

# Speech signals taxing times

## ● Mboweni's budget zeroed in on sunset clauses for incentives and limitation of interest on deductions

By ENSafrica's Tax Department

The 2021 budget speech, which was delivered by the finance minister on February 24, hit the right notes in preferring economic growth over raising taxes as a means to hike tax revenue.

This continued a consistent theme from previous budget speeches that acknowledged SA's relatively high tax rates, and the inverse relationship between higher rates and increased tax revenues. Arguably, the budget announcements prioritise individuals ahead of businesses, which could lead to a longer road to economic recovery and a more gradual increase in tax collections.

Not only was there a recognition that raising taxes may not increase revenues and is anathema to economic growth, but there was also complete silence regarding any form of what may crudely be termed "wealth taxes", which were widely expected to make an appearance. However, a small mention was made of continuing evaluation and data collection in this regard, so wealth taxes are not off the table completely.

The recognition of the economic devastation of

Covid-19 (and efforts to contain it) was clear. What taxpayers will be looking for is the pathway out of these current difficulties.

The game plan appears to be the following: general corporate tax rates can only be reduced if overall effective tax rates are increased. As such, certain taxpayers must pay more tax in the form of a reduction of their particular beneficial treatment if the majority are to obtain a general reduction. The minister

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mentioned in his speech a forthcoming 1% cut in the corporate tax rate.

The budget speech commented on many initiatives to reinvigorate the SA Revenue Service (Sars), including reinstating the Large Business Centre (LBC) and initiatives to improve data collection, digital technology and artificial intelligence.

Enforcement and compliance measures were also mentioned. In addition, based

on our interactions with Sars and in court decisions, this seems to indicate a trend (anecdotally at least) that is pro fiscus. All of this signals a tougher tax environment, even if the headline rates remain the same.

The minister shelved measures that had previously been announced to increase the tax take. In addition, and worrying for the industries affected, he zeroed in on the sunset clauses for a number of specific tax incentives (which are a form of fiscal subsidy for qualifying taxpayers). Section 12J will therefore expire without extension, while others such as the Urban Development Zone regime continue for now, but are under review. Taxpayers should follow developments in this regard and take up opportunities to make their case to the Treasury.

This harkens back to a decade or more ago when a concerted effort was made to limit or eliminate the number of tax incentives to specific industries, but which have slowly crept back into the system to facilitate policy initiatives. The minister explicitly referred to vested interests and lobby groups that arise in response to these incentives.

Over and above the sunset clauses was a clear focus on two areas in particular: the



Finance minister Tito Mboweni delivers his 2021 budget speech in parliament in Cape Town. /Esa Alexander/Sunday Times

offset of assessed losses, and the limitation of interest deductions. Each of these limitations had previously been announced, and if it weren't for the pandemic probably would have been introduced already. They are postponed to 2022. It is fairly obvious that an effect of the pandemic for many taxpayers will have been to increase or generate losses, and many will have had to gear up their balance sheets with debt.

As such, it will be particularly worrying for the affected

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taxpayers that these areas are in the spotlight. The interest limitation will seemingly be expanded further on introduction, and we will pay close attention to the draft legislation on both topics.

Individuals will be happy that some (overdue) attention will be given to the tax rules for working from home, but no specifics were given. It may be a minor tax windfall for Sars that employees are using their after-tax earnings to pay expenses that would ordinarily be deductible by

their employers. There did not seem to be any urgency to address the tax rules relating to this fundamental shift in the business landscape.

We had expected some attention to the tax treatment of bad and doubtful debts, both because of technical uncertainty and because the pandemic must have had a significant effect on irrecoverable debts and recovery rates of previously written off debts. However, there was no mention of this in the budget speech.