



# Economy and Finance



South Africa is a dynamic and stable economy with solid economic fundamentals. It has a sound financial system, highly regulated banking sector, world-class infrastructure and is investor-friendly. The country has the most diversified economy on the continent and advocates for Africa's advancement.

The implementation of the National Development Plan (NDP) is the cornerstone of the country's democracy. As the strategy for reducing unemployment, inequality and poverty by 2030, the NDP provides a strong platform for collaboration among business, government, labour and civil society.

The plan promotes enhanced competitiveness, expanded infrastructure, greater spatial efficiency in growing cities, and accelerated rural development. It prioritises measures to build a capable, effective state that delivers services to citizens while encouraging business investment and growth.

To counter unemployment levels, especially amongst young people, government aims to create six million work opportunities over the next five years.

During 2015, the economy for the first time crossed the R4 trillion gross domestic product mark and total employment levels reached, also for the first time, 16 million jobs.

The budget for fiscal 2016/17, delivered in February 2016, strengthened measures to narrow the fiscal deficit more rapidly in the next three years and to stabilise government's gross loan debt.

The narrowing of the deficit was envisaged through various adjustments on both the revenue and expenditure side.

Government's Nine-Point Plan to reinvigorate the economy and create much-needed jobs includes:

- managing finances in a prudent and sustainable way;
- harnessing private-public partnership to invest more in infrastructure to increase potential growth;
- giving hope to youth through training and economic opportunities;
- protecting South Africans from the effects of drought through various drought relief efforts;
- continuously improving the education and health systems;
- accelerating transformation towards an inclusive economic growth that benefits all; and
- strengthening social solidarity and extending the social safety net.

Despite the precarious economic climate, South Africa remains committed to providing jobs, growing skills and human capital.

## South African Reserve Bank (SARB)

The primary purpose of the SARB is to achieve and maintain price stability in the interest of balanced and sustainable economic growth in South Africa. Together with other institutions, it also plays a pivotal role in ensuring financial stability.

The primary function of the SARB, as the country's central bank, is to protect the value of South Africa's currency. In discharging this role, it takes responsibility for:

- ensuring that the South African money, banking and financial system as a whole is sound, meets the requirements of the community and keeps abreast of international developments;
- assisting the South African Government, as well as other members of the economic community of southern Africa, with data relevant to the formulation and implementation of macroeconomic policy;
- informing the South African community and all stakeholders abroad about monetary policy and the South African economic situation.

The SARB is governed by the SARB Act of 1989, as amended. It has more than 600 shareholders;

## South African Revenue Service (SARS)

SARS is an organ of state outside the Public Service that aims to provide a world-class, efficient, transparent and taxpayer-centred service, ensuring optimum and equitable revenue collection. Its main functions are:

- collecting and administering all national taxes, duties and levies imposed under national legislation;
- collecting revenue that may be imposed under any other legislation, as agreed upon between SARS and an organ of state or institution entitled to the revenue
- advising the Minister of Finance on revenue
- facilitating trade
- providing protection against the illegal import and export of goods
- advising the Minister of Trade and Industry on matters concerning control over the import, export, manufacture, movement, storage or use of certain goods.

## Tax administration

National Treasury is responsible for advising the Minister of Finance on tax policy issues. As part of this role, National Treasury must design tax instruments that can optimally fulfil a revenue-raising function. These tax instruments must be

aligned to the goals of government's economic and social policy. These instruments are then administered by SARS.

A single, modern framework for the common administrative provisions of various tax Acts administered by SARS, excluding Customs, was established by the Tax Administration Act of 2011, which commenced on 1 October 2012. The Act simplifies and provides greater coherence in South African tax administration law. It eliminates duplication, removes redundant requirements, and aligns disparate requirements that previously existed in different tax Acts administered by SARS.

The Act provides for common procedures across the various tax Acts, and strives for an appropriate balance between the rights and obligations of SARS and the rights and obligations of taxpayers in a transparent relationship.

### **Office of the Tax Ombud**

The function of the Office of the Tax Ombud is to provide taxpayers with an impartial and low-cost mechanism to resolve service, procedural or administrative difficulties that taxpayers have not been able to resolve through SARS's complaints management channels.

### **South African tax system**

South Africa has a residence-based income tax system. Residents are, subject to certain exclusions, taxed on their worldwide income, irrespective of where their income was earned. Non-residents are taxed on their income from a South African source. The liability of taxpayers is determined subject to the provisions of International Agreements for the Avoidance of Double Taxation.

Tax is levied on taxable income, which is calculated as gross income, less exemptions and permissible deductions, plus the applicable percentage of the net capital gain, for the year.

The main tax revenue sources are income tax (individuals, trusts and companies), value-added tax (VAT) and customs and excise duties. Relief is often available from any consumption-based tax when the goods are exported under certain terms and conditions.

### **Company income tax**

Companies are subject to a flat tax rate, which is 28% of taxable income. Exceptions to the rule are the lower, progressive tax rates that apply to small and micro-businesses, as well as the reduced rate that applies to companies operating in designated Special Economic Zones.

## Value-added tax

VAT is levied at 14% on the supply of all goods and services by VAT vendors (certain supplies are zero-rated). The quoted or displayed price of goods and services must be VAT-inclusive. A person who supplies goods or services is liable to register for VAT, if the income earned is more than R1 million in a 12-month period, or when there is a reasonable expectation that the income will exceed this amount.

A person can also register voluntarily for VAT, if the income earned from supplying goods or services for 12 months exceeded R50 000.

## Personal income tax (PIT)

PIT mainly focuses on the taxation of an individual's income. The main contributor to PIT is employment income from salary earners, and income generated from sole-proprietor activities. The tax rate applicable to PIT-related taxable income is progressive, ranging from marginal rates of 18% to 41%.

As a means of collecting income tax from salary and wage income, a mechanism known as Pay-As-You-Earn is in operation that enables employers to withhold tax due to SARS from employees and pay this over to SARS on a monthly basis, and reconciled biannually.

## Excise duty

Excise duty is levied on certain locally manufactured goods and their imported equivalents, such as tobacco and liquor products, and as an ad valorem duty on cosmetics, audio-visual equipment and motor cars.

## Environmental levy

The four main areas of levies in this category are plastic bags levy, electricity generation levy, electric filament levy and motor vehicle carbon dioxide emission levy.

## Fuel levy

The fuel levy is a consumption-based levy that is levied on petroleum products that are imported or manufactured in South Africa.

## Transfer duty

Transfer duty is payable on the acquisition of property. Property costing less than R750 000 attracts no duty. A 3% rate applies to properties costing between R750 001 and R1,25 million.

In respect of property with a value between R1,25 million and R1,75 million, the duty is R15 000 plus 6% of the value above R1,25 million. In respect of property above R1,75 million, the duty is R45 000 plus a rate of 8% of the value exceeding R1,75 million.

For property above R2,25 million, the duty is R85 000 plus a rate of 11% of the value exceeding R2,25 million.

For a property above R10 million, the duty is R937 500 plus 13% of the value exceeding R10 million.

### **Estate duty**

Estate duty is levied at a flat rate of 20% on residents' property and non-residents' South African property. A basic deduction of R3,5 million is allowed in the determination of an estate's liability for estate duty, as well as deductions for liabilities, bequests to public benefit organisations and property accruing to a surviving spouse.

### **Dividends tax**

Dividends tax is a final tax at a rate of 15% on dividends paid by resident companies and by non-resident companies in respect of shares listed on the JSE. Dividends are tax exempt if the beneficial owner of the dividend is a South African company, retirement fund or other exempt person.

Non-resident beneficial owners of dividends may benefit from reduced tax rates in limited circumstances. The tax is to be withheld by companies paying the taxable dividends or by regulated intermediaries in the case of dividends on listed shares. The tax on dividends in kind (other than in cash) is payable and is borne by the company that declares and pays the dividend.

### **Securities transfer tax**

Securities transfer tax is levied at a rate of 0,25% on the transfer of listed or unlisted securities. Securities consist of shares in companies or members' interests in close corporations.

### **Skills-development levy**

Affected employers contribute to a Skills Development Fund that is used for employee training and skills development. This skills development levy is payable by employers at a rate of 1% of the total remuneration paid to employees. Employers paying annual remuneration of less than R500 000 are exempt from the payment of this levy.

## **Unemployment Insurance Fund (UIF)**

The UIF insures employees against the loss of earnings due to termination of employment, illness or maternity leave. The contribution to the UIF is shared equally by affected employers and employees at a rate of 1% of remuneration each. The employee share of 1% is withheld by the employer and paid to SARS, together with the employer share of 1%, monthly.

## **Tax on international air travel**

This tax is levied as follows: R190 per passenger departing on an international flight, excluding flights to Botswana, Lesotho, Namibia and Swaziland, in which case the tax is R100.

## **Rates on property**

Property-related taxes include municipal rates and charges for refuse and sewerage, which are collected by municipalities.

## **Customs duty**

Customs duty is a tax levied on imports by the customs unit within SARS. Customs duty rates and trade remedies relating to the importation of goods into South Africa are set by the International Trade Administration Commission under the authority of the Department of Trade and Industry (the dti).

The new Customs Control Act of 2014 and Customs Duty Act of 2014 provide a platform for the modernisation of customs administration that achieves a balance between effective customs control, the secure movement of goods and people into and from South Africa and the facilitation of trade and tourism. In addition, VAT is also collected on goods imported and cleared for home consumption.

## **Voluntary Disclosure Programme (VDP)**

A permanent VDP is part of a package of compliance measures aimed at encouraging non-compliant taxpayers to regularise their tax affairs.

In addition, a Special VDP allowed non-compliant taxpayers to voluntarily disclose offshore assets and income, with a limited window period, from 1 October 2016 to 31 March 2017.

## Economic Development Department (EDD)

The aim of the EDD is to promote economic development through participatory, coherent and coordinated economic policy and planning for the benefit of all South Africans.

It is responsible for, among other things, coordinating the economic development contributions of government departments, state entities and civil society; and promoting government's ability to achieve its goals of advancing economic development with decent work opportunities.

## Foreign investments

South Africa is a top destination for foreign direct investment (FDI), according to the United Nations Conference on Trade and Development FDI 2015 report.

International companies that have invested in South Africa include Mercedes; General Motors; Ford; Metair Group; Goodyear; BMW; VW; Beijing Automobile International Corporation; Hisense; Dunlop; GWK Farm Foods; Alstom SA and Marriot Hotels. Starbucks, Dunkin Donuts, Krispy Kreme and Facebook have chosen to set up office in South Africa.

## State-owned enterprises (SOEs)

The Department of Public Enterprises manages a portfolio of SOEs, which are responsible for the development of key infrastructure and manufacturing capacity for South Africa. These are:

- **Alexkor** – A diamond mining company primarily operating in Alexander Bay and the greater Namaqualand.
- **Denel** – A defence company and although it is established as a private company in terms of the Companies Act of 2008, government exercises full control over it.
- **Eskom** – It generates, transmits and distributes electricity to industrial, mining, commercial, agriculture and residential customers and redistributors.
- **SAFCOL** – It is the government's forestry company, conducting timber harvesting, timber processing and related activities both domestically and regionally.
- **SA Express** – South African Express Airways is a domestic and regional air carrier with a mandate to be an African airline.
- **Transnet** – It is a freight and logistics company responsible for pipelines, ports and rail transport infrastructure operations in South Africa.

## Department of Trade and Industry

The dti is committed to implementing the Nine-Point Plan, which seeks to ignite growth and create jobs. The department plays a critical role in facilitating three of these nine priority interventions:

- Beneficiation through adding value to mineral resources;
- A more effective implementation of a higher impact Industrial Policy Action Plan (IPAP); and
- Encouraging private sector investment.

In the medium term, the department was expected focus on developing a programme to promote the long term sustainable development of black industrialists. The programme aims to accelerate the participation of black industrialists in the national economy, both in terms of their numbers and their influence.

The department was expected to create multiple, diverse instruments for black industrialists to enter targeted industrial sectors and value chains aligned with government developmental priorities, specifically the IPAP.

## Small Business Development

The mission of the Department of Small Business Development is to create a conducive environment for the development and growth of small businesses and cooperatives through the provision of enhanced financial and non-financial support services and leveraging on public and private partnerships. The NDP articulates a vision of an economy that is inclusive, equitable and fast growing, with small, medium and micro enterprises (SMMEs) contributing 90% of the jobs by 2030.

The department's Mass Youth Enterprise Creation Programme is aimed at creating enterprise opportunities for youth-owned SMMEs and Cooperatives committing government departments to earmark 30% of their procurement spend towards growing and expanding youth owned enterprises in their acquisition of goods and services in fulfilling their operational mandate.

By June 2015, young people between the ages 16 and 35 years owned approximately 33% of all businesses in South Africa.

The Bavumile Skills Development Programme facilitates for many women to access formal training to improve the quality in their products. Participants are supported to either formalise their businesses or to access markets by participating in the national pavilions or supplying local markets such as schools.

## Banking industry

South Africa's five largest commercial banks – Capitec Bank, FNB, Absa, Nedbank and Standard Bank – continued to dominate the South African banking sector.

In January 2016 there were 34 banking institutions registered in South Africa, one more than in 2015, while the number of foreign banks with approved representative offices in South Africa declined to 38, down from 40 in January 2015.

## Johannesburg Stock Exchange Limited (JSE Ltd)

The JSE Ltd is the largest exchange on the African continent and the 19th largest in the world.

In keeping with international practice, the JSE Ltd regulates its members and ensures that markets operate in a transparent way, ensuring investor protection.

The JSE Ltd's roles include regulating applications for listing and ensuring that listed companies continue to meet their obligations.

## Jobs Fund

The Jobs Fund, launched in June 2011, aims to co-finance projects by public, private and non-governmental organisations that will significantly contribute to job creation.

This involves the use of public money to catalyse innovation and investment on behalf of a range of economic stakeholders in activities that contribute directly to enhanced employment creation in South Africa.

By 31 March 2016, the Jobs Fund had allocated R5,5 billion in grant funding to 105 projects, disbursed R3,2 billion to implement portfolio projects and leveraged R6,4 billion in matched funding from project partners.

These projects reportedly created 73 698 new permanent jobs; placed 40 641 individuals in permanent positions; created 17 642 short-term jobs, and trained 148 782 beneficiaries.