Country article: *South Africa*

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South Africa

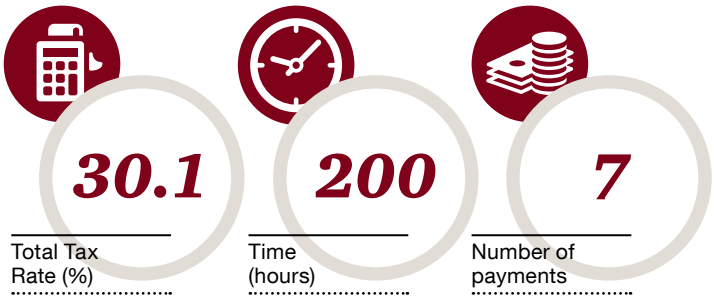
Paying taxes expected to become more difficult, after years of improvements

Paul de Chalain
PwC South Africa

South Africa's Total Tax Rate saw a significant reduction in 2012, falling to 30.1% in the current study. This reduction is primarily due to South Africa replacing the secondary tax on companies, which was levied on a company declaring a dividend, with a dividends tax that is levied on the shareholder. The Total Tax Rate has also reduced substantially from 37.6% in 2004. There are currently no proposals that could lead to further significant changes in the Total Tax Rate in the short term. In the medium term, however, there are two changes worth mentioning. The proposed National Health Insurance could significantly increase the Total Tax Rate of the case study company in the near future, but this will depend on how it is proposed to be funded.

Also, it is proposed that a carbon tax be introduced in 2015 which could see the tax burden on companies that are liable for that tax increasing significantly, although the carbon tax would not affect the Total Tax Rate of the *Paying Taxes* case study company.

The time taken for companies to comply with their tax obligations has been on a declining trend since e-filing was introduced in 2003. Continued improvements have been made over the years, including the ability to file a single monthly return for a number of payroll taxes and reduced requirements for submitting supporting information with corporate income tax returns. However, some of these gains are expected to be eroded for a variety of reasons. The South African Revenue Service (SARS) has reversed the trend for the provision of less information and has now introduced a number of measures which will increase the compliance burden on taxpayers. These measures include the introduction of a new corporate income tax return in 2013 with enhanced disclosure requirements; the introduction of a supplementary income tax return whereby companies may be required to reconcile accounting profits, corporate income tax profits, payroll taxes and indirect taxes; and onerous compliance requirements were introduced along with the new dividends tax. Certain taxpayers, most notably banks, are now also subject to onerous new requirements to provide third party information to SARS. Add to the above the proposed new withholding taxes on interest paid to non-residents to be introduced in 2015, and the medium term outlook for the compliance burden on companies does not look rosy.



Many of these changes can be attributed to the pressure that tax revenues are under and concerns with the protection of the South African tax base. To this end, South Africa is no different from many other countries and has recently undertaken, or signalled an intention to undertake, a number of other steps to protect its tax base.

These steps include:

- reform of transfer pricing legislation
- hybrid debt and equity rules
- extending exit charges in connection with the migration of tax jurisdiction
- refining controlled foreign company legislation
- proposed rules for excessive interest
- requirements for suppliers of digital services to register for VAT in South Africa
- renegotiation of tax treaties, and
- negotiation of numerous bilateral and multilateral mutual assistance and exchange of information agreements.

In addition, many corporates report a marked increase in SARS inquiry and audit activity. The tax administration landscape in South Africa is therefore going through a significant period of change.

Many of these changes do not affect the case study company given its assumed attributes; however, they do serve to illustrate the creeping compliance burden that many companies will be experiencing.

The Total Tax Rate included in the survey by the World Bank has been calculated using the broad principles of the PricewaterhouseCoopers methodology. The application of these principles by the World Bank Group has not been verified, validated or audited by PricewaterhouseCoopers, and therefore, PricewaterhouseCoopers cannot make any representations or warranties with regard to the accuracy of the information generated by the World Bank Group's models. In addition, the World Bank Group has not verified, validated or audited any information collected by PricewaterhouseCoopers beyond the scope of Doing Business Paying Taxes data, and therefore, the World Bank Group cannot make any representations or warranties with regard to the accuracy of the information generated by PricewaterhouseCoopers' own research.

The World Bank Group's Doing Business tax ranking indicator includes two components in addition to the Total Tax Rate. These estimate compliance costs by looking at hours spent on tax work and the number of tax payments made in a tax year. These calculations do not follow any PricewaterhouseCoopers methodology but do attempt to provide data which is consistent with the tax compliance cost aspect of the PricewaterhouseCoopers Total Tax Contribution framework.

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10/13. Design Services 28324.

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