# South Africa Fiscal Guide 2017/18

**Tax**

KPMG.com

# Income tax

## Business income

Tax is levied on a residence basis in terms of the Income Tax Act No 58 of 1962 ("the Act"). South African residents are taxed on their worldwide income. Non-residents are taxed on their South African-sourced income, subject to the application of an applicable Double Taxation Agreement ("DTA").

## Dividends tax

On 1 April 2012, Secondary Tax on Companies (STC) was replaced by Dividends Tax. Dividends Tax is applicable on all dividends paid by South African resident companies. Dividends Tax is borne by the shareholder at a rate of 20% from 22 February 2017 (prior 15%) subject to relief which may be available in terms of exemptions provided for in the Act or any applicable DTA.

The below table is applicable for the period 1 March 2017 to 28 February 2018 unless stated otherwise:

## Rates of tax

| **Resident Companies** | |
|---|---|
| Corporation tax | |
| • General rate for companies | 28%[1] |
| • Trusts | 45% |
| Long-term insurance business | |
| • Individual policyholder fund | 30% |
| • Company policyholder fund | 28% |
| • Untaxed policyholder fund | 0% |
| • Corporate fund | 28% |
| Small Business (turnover < R20 million per year)[2] | |
| • Up to R75 750 of taxable income | 0% |
| • Exceeding R75 750 but not exceeding R365 000 taxable income | 7% of amount above R75 750 |
| • Exceeding R365 000 but not exceeding R550 000 taxable income | R20 248 + 21% of the amount above R365 000 |
| • Exceeding R 550 000 taxable income | R59 098 +28% above R550 000 |
| | |
| Turnover Tax for Micro Businesses (Turnover < R 1 million per year)[3] | |
| • R0 – R335 000 taxable turnover | 0% |
| • Exceeding R335 000 but not exceeding R500 000 taxable turnover | 1% of amount above R335 000 |
| • Exceeding R500 000 but not exceeding R750 000 taxable turnover | R1 650 + 2% of amount above R500 000 |
| • Exceeding R750 000 of taxable turnover | R6 650 + 3% of amount above R750 000 |
| Capital gains inclusion rate (companies & trusts) | 80%, resulting in an effective tax rate of 22.4% for companies, and 36% for trusts. |
| Dividends tax | 20% (subject to exemptions) |
| Interest | Taxed as ordinary income |
| Royalties | Taxed as ordinary income |
| Management fee | Taxed as ordinary income |

[1] Gold mining companies are taxed based on a specific formula.
[2]Rates applicable for years of assessment ending between 1 April 2017 and 31 March 2018
[3]Rates applicable for years of assessment ending between 1 April 2015 and 31 March 2018

# Income tax

| Resident Companies | |
|---|---|
| Foreign dividends | Four exemption rules apply:<br>▪ The shareholder holds at least 10% of the total equity shares and voting rights in the company declaring the foreign dividend<br>▪ The shareholder is a foreign company which is in the same country as the foreign company paying the dividend<br>▪ The foreign dividend is received or accrued to a person in respect of a listed share and does not constitute a distribution of an asset in specie<br>▪ The foreign dividend is received/accrues to a company that is a resident in respect of a listed share and constitutes a distribution of an asset in specie<br>▪ The foreign dividend is received from a Controlled Foreign Company (CFC) and does not exceed the aggregate of all amounts which are included in income of that resident in terms of Section 9D.<br>▪ If the above exemptions do not apply, an effective rate of 20% applies |
| South African dividends | Generally, South African dividends received by or accrued to or in favour of any South African person are exempt. There are certain specified instances where the dividend exemption does not apply, resulting in the dividends being subject to income tax in such instances. Where dividends are subject to income tax, no dividend tax is payable. |

| Resident individuals | |
|---|---|
| Individual tax | 18% – 45% ** |
| Capital gains inclusion rate | 40%, resulting in an effective tax rate of 18% for individuals |
| Royalties and fees | Taxed as ordinary income |
| South African dividends | Generally exempt from income tax with specific anti-avoidance rules in the case of dividends received as a result of an employment relationship |
| South African Interest exemption<br>(there is no longer any exemption for foreign interest): | |
| • Taxpayer under 65 | R23 800 |
| • Taxpayer 65 and over on the last day of the year | R34 500 |
| Foreign portfolio dividends | Taxed at a maximum effective rate of 20% |

| Non-resident companies | |
|---|---|
| Corporation tax | 28% |
| Capital gains inclusion rate | 80%, resulting in an effective tax rate of 22.4% |
| Withholding taxes: | |
| Dividends | 20% (subject to DTA relief) |
| Interest** | 15% withholding tax (subject to DTA relief) |
| Royalties** | 15% withholding tax (subject to DTA relief) |
| Service fees** | Withholding tax on service fees no longer to come into operation. |

| **Non-resident individuals** | |
|---|---|
| Individual income tax | 18% – 45% * |
| Capital gains inclusion rate | 40% |
| South African dividends | Generally exempt from income tax, however dividends WHT would be applicable at a rate of 20% subject to any relief in terms of DTAs. |
| South African interest | Interest is exempt where earned by non-residents who are physically absent from South Africa for at least 182 days during the 12 month period before the interest accrues/is received and who were not carrying on trade in South Africa through a fixed place of business during that period of 12 months. From 1 January 2015, the debt from which the interest arises must not be effectively connected to a fixed place of business in South Africa. As of 1 March 2015, where this exemption is applicable, a final WHT of 15% is imposed on interest paid to a non-resident subject to any relief that might be granted in terms of a DTA. |
| South African royalties | 15% WHT (or a rate determined in a relevant DTA). The 15% WHT will not apply if such amount is effectively connected with a permanent establishment in South Africa. |

* Individuals Income Tax Table below

** No withholding tax where effectively connected to a permanent establishment in South Africa or carried on business through a permanent establishment in South Africa

## Individuals Income Tax Table – for the year ending 28 February 2018

| **Income (R)** | **Tax rate (%)** |
|---|---|
| up to R189 880 | 18% |
| R189 881 – R296 540 | R34 178 + 26% of amount above R189 880 |
| R296 541 – R410 460 | R61 910 + 31% of amount above R296 540 |
| R410 461 – R555 600 | R97 225 + 36% of amount above R410 460 |
| R555 601 – R708 310 | R149 475 + 39% of amount above R555 600 |
| R708 311 – R1 500 000 | R209 032 + 41% of amount above R708 310 |
| R1 500 000 and above | R533 625 + 45% of the amount above R1 500 000 |
| | |
| Tax threshold | |
| Tax threshold (below age 65) | R75 750 |
| Tax threshold (age 65 and above) | R117 300 |
| Tax threshold (age 75 and above) | R131 150 |
| | |
| Tax rebates | |
| Primary rebate | R13 635 |
| Secondary rebate (65 to 74) | R7 479 |
| Tertiary rebate (75 and over) | R2 493 |

## Retirement fund lump sum withdrawal benefits (pre-retirement)

| Taxable Income (R) | Rate of Tax (R) |
|---|---|
| R0 – R25 000 | 0% of taxable income |
| R25 001 - R660 000 | 18% of taxable income above R25 000 |
| R660 001 - R990 000 | R114 300 + 27% of taxable income above R660 000 |
| R990 001 and above | R203 400 + 36% of taxable income above R990 000 |

## Retirement fund lump sum benefits or severance benefits

| Taxable Income (R) | Rate of Tax (R) |
|---|---|
| R0 – R500 000 | 0% of taxable income |
| R500 001 - R700 000 | 18% of taxable income above R500 000 |
| R700 001 – R1 050 000 | R36 000 + 27% of taxable income above 700 000 |
| R1 050 001 and above | R130 500 + 36% of taxable income above 1 050 000 |

Retirement fund lump sum benefits consist of lump sums from a pension, pension preservation, provident, provident preservation or retirement annuity fund on death, retirement or termination of employment due to redundancy or termination of the employer's trade. Severance benefits consist of lump sums from or by arrangement with an employer due to relinquishment, termination, loss, repudiation, cancellation or variation of a person's office or employment. The tables apply cumulatively.

## Employees' tax and related taxes/levies

Employers have a monthly obligation to make payment in respect of employees' tax, Skills Development Levy and Unemployment Insurance Contributions in respect of employees

The employees' tax withholding regime (known as PAYE or Pay-As-You-Earn) is in essence a withholding tax system, which places the obligation upon the employer to withhold employees' tax via the payroll and to pay this over to the South African Revenue Service ("SARS") on a monthly basis. The employees' tax must be withheld from remuneration paid to the employee and is taken into account when the SARS calculates the individual's tax payable.

Every employer in South Africa must pay Skills Development Levy monthly at a rate of 1% of the total amount of remuneration paid/payable by the employer. Employers paying annual remuneration of less than R500 000 are exempt from the payment of Skills Development Levies.

Monthly contributions to the Unemployment Insurance Fund must be made monthly in respect of the majority of employees. The employer must pay over a total contribution of 2% of the total remuneration paid/payable to the employees (limited to R14 872 per month, R178 464 annually), of which 1% must be deducted from the employees' remuneration.

South Africa does not have a social security tax obligation for employers or individuals.

## Capital gains tax ("CGT")

Capital gains arising from the disposal of capital assets on or after 1 October 2001 are included in taxable income at varying inclusion rates and subject to normal tax. The amount of the gain to be included in taxable income depends on whether the person is a natural person or a person other than a natural person. Details of inclusion rates are set out in the rates section.

| Exclusions from CGT for individuals | Amount |
|---|---|
| The annual capital gain/loss exclusion | R40 000 |
| The primary residence exclusion | R2 million |
| The exclusion in the year of death | R300 000 |

South African residents are taxed on their worldwide income on the disposal of assets. Events that trigger a disposal include a sale, donation, exchange, loss, death and emigration.
In the case of a non-resident, only immovable property situated in the Republic (and certain rights or interests therein) held by the non-resident, or any asset which is attributable to a permanent establishment of that non-resident in the Republic, fall within the ambit of the CGT provisions.
An interest in immovable property situated in the Republic includes any equity shares held by a person in a company or ownership or right to ownership of a person in any other entity or a vested interest of a person in any assets of any trusts, if
80 per cent or more of the market value of those equity shares, ownership or right to ownership or vested interest, as the case may be, at the time of disposal thereof is attributable directly or indirectly to immovable property held otherwise than as trading stock; and
In the case of a company or other equity, that person (whether alone or together with any connected person in relation to that person), directly or indirectly, holds at least 20 per cent of the equity shares in that company or ownership of that other entity.

Any person who must pay an amount to a non-resident in respect of the purchase of immovable property (land, buildings) situated in the Republic or an interest in immovable property must withhold an amount from such payment and pay it to SARS. The amount of the withholding tax ranges between 7.5% and 15%.

## Donations tax

Donations tax is levied on any donation at a fixed rate of 20% of the value of the property donated (subject to certain exemptions). Donations tax is not a tax on income, but rather a tax on the transfer of wealth from one person to another. The first R100 000 of property, donated by a taxpayer who is a natural person, is exempt. Casual gifts made by non-natural persons up to R10 000 per annum are exempt. Non-resident donors are not subject to donations tax.

## Value-Added Tax ("VAT")

VAT is an indirect tax levied on the supply of goods or services, the importation of goods into the Republic and "imported services". A person is required to register for VAT purposes where it carries on an enterprise or activity continuously or regularly in or partly in the Republic in the course of which it supplies of goods or services to another person. The definition of "enterprise" specifically includes and excludes certain activities or enterprises. In this regard, a specific inclusion is the supply of electronic services, as defined, supplied by a person from a place in an export country, where at least two of the following circumstances are present:

- The recipient of those electronic services is a resident of the Republic;
- Any payment to the supplier of the electronic services originates from a bank registered or authorised in terms of the Banks Act, 1990;
- The recipient of the electronic services has a business address, residential address or postal address in the Republic.

The VAT registration threshold/s are currently as follows:

- Compulsory registration: R1 million in any 12-month period;
- Compulsory registration for electronic service providers: R50 000 in any 12-month period; and
- Voluntary registration: R50 000 in any 12-month period.

The standard rate of VAT is 14% and is calculated on the value of the supply as provided for in the VAT Act. The supply of certain goods or services is subject to VAT at 0% whereas the supply of other specified goods or services is exempt from VAT.
The VAT incurred on the acquisition of goods or services or the importation of goods can be claimed as input tax where the goods or services were acquired or the goods were imported for purposes of use, consumption or supply in the course of making taxable supplies (i.e. supplies subject to VAT at 14% or 0%).

## Securities transfer tax and transfer duty

The Securities Transfer Tax Act No. 25 of 2007 ("the STT Act") provides for the levying of tax in respect of every change in beneficial ownership of South African listed and unlisted securities.

STT will be levied at the rate of 0.25% on the market value of the shares, or consideration paid upon transfer, whichever is higher.

No STT is payable if the consideration, closing price or market value is less than R40 000.

Transfer duty on the transfer of immovable property is payable on the greater of cost or market value, where the purchase is made by a natural person or legal entity. The rate of transfer duty and the exemption threshold were amended with effect from 1 March 2017 and are as follows:

| Property value | Rates of tax |
|---|---|
| Below R900 000 | 0% |
| R900 001 – R1 250 000 | 3% of the value above R900 000 |
| R1 250 001 – R1 750 000 | R10 500 + 6% of the value above R1 250 000 |
| R1 750 001 – R2 250 000 | R40 500 + 8% of the value above R1 750 000 |
| R2 250 001 – R10 000 000 | R80 500 + 11% of the value above R2 250 000 |
| R10 000 001 and above | R933 000 + 13% of the value exceeding R10 000 000 |

## Double tax treaties and reduced rates:

**African countries -**

| Country | Dividends (note1) | Interest (note2) | Royalties (note3) |
|---|---|---|---|
| Algeria | 10% /15% | 10% | 10% |
| Botswana | 10% /15% | 10% | 10% |
| Congo (Democratic Republic of Congo) | 5%/15% | 10% | 10% |
| Egypt | 15% | 12% | 15% |
| Ethiopia | 10% | 8% | 15% |
| Ghana | 5% /15% | 5%/10% | 10% |
| Kenya | 10% | 10% | 10% |
| Lesotho | 10%/15% | 10% | 10% |
| Malawi | 15% | 15% | 15% |
| Mauritius | 5%/10% | 0% | 5% |
| Mozambique | 8% /15% | 8% | 5% |
| Namibia | 5% /15% | 10% | 10% |
| Nigeria | 7.5% /10% | 7.5% | 7.5% |
| Rwanda | 10% /20% | 10% | 10% |
| Sierra Leone | 15% | 0% | 15% |
| Seychelles | 5% /10% | 0% | 0% |
| Swaziland | 10% /15% | 10% | 10% |
| Tanzania | 10% /20% | 10% | 10% |
| Tunisia | 10% | 5% /12% | 10% |
| Uganda | 10% /15% | 10% | 10% |
| Zambia | 15% | 15% | 15% |
| Zimbabwe | 5%/10% | 5% | 10% |

**Rest of the world -**

| Country | Dividends (note1) | Interest (note2) | Royalties (note3) |
|---|---|---|---|
| Australia | 5% /15% | 10% | 10% |
| Austria | 5% /15% | 0% | 0% |
| Belarus | 5% /15% | 5% /10% | 5% /10% |
| Belgium | 5% /15% | 10% | 0% |
| Brazil | 10% /15% | 15% | 10% /15% |
| Bulgaria | 5% /15% | 5% | 5% /10% |
| Canada | 5% /15% | 10% | 6% /10% |
| Chile | 5%/15% | 5%/15% | 5%/10% |
| China | 5% | 10% | 7% /10% |
| Croatia | 5% /10% | 0% | 5% |
| Cyprus | 5%/10% | 0% | 0% |
| Czech Republic | 5% /15% | 0% | 10% |
| Denmark | 5% /15% | 0% | 0% |
| Finland | 5% /15% | 0% | 0% |
| France | 5% /15% | 0% | 0% |
| Germany | 7.5%/ 15% | 10% | 0% |
| Greece | 5% /15% | 8% | 5% /7% |
| Hong Kong | 5% /10% | 10% | 5% |
| Hungary | 5% /15% | 0% | 0% |
| India | 10% | 10% | 10% |
| Indonesia | 10% /15% | 10% | 10% |
| Iran | 10% | 5% | 10% |
| Ireland | 5% /10% | 0% | 0% |
| Israel | 15% | 15% | 0% /15% |
| Italy | 5% /15% | 10% | 6% |
| Japan | 5% /15% | 10% | 10% |
| Korea | 5% /15% | 10% | 10% |
| Kuwait | 0% | 0% | 10% |
| Luxembourg | 5% /15% | 0% | 0% |
| Malaysia | 5% /10% | 10% | 5% |
| Malta | 5% /10% | 10% | 10% |
| Mexico | 5% /10% | 10% | 10% |
| Netherlands | 5% /10% | 0% | 0% |
| New Zealand | 5% /15% | 10% | 10% |
| Norway | 5% /15% | 0% | 0% |
| Oman | 5% /10% | 0% | 8% |
| Pakistan | 10% /15% | 10% | 10% |
| Poland | 5% /15% | 10% | 10% |
| Portugal | 10% /15% | 10% | 10% |
| Qatar | 5% /10% | 10% | 5% |
| Romania | 15% | 15% | 15% |
| Russian Federation | 10% /15% | 10% | 0% |
| Saudi Arabia | 5% /10% | 5% | 10% |
| Singapore | 5% /10% | 7.5% | 5% |
| Slovak Republic | 5% /15% | 0% | 10% |
| Spain | 5% /15% | 5% | 5% |
| Sweden | 5% /15% | 0% | 0% |
| Switzerland | 5% /15% | 5% | 0% |
| Taiwan | 5% /15% | 10% | 10% |
| Thailand | 10% /15% | 10% /15% | 15% |
| Turkey | 10% /15% | 10% | 10% |
| Ukraine | 5% /15% | 10% | 10% |
| United Arab Emirates | 5%/10% | 10% | 10% |
| United Kingdom | 5% /10% /15% | 0% | 0% |
| United States of America (USA) | 5% /15% | 0% | 0% |

**Notes**

1. Where two rates are shown, this indicates that the right of the source state to tax dividends will vary depending on the level of ownership in the capital of the company paying the dividend. Each treaty has its own threshold in this regard and will need to be analysed to determine the applicable rate.
2. Where two rates are shown, this indicates that the right of the source state to tax interest arising in that state will depend on what type of institution the recipient is. Each treaty has its own provisions in this regard and will need to be analysed to determine the applicable rate.
3. Where two rates are shown, this normally indicates that the source state has different taxing rights in respect of different types of intellectual property. Each treaty has its own provisions in this regard and will need to be analysed to determine the applicable rate.

## Transfer pricing and thin capitalisation

### Transfer pricing

Transfer pricing provisions are normally applied to adjust the prices of certain transactions concluded between related parties to reflect an arm's length price which would have applied had the transaction been concluded on normal commercial grounds between unrelated parties. The effect of the application of transfer pricing provisions is to neutralise the tax benefit arising from such transactions.

Where any transaction, operation, scheme, agreement or understanding constitutes an affected transaction and any term or condition is different from any term and condition that would have existed had the parties been independent persons dealing at arm's length, resulting in any tax benefit being derived by a person that is a party to the transaction, operation, scheme or understanding, the taxable income or tax payable must be calculated as if that transaction, operation, scheme or understanding had been entered into on the terms and conditions that would have existed had those persons been dealing at arm's length.

From the introduction of transfer pricing legislation in South Africa in 1995 until 2012, a secondary adjustment was made in the form of a deemed dividend. With the introduction of Dividends Tax – which replaces Secondary Tax on Companies in 2012 for years of assessment commencing on or after 1 April 2012 – the law changed. Secondary adjustments were in the form of a deemed loan, however, from 1 January 2015, the secondary adjustment is in the form of a deemed dividend and is subject to withholding tax at a rate of 20% without the ability to DTA relief.

### Thin capitalisation

With effect from 1 April 2012 and applicable in respect of years of assessment commencing on or after that date, the 3:1 debt to equity safe harbour ratio was abolished and replaced with an arm's length test that is based on OECD methodologies.

A draft interpretation note was released by the SARS in March 2013 providing some guidance on the principles behind the new section 31. The main aspect highlighted in this interpretation note relates to the fact that the arms-length evaluation will be based on the level of finance the borrower could have secured under the same terms and conditions had the borrower (the local company) and the lender (the foreign company) been independent parties dealing at arm's length, and whether as a result of the transaction, a tax benefit is derived by the parties to the transaction.

However, such guidance was never made final by SARS, and as a result, no certainty exists as to how taxpayers should comply with the new section 31 of the Act. Additional guidance on the application of the arm's length test is expected to be provided by SARS.
Section 23M provides for a limitation on the amount of interest which can be deducted on loans sourced from a person that is in a 'controlling relationship' with the debtor where the interest is not subject to tax in the hands of the person to which it accrues.

In terms of the revised section 23M, only loans owing to a creditor that is in a controlling relationship with the debtor or is owing to a third party creditor that has obtained the funding from a debt advanced from a person that is in such a controlling relationship are affected by the limitation. As indicated above, the provisions of section 23M further require that the interest is not subject to tax in the hands of the creditor.

Taxpayers will be required to firstly apply the provisions of section 31 of the ITA to any cross border loans. Where the loan has been used to fund an acquisition and reorganisation transaction, the provision of section 23N must be applied to that portion of the interest which is allowable as a deduction under section 31. Finally, the provisions of section 23M must be applied to determine whether any portion of the interest, not already disallowed under section 23N must be further limited in terms of section 23M.

**Additional transfer pricing and reporting requirements**

Country by Country ("CbC") reporting requirements have been introduced by South Africa and are applicable to Multinational Enterprise ("MNE") Groups for Reporting Fiscal Years beginning on or after 1 January 2016. CbC reports would be applicable to MNE Groups with a total consolidated group turnover of ZAR 10 billion or 750 million Euro and should be submitted to SARS no later than 12 months after the last day of the Reporting Fiscal Year of the MNE Group.

Master file and Local file requirements have also been introduced as have requirements where a company's cross border related party transactions exceed or are expected to exceed ZAR 100 million in aggregate.

The Master file and Local file rules apply to Reporting Fiscal Years beginning on or after 1 January 2016 in certain cases and in other cases to Financial Years beginning on or after 1 October 2016. The Record Keeping Rules are applicable to years of assessment beginning on or after 1 October 2016.

## Investment information

Several investment incentives have been created for the potential investor in South Africa. All business sectors are open to investors, no government approval is required, and there are almost no restrictions in the form or extent of foreign investment.

The current tariff reform programme is specifically aimed at lowering input costs for the producer, while import controls have been relaxed in line with South Africa's General Agreement on Tariffs and Trade (GATT) and World Trade Organisation (WTO) obligations.

With effect from 1 January 2011, a new tax regime regarding headquarter companies was enacted to ensure that the tax system did not act as a barrier to the use of South Africa as regional headquarter company (HQC). Under the new HQC regime, dividends received are exempt from income tax and dividends declared are not subject to dividend withholding tax, the headquarter company is exempt from the controlled foreign company rules. However, the foreign subsidiaries of a headquarter company would be regarded as controlled foreign companies in relation to any South Africa shareholders of the headquarter company, if such shareholders effectively own more than 50% of the participation rights or voting rights in the foreign subsidiaries. Certain transfer pricing and thin capitalisation rules are relaxed on financial assistance provided to and by the HQC.

Exporters are granted incentives such as export marketing assistance, zero rating for value-added tax (VAT) on exports of goods and services and relief from various customs and excise duties.

**Regional incentives**

To encourage investors to establish or relocate industry and business to areas throughout South Africa, the country's various regions (provinces) have development bodies that offer incentives.

## State financing bodies

**Industrial Development Corporation of South Africa Limited (IDC)**

The state-owned Industrial Development Corporation promotes investment by funding viable projects with development impact. It operates throughout South Africa and offers a range of financing services for small, medium and large scale industries, so as to assist businesses in the establishment of manufacturing concerns in South Africa and the Southern African region.
The most common form of financing given by the IDC is a medium- to long-term low interest rate loan. The IDC has, in certain cases, taken equity stakes in industrial entities.

**Department of Science and Technology**

The Research and Development ("R&D") tax incentive provided in terms of section 11D of the Act is administered by the Department of Science and Technology ("DST").

*A "super" tax deduction*
The R&D tax incentive is an additional 50% "super" tax deduction on eligible R&D expenditure incurred in South Africa. This equates to an effective 14% net tax benefit. For example, if R10m is spent on eligible R&D the tax saving will be R1.4m
[R10m eligible spend x 50% super deduction x 28% corporate tax rate].

*No application = no deduction!*

With effect from 1 October 2012, the additional 50% R&D tax deduction can only be claimed from the date that a pre-approval application form has been lodged with the DST. This means that only expenditure incurred on or after the date of lodging the application will be eligible to be claimed as part of an applicant's tax return.

Any R&D undertaken must be done from within South Africa to qualify and there is no requirement that the resultant IP must be held in South Africa.

Progress Reports

Once a project has been approved annual Progress Reports must be submitted to the DST. These Progress Reports include an update on the technical progress of the projects as well as a summary of costs claimed in relation to the approved projects. Not submitting these annual Progress Reports to the DST may result in approval of the R&D projects being withdrawn.

**Department of Trade and Industry**

The Department of Trade and Industry (DTI) has developed a package of incentives, which include, *inter alia*, the following incentives:

- Automotive Production Development Programme ("APDP"). The APDP aims to develop the automotive industry in South Africa. The grant ranges between 25% and 45% of the cost for a new, upgrade or expansion project (based on a point scoring system), capped at R40 million. No minimum investment is required, but the activities conducted needs to fall under the Standard Industry classifying code ("SIC") 132 (fish hatcheries and fish farms) and SIC 301 and 3012 (production, processing and preserving of aquaculture fish).
- Section 12I Tax Allowance Incentive. This incentive is for new projects (Greenfields projects) with a minimum investment value of R50 million or existing projects (Brownfield projects) with expansion/upgrades of R30 million or the lesser of R50 million or 25% of the expenditure incurred to acquire the assets previously used in the project. The incentive is offered as a net tax saving of up to R252 million. There is also an additional allowance for training employees of R36 000 per employee with a maximum of R30 million. Entities need to submit an application which must be approved before any asset is contracted for or acquired.

– Section 12L is an energy efficiency savings deduction available to taxpayers in respect of an energy saving efficiency by that taxpayer. Broadly, subject to certain requirements and limitations, a tax deduction of 95 cents per KWh equivalent of energy saving is available.
– Critical Infrastructure Programme ("CIP"). The CIP is a cash grant for projects that are designed to improve critical infrastructure in South Africa. The incentive covers up to 30% of the cost of development in qualifying infrastructure to a maximum of R50 million.
– Other grants are also available for:
  - Special Economic Zones ("SEZs")
  - Employment Tax Incentive
  - Film incentive
  - Business process services ("BPS")
  - These numbers are based on the Taxation Laws Amendment Bill which has been tabled before Parliament, but has not yet come into force. It is unlikely that these amendments will not be promulgated.

2 These numbers are based on the Taxation Laws Amendment Bill which has been tabled before Parliament, but has not yet come into force. It is unlikely that these amendments will not be promulgated.

## Exchange control

Companies and individuals resident in South Africa are subject to exchange control regulations. Exchange controls are administered by authorised dealers in exchange (commercial and merchant banks) acting for the South African Reserve Bank. Certain specific restrictions are imposed on South African exchange control-resident companies and individuals relating to the export of capital and the remittance of dividends, royalties, interest and management fees.

## Residence and work permits

Foreign nationals are required to enter South Africa on a visa that is commensurate with their activities whilst in the country. It is therefore recommended that the appropriate visa be applied for and obtained abroad, prior to arrival in South Africa.

Foreign nationals from visa-exempt countries, do not require a visa for South Africa for visits up to 90 days. They are, however, required to request a Section 11(2) visa authorisations for any work-related visits.

Travellers from non-visa exempt countries must apply for Section 11(2) visas at South African missions abroad, before travelling to South Africa.

Foreign nationals who wish to work legally in South Africa have to be in possession of a valid work visa prior to commencing employment activities in South Africa.

Available work visas for includes an Intra-company transfer work visa, General work visa and Critical skills work visa and Business visa. Visitor's visas may also be issued to accompanying family members and study visas may be issued to those who are required to attend school.

## Annual budget announcement

The Minister of Finance generally presents the annual budget in February each year. In the budget, government expenditure for the following fiscal year is announced, as well as the manner in which such expenditure will be funded. Expenditure is predominantly funded by means of taxation. The above information contains changes and proposals presented by the Minister of Finance in February 2017.

## Bilateral trade and agreements

**Trade agreements**

Favourable or reduced rates of customs duty may apply depending on the origin of goods and on whether South Africa has entered into a Trade Agreement with such territory. South Africa has entered into trade agreements with the European Union, European Free Trade Association, Southern African Development Community, Zimbabwe, Malawi and Mozambique, and is also a member of the Southern African Customs Union, which includes Botswana, Lesotho, Namibia and Swaziland. The United States of America also offers preferential customs duty treatment to qualifying goods of South African origin in terms of the African Growth and Opportunity Act (AGOA).

## Economic statistics

| | |
|---|---|
| Prime interest rate (January 2016) | 10.5% |
| Repo interest rate (January 2016) | 7% |
| USD exchange rate (June 2015) | R12.933505 |
| GBP exchange rate (June 2015) | R16.865830 |
| EUR exchange rate (June 2015) | R14.908685 |
| CPI inflation rate (January 2016) | 6.79% |
| PPI inflation rate (January 2016) | 7.1% |
| GDP growth rate | 0.7% |

## Travel information

| | |
|---|---|
| Visa requirements | Visas are generally required for visits to South Africa (check with your local embassy) |
| Flights | Daily flights to and from most regional and international destinations worldwide. |
| Inoculations | Standard requirements. |

## Currency

Local currency is the South African Rand (R/ZAR).

## Languages

English is the commercial language. South Africa has 11 official languages including isiZulu and Sesotho.

## Official holidays

- 1 January (New Year's Day)
- 21 March (Human Rights Day)
- 30 March (Good Friday)
- 2 April (Family Day)
- 27 April (Freedom Day)
- 1 May (Workers Day)
- 16 June (Youth Day)
- 9 August (National Women's Day)
- 24 September (Heritage Day)
- 16 December (Day of Reconciliation)
- 17 December (Public Holiday)
- 25 December (Christmas Day)
- 26 December (Day of Goodwill)

Notes

The Public Holidays Act (Act No 36 of 1994) determines whenever any public holiday falls on a Sunday, the Monday following on it shall be a public holiday.

# Thank you

Contact us

**Joubert Botha**
**Head of Tax & Legal**
**T:** +27834567734
**E:** joubert.botha@kpmg.co.za

**www.kpmg.com**

**kpmg.com/socialmedia**

**kpmg.com/app**

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2018 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no services to clients. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Document Classification: KPMG Confidential