements made by the Minister of Finance, Pravin Gordhan, 2016 could be the year that the VAT rate is raised. As the tax is levied across a broad base, it could add a significant amount of additional government revenue, and so an announcement might be made in this regard during the National Budget Speech in February this year.

## The Common Reporting Standard

The Common Reporting Standard (CRS) is a standardised automatic exchange model that contains the due diligence rules for financial institutions to follow to collect and then report the information that underpins the automatic exchange of financial information. South Africa is committed to commence exchange of information automatically on a wider front from 2017, together with over 90 other jurisdictions.

In order to implement the standard on a consistent and efficient basis, the draft Tax Administration Laws Amendment Bill, 2015 proposes amendments to ensure that certain financial institutions report on all account holders and controlling persons, irrespective of whether South Africa has an international tax agreement with their jurisdiction of residence or whether the jurisdiction is currently a CRS participating jurisdiction.

## Taxation Laws Amendment Bill

The National Assembly recently passed the 2015 Taxation Laws Amendment Bill and the 2015 Draft Tax Administration Laws Amendment Bill. Both of these bills have not been signed by the President yet but are likely to be enacted in 2016. The draft Taxation Laws Amendment Bill deals with substantive changes to the tax laws while the draft Taxation Administration Laws Amendment Bill deals with administrative provisions of tax legislation.

In terms of the Taxation Laws Amendment Bill, from 1 March 2016, future retirement savings in provident funds will be subject to compulsory annuitisation (as pension funds savings already are), but importantly this only applies to future contributions (savings) made from 1 March 2016. The compulsory annuitisation will thus not apply to provident fund savings up to that date, nor will it apply to provident fund members who are 55 years or older on 1 March 2016. In addition, the annuitisation requirement will not apply in respect of provident, pension and retirement annuity funds where the fund value does not exceed R247,500 on date of retirement.

## Other possible tax amendments in 2016

Amendments proposed to improve transfer-pricing documentation and revise the rules for controlled foreign companies and the digital economy are due for comment in early in 2016.

The 2015 interim report of the Davis Tax Committee also indicated concerns surrounding base erosion and profit shifting, especially on the context of corporate income tax, so changes in this sphere can be expected.

## ABOUT THE AUTHOR

Betsie Strydom is a partner, and Karuna Naidoo, a candidate attorney, in Bowman Gilfillan Africa Group's Tax Practice.