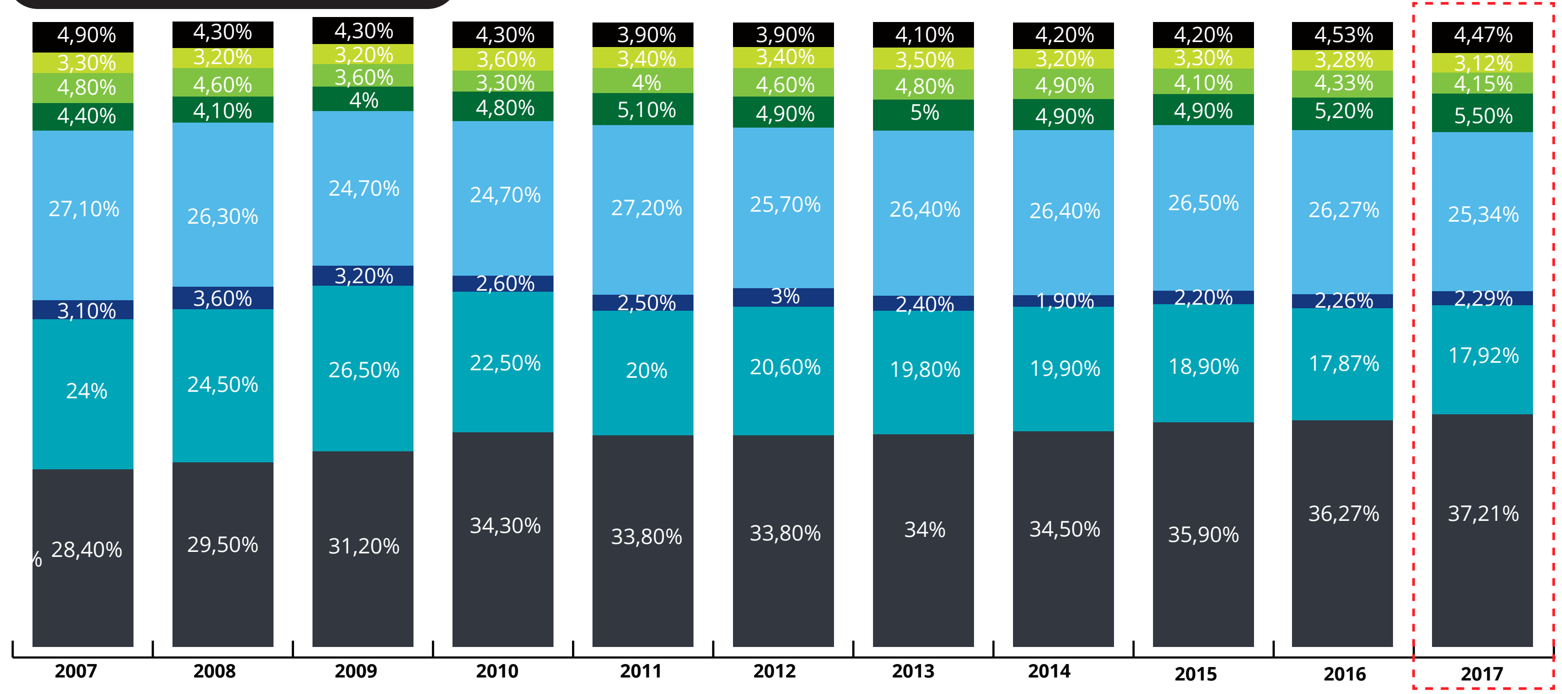
Deloitte.

Driving progress
Budget 2017/18

Tax in South Africa – A 10 year Trajectory

Sources of tax revenue



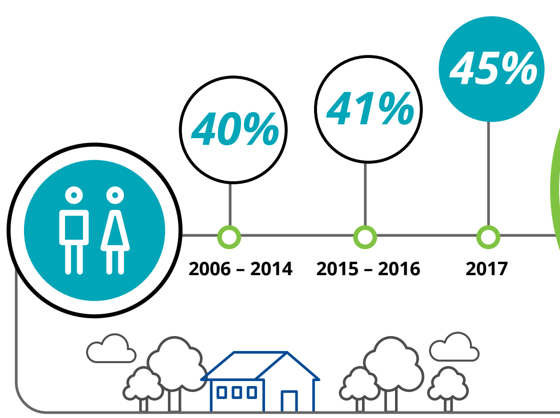
● Personal income tax (PIT) ● Corporate income tax (CIT) ● Secondary tax on companies/Dividends Tax ● Value-Added Tax (VAT) ● Fuel levy ● Customs duties ● Specific excise duties ● Other - - - Estimate

The overall mix between direct and indirect tax has fluctuated over time but on average comprises approximately 58 percent in direct taxes and 42 percent in indirect taxes. With the proposed introduction of new environmental taxes, it is expected that there will be a slightly larger collection of indirect tax revenues.

CIT is a significant, but declining, revenue source. In the late 1970's, it accounted for 41% of tax revenue versus 17.8% in the 2016 fiscal year. One of the reasons for this decrease is the drop in tax revenue from mining,particularly gold mining

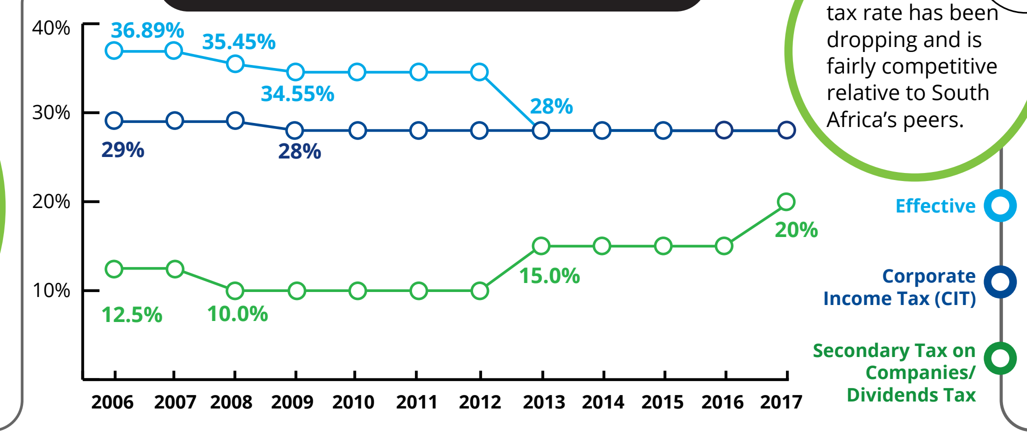
The National Treasury has modelled a number of simulations. An increase in PIT would need to be 6 percentage points and an increase in CIT would need to be 5 percentage points in order to realise the same revenue as a 3 percentage point increase in VAT.

Income tax rates for individuals



The maximum marginal rate for individuals has been stable for some time but has been increased to 45% with effect from 1 March 2017. Increased individual tax rates may potentially act as a disincentive for economic activity, savings and investment.

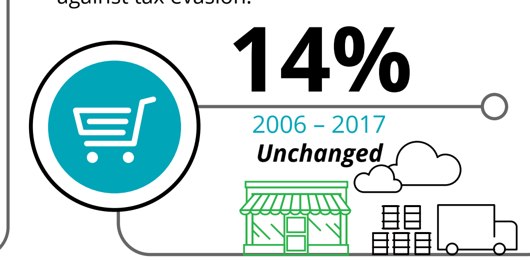
Corporate income tax rates



The corporate tax rate has been dropping and is fairly competitive relative to South Africa's peers.

Value-added tax rates

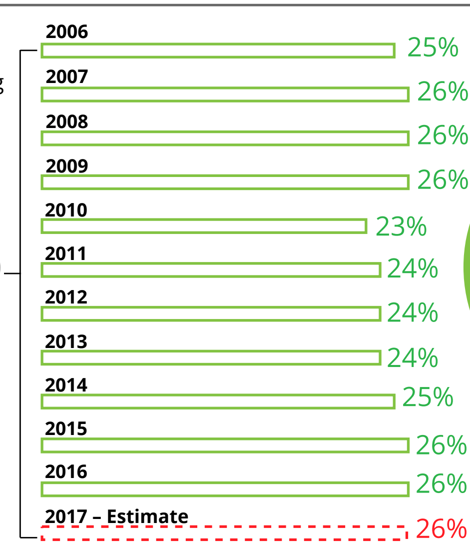
Originally introduced at 10%, the current rate is low by global standards and upward adjustments are widely anticipated. VAT is regarded as an efficient form of tax collection and the current credit-type system is considered to be effective against tax evasion.



Tax as a percentage of GDP

The South African tax-to-GDP ratio showed a general upward trend during the past 20 years from a low of 21.9% in 1995/6 to 26.2% in 2015/6. This growth was largely driven by increased contributions from PIT and VAT.

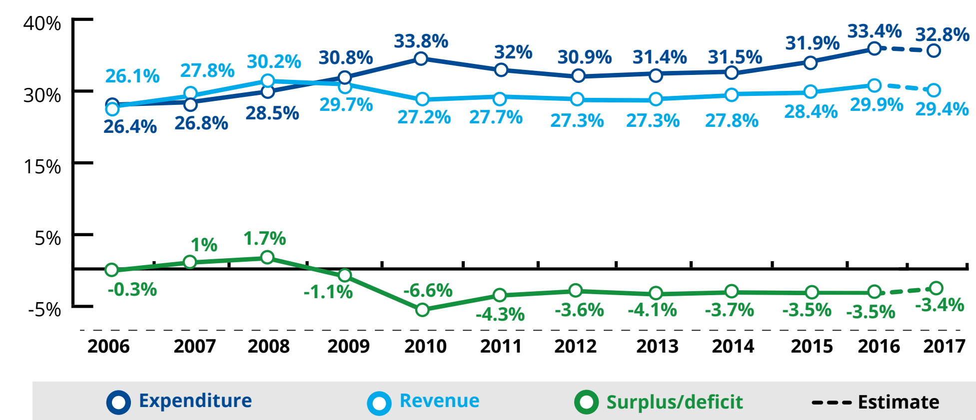
The South African tax-to-GDP ratio is higher than many developing countries but is lower than the OECD average of around 35%. It should be noted, however, that OECD countries typically levy significant social security taxes which South Africa does not currently have.



www.treasury.gov.za | www.taxcom.org.za | www.sars.gov.za

Budget surplus/deficit – percentage of GDP

Declining tax revenues coupled with increased expenditure after the global crisis has led to greater deficits as a percentage of GDP, in contrast to lower deficits / surpluses before the crisis.



Government is under increasing pressure to manage the budget deficit but this will prove challenging with only modest economic growth.