

South Africa delays the withholding tax on interest until July 1, 2013 and increases the rate to 15%

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In brief

South Africa will introduce withholding tax on interest effective July 1, 2013 rather than the originally announced date of January 1, 2013. In addition, the rate will be 15% instead of 10%.

In detail

Currently South Africa does not levy withholding tax on interest paid to either residents or non-residents.

In 2010, the South African government enacted legislation levying a withholding tax of 10% on interest accrued or paid to any non-resident from a source within South Africa. Although the legislation was enacted in 2010, the withholding tax was not scheduled to be effective until January 1, 2013 and applicable to interest that accrued on or after that date.

The Taxation Laws Amendment Bill 2012, which was presented to parliament at the end of 2012, proposed to delay the introduction of withholding tax on interest until July 1, 2013. In addition, the legislation proposed to increase the rate to 15%.

If the bill is enacted, US companies that receive interest from South African sources will, effective July 1, 2013, be subject to withholding tax of 15% unless the taxpayer meets the US - South Africa treaty requirements. In this case the interest will only be taxable in the United States.

The takeaway

US multinationals with South African operations that have been debt funded should consider whether, based on the new legislation, they should restructure their debt holding before July 1, 2013. Restructuring might be especially important when the interest is not paid directly to the United States and therefore treaty protection may not apply.

Let's talk

For a deeper discussion, please contact:

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