



**DLA CLIFFE DEKKER  
HOFMEYR**

# SPECIAL BUDGET ALERT

# ALERT

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## WELCOME TO OUR SPECIAL BUDGET SUMMARY 2014

The Minister of Finance, Pravin Gordhan, delivered the 2014 Budget Speech on 26 February 2014, which contains a number of tax proposals that will impact business and individual alike. To assist you in planning your tax affairs we have provided a summarised version of certain key tax proposals.

## PROCEEDS FROM INVESTMENT POLICIES ARE NOT INTEREST

Generally the proceeds from an investment policy issued by a long term insurance company to a policyholder would be exempt from tax to the extent that it is held for a period of five years. More often than not investment policies are issued by insurers, such as endowment policies and smoothed or stable bonus products, where the insurer guarantees the value (or minimum value) for the policyholder. For instance, if the policyholder invested R100, he will be guaranteed that he will at least receive R104 after expiry of the policy period.

A number of insurance companies have received queries to the effect that these types of policies could be seen to be an instrument for purposes of s24J of the Income Tax Act, No 58 of 1962 (Act). In other words, if a return has been guaranteed, the R4 growth in the example above would be seen to be interest.

It has now been indicated that it was never the intention that the guaranteed growth in respect of an investment policy should be treated as an instrument for purposes of s24J of the Act. Specific legislation will be introduced to the effect that these types of policies will be excluded from the scope of the interest accrual rules.

*continued*

## NEW TAXATION REGIME FOR LONG-TERM INSURERS (AGAIN?)

The taxation treatment of long-term insurance companies has been the subject matter of much debate over the years. For instance:

- long-term insurers had to account for a deemed realisation of capital assets for the first year of assessment that ended on or after 29 February 2012 even though the relevant assets would not have been disposed of; and
- last year the expense ratio was changed with reference to the ability of long-term insurers to claim a deduction in respect of so-called indirect expenses.

Even though it was mooted during the 2013 Budget Speech, it has now been confirmed that risk policies issued by a long-term insurer will in future be taxed in the corporate fund as opposed to the individual policyholder fund, the company policyholder fund or the untaxed policyholder fund. This implies that only investment policies will continue to be taxed in the relevant funds whereas profits that arise from risk business will in future now be taxed in the corporate fund.

It was also indicated that Government will review the tax rate that is currently applicable to the individual policyholder fund, where a 30% tax rate is currently applied irrespective of the actual income level of the policyholder concerned.

The critical issue to determine is how the transitional period will be dealt with and on what basis risk policies will be 'transferred' from the policyholder funds to the corporate fund. This follows from the fact that, to the extent that there were profits in the policyholder funds, these profits had to be transferred on an annual basis to the corporate fund and would have been taxed in the corporate fund. Given the fact that the suggested amendment will largely impact upon life policies, one may well expect the premiums either to be increased or the benefits under these policies being reduced to cater for the additional costs.

There are a number of uncertainties pertaining to this change, amongst others when the change will become effective and how one is going to treat hybrid policies that contain both an element of investment as well as life risk. Be that as it may, the amendment will have a significant impact upon long-term insurers.

## THE LAST CHAPTER OF REITS – CO-OPERATION BETWEEN THE TAXPAYER AND NATIONAL TREASURY DOES WORK

The introduction of the Real Estate Investment Trust (REIT) legislation for property owning companies with effect from 1 April 2013 can with just cause be described as a success story between taxpayers and National Treasury. Not only did the introduction of this legislation align the taxation of property owning companies with that of their overseas counterparts, but the effect of the legislation is essentially that qualifying distributions are deductible in the hands of a REIT and taxable in the hands of the recipients. In the case of foreign shareholders the distributions are taxed as a taxable dividend.

The last chapter pertaining to REITs will probably be written with the announcement that foreign companies will be included in the determination of the percentage value of the assets attributable to immovable property of a property company. In other words, the financial statements that are consistent with international financial reporting standards that are prepared for foreign property companies will be taken into account in determining the percentage value of the assets attributable to immovable property of the REIT concerned.

The REIT legislation is a good example of co-operation between all parties involved so as to obtain the best possible tax position for all role-players.

## REINSURANCE PROCEEDS TO BECOME TAXABLE

The basis of taxation of long-term insurance companies has been that premiums paid in respect of reinsurance policies and proceeds received in respect of reinsurance policies were excluded from the overall tax calculation.

It appears that, to the extent that a South African insurer may elect to reinsure the relevant risks with a non-resident reinsurer, certain tax benefits arose given the fact that the non-resident reinsurer would not have been subject to tax in South Africa. However, the policyholder in South Africa would often elect the underlying offshore investments to which the growth on the policies should be linked.

It has now been indicated that the net returns from foreign reinsurance policies will be included in the tax calculation of the long-term insurance company. This may have a significant impact upon the tax liability of the insurer and will obviously reduce the return that is payable to the South African policyholder. It should be noted that this amendment is limited to foreign reinsurance policies and will not extend to reinsurance policies concluded with South African resident reinsurers.

*Emil Brincker*

## WELCOME REFINEMENTS TO THIRD-PARTY BACKED SHARE PROVISIONS

The South African Revenue Service (SARS) has introduced a number of anti-avoidance provisions in the Income Tax Act, No 58 of 1962 (Act) to deal with the re-characterisation of hybrid instruments. One of the more recent provisions introduced into the Act is s8EA to govern the tax implications arising from 'third-party backed shares'. The concern of SARS and National Treasury is that preference shares (and other similar shares) guaranteed by third parties have debt-like features and should be taxed accordingly.

Unfortunately, we have been involved in a number of instances where the provisions of s8EA of the Act have been adversely affecting a taxpayer's ability to implement commercial transactions. As a result, we made a number of submissions to National Treasury to consider some of the practical difficulties taxpayers are experiencing in the application of these and other provisions. It appears that National Treasury has taken our submissions into consideration and a number of amendments have been announced in Annexure C (miscellaneous tax amendments) to the 2014 Budget Speech.

The effect of the application of s8EA of the Act is that any dividends declared in respect of a 'third-party backed share' will be treated as income. However, there are a number of exclusions to the application of the 'third-party backed share' provisions. In particular, the provisions will not be applicable if:

- the funds are used to acquire shares in an operating company (as defined); or
- the holder of the preference share has an enforcement right/obligation against the operating company or any person that directly or indirectly holds more than 20% of the equity shares in the operating company.

It was recognised in Annexure C that some of the exclusions for s8EA of the Act should be expanded / relaxed and the following amendments have been proposed:

## REFINANCING

Currently, the refinancing of third-party backed shares, originally used to fund the acquisition of equity shares in an operating company, is not covered under the exceptions. It was indicated in Annexure C that there is no policy rationale for excluding refinancing of structures covered under the exceptions to the rule and it is therefore proposed that the refinancing of qualifying transactions be allowed.

## EXPLORATION COMPANIES

As indicated previously herein, the 'third-party backed share' provisions do not apply if the funds derived from preference shares are used to acquire equity shares in an 'operating company'. An operating company conducts continuous business activities that result in the provision of goods and services for consideration. An exploration company would therefore not fall within the 'operating company' definition. The proposal is therefore for exploration companies to be specifically included in the definition of 'operating company', as these companies have been adversely affected by this limitation.

## LIMITED PLEDGES

Preference share funders often require limited pledges of shares, especially when funding certain company acquisition transactions. If the shares associated with the transactions are pledged to the funder, there are only limited instances when such a pledge would be allowed in terms of s8EA of the Income Tax Act, No 58 of 1962 (Act). If, for instance, the shareholder of the acquiring company (i.e. the preference share issuer) pledges its shares to the funder, it must hold at least 20% of the equity shares in the preference share issuer, which is often not the case. Accordingly, it is proposed that the exclusions in s8EA of the Act will be extended to instances where the security provided to the funder is limited to equity shares held by acquiring company equity shareholders directly or indirectly in the underlying operating company. It is welcoming to see that National Treasury takes taxpayers submissions into account and it is anticipated that these proposed amendments will be appreciated by many taxpayers.

*Andrew Lewis*

## DEBT REDUCTION

The rules in the Income Tax Act, No 58 of 1962 (Act) dealing with circumstances that involve the reduction of debt have in recent years been refined, especially by the introduction of s19 of the Act and paragraph 12A of the Eighth Schedule to the Act.

Generally, where a debt is reduced, whether by way of waiver, forgiveness of debt, compromise, or otherwise, there could be serious tax consequences for the debtor who is afforded the relief.

A debtor could realise recoupments, whether under section 8(4) or section 19 of the Act. Where one is dealing with debts related to capital assets, the reduction of debt could potentially result in the debtor having a lower base cost in respect of the asset or a reduction in assessed capital losses in terms of paragraph 12A.

However, Chapter 6 of the Companies Act, No 71 of 2008 has introduced the phenomenon of Business Rescue into South African company law, mainly with a view to assist ailing companies to become profitable again, in line with broader economic policy.

Business Rescue proceedings include a procedure whereby the debtor company can compromise with the creditor. Unfortunately, doing so could trigger the various tax consequences described above, leaving the debtor with a tax liability.

This obviously defeats the purpose of Business Rescue and has negative consequences for economic growth.

The Minister has announced that they will introduce relief measures for companies in such circumstances.

## CONTRIBUTED TAX CAPITAL AND DEFERRED SHARES

Contributed tax capital is a concept that was introduced into the Income Tax Act, No 58 of 1962 (Act) a few years ago and essentially reflects the amount that a company has received for the issue of shares. It is essential to the definition of a 'dividend' in the Act and assists in distinguishing between whether a distribution by a company is a dividend or a return of capital.

Deferred shares are shares in respect of which the rights attaching to them are restricted, until a certain period has run out or some condition has been met. At such point the shares may be converted into ordinary shares.

Whereas in general there exists roll-over relief in respect of contributed tax capital where certain reorganisation transactions are entered into or share substitutions are made, there exists no such relief where deferred shares are converted to ordinary shares.

This means that, on conversion, the contributed tax capital in respect of the deferred shares will be lost.

The Minister has proposed that roll-over relief provisions will be introduced into the Act in respect of such conversions.

*Heinrich Louw*

## SECONDARY ADJUSTMENT FOR TRANSFER PRICING: WELCOME RETURN TO DEEMED DIVIDEND CATEGORISATION

The Income Tax Act, No 58 of 1962 (Act) provides anti-avoidance provisions to counter the extraction of value from a South African company due to a transaction with a connected person other than on an arm's length basis. With effect from years of assessment commencing on or after 1 April 2012, secondary adjustments applied in the form of deemed loans. If the adjusted amount was not repaid to the South African company by the end of the relevant year of assessment, the deemed loan would constitute an affected transaction, on which the taxpayer would be required to calculate interest at an arm's length rate. Dividends tax would also have to be accounted for on the interest element.

Applying the secondary adjustment in the form of a deemed loan is an administrative burden for the taxpayer and the South African Revenue Service (SARS) alike. The accounting treatment of the repayment of a deemed loan is problematic in the absence of a legal obligation to repay such deemed loan. It is now proposed that the current provision be amended to deem the secondary adjustment to be either a dividend or capital contribution, as is appropriate based on the facts and circumstances.

This proposal suggests a reversion to the treatment of such adjustments under the secondary tax on companies (STC) regime. S64C used to deem any such transfer pricing adjustments to be dividends for STC purposes.



## FOREIGN DIVIDENDS OF CONTROLLED FOREIGN COMPANIES OWNED BY INDIVIDUALS

Foreign dividends are not subject to dividends tax but to normal income tax in the hands of a South African resident taxpayer. In the absence of a controlled foreign company (CFC) being interposed between the resident individual and the foreign dividends, the foreign dividends would be subject to tax at the individual's maximum marginal tax rate (eg 40%), after having deducted the s10B(3) exemption from the foreign dividend (ie  $25/40 \times$  foreign dividend). The South African resident individual must own 50% or more of the participation rights in or exercise 50% or more of the voting rights in the foreign company for it to be classified as a CFC, in consequence of which the CFC's taxable foreign dividends will be imputed to the resident individual. The individual resident's proportional ownership percentage of the CFC must be applied to the 'net income' of the CFC as defined to determine the South African tax liability. Since the CFC's net income is required to be calculated as if it were a South African resident, the foreign dividend amount must be determined after the deduction of the s10B(3) exemption ( $13/28 \times$  foreign dividend).

SARS is concerned that the effective tax rate applicable to the taxable foreign dividend in such instances is the lower corporate rate which does not reflect that the dividend is in fact to be imputed to a resident individual at his/her maximum marginal tax rate.

It is proposed that the legislation be amended to reflect that a resident individual is ultimately receiving the taxable foreign dividend.

*Lisa Brunton*

## VAT - GOING CONCERNS ARE GOING - NO MORE UNCERTAINTY PROMISED

An amendment has been proposed in the 2014 Budget Speech which seeks to clarify Interpretation Note 57 on the VAT treatment of a going concern, specifically the requirement that a vendor must be a registered vendor at the time the sale agreement is concluded.

### Background

The sale of a business as a going concern, in simple terms, means that the business (or part thereof)

is capable of being operated as a stand-alone business in its own right. An example of such a sale would be where a purchaser conducts a letting enterprise from a property and has decided to exercise an option to acquire the property from the seller in terms of the lease agreement, or in the case of a property developer's enterprise, the transfer of its developed and undeveloped properties (essentially constituting trading stock) to a third party.

Under normal circumstances, if the seller is a VAT vendor, such a sale (like most other sales) would attract VAT at the standard rate of 14%. This would remain the case if the purchaser of the business is not registered for VAT. However, National Treasury has recognised that, in most cases, the purchaser of such a business is also likely to be registered as a VAT vendor, and would simply claim the VAT paid as an input tax credit.

Given that the transaction as a whole ends up with no additional VAT coming to the South African Revenue Service (SARS), the Value-Added Tax Act, No 89 of 1991 (VAT Act) provides for transactions of this nature to be zero-rated. In other words, VAT is charged at 0%. This results in major relief to the purchaser's cash flow, since the time-lag between paying out the VAT to the seller, and then claiming it back from SARS, is eliminated.

Based on the provisions of s11(1)(e) of the VAT Act, in order to dispose of a going concern at the zero rate of VAT, the following requirements, among others, must be met:

- the parties must agree in writing that the enterprise is disposed of as a going concern; and
- the supplier and the purchaser must be registered VAT vendors.

The requirements listed under s11(1)(e) of the VAT Act essentially connotes what a 'going concern' entails. In other words, where the requirements under s11(1)(e) of the VAT Act are not met one is not dealing with a 'going concern' and s11(1)(e) of the VAT Act does not apply. Where s11(1)(e) of the VAT Act does not apply the zero rate cannot be used, meaning the standard rate of 14% becomes applicable.

### The issue

At the time the sale agreement was concluded the situation arose where the purchaser, however, was not yet registered as a vendor and would only become registered once the sale agreement was in place. Interpretation Note 57 provides that,

if the purchaser is not registered as a vendor at the time of the conclusion of the agreement, then the agreement would normally have contained a provision stating that the zero rate would only apply subject to the purchaser being a registered vendor with effect from the date that the agreement was concluded.

SARS requires a prospective vendor to submit invoices before the vendor can be registered as a vendor. In other words, unless the vendor could prove that it had made taxable supplies, SARS was unlikely to register the entity as a vendor, which led to anomalies. Otherwise you may well end up in a scenario where VAT is payable and where a VAT input credit must be claimed by the purchaser, which would unfortunately result in an audit and a delayed refund, even up to six months. Effectively where the vendor was not a registered vendor at the time, it would create an anomaly and could result in applications being made to SARS to retrospectively register the purchaser with effect from the date of the supply of the sale agreement.

### The proposal

The Commissioner for SARS has issued a proposal in the 2014 Budget Speech, whereby SARS intends clarifying the position of whether a person must be a registered vendor before the acquisition of a going concern. If this amendment is effected it would certainly provide clarity and eliminate the anomalies arising where the vendor was not a registered vendor at the time that the sale agreement was concluded.

## TAX INVOICES, CREDIT AND DEBIT NOTES- TIME LIMITS ARE SET

An amendment has been proposed in the 2014 Budget Speech relating to the time frame where debit or credit notes under s21(1) of the Value-Added Tax Act, No 89 of 1991 (VAT Act) are required to be issued.

### Background

Under s16(2) of the VAT Act, a vendor can only claim an input deduction if he is in possession of a tax invoice or debit note or credit note. A 'tax invoice' is a document that needs to meet the requirements of s20(4) and s20(5) of the Act for the vendor to claim an input deduction. An 'invoice' on the other hand is a 'document notifying an

obligation to make payment' and the issuing of which may affect the timing of supply.

In terms of s20(1) of the Act, a registered vendor must within 21 days of the date of supply issue a tax invoice which complies with the requirements under s20(4) and s20(5) of the VAT Act.

Where a vendor has accounted for an incorrect output tax, he can issue a debit or credit note to make an adjustment in calculating the tax payable by him where the supply was either cancelled, or where there was a fundamental variation or alteration in the nature of the supply, or due to an alteration of an agreement or where the goods or services supplied are returned.

### The issue

The problem arises when a vendor has either issued a tax invoice for an incorrect amount or has omitted certain information on the tax invoice as required by s20(4) and s20(5) of the Act. The vendor is unable to simply re-issue a tax invoice reflecting the correct amount by way of a debit or credit note under s21(1) of the Act, or to correct any information omitted on the tax invoice in order to comply with s20(4) and s20(5) of the Act. Vendors may have incorrectly issued debit and credit notes that may not technically have been in line with the Act. A further and more critical issue that arises is that the VAT Act does not provide a remedy where a vendor has failed to issue a debit or credit note within a reasonable time period. The VAT Act fails to provide a remedy under circumstances where the other vendor/party has failed or refuses to provide or issue the relevant credit or debit note as the case may be.

In the case of an agent, where the agent makes a supply of goods or services for or on behalf of any other person who is the principal of the agent, that supply shall be deemed to be made by the principal and not the agent. Provided that where that supply is a taxable supply and that agent is a vendor, the agent may issue a tax invoice or debit or a credit note.

### The proposal

The Commissioner for SARS has issued a proposal delivered in the Budget Speech 2014, whereby SARS intends to impose time limits upon when a credit or debit note needs to be issued by. This will provide certainty to vendors who may need to issue

or provide another vendor with the relevant credit or debit note. Agents will also need to comply with this provision.

*Carmen Moss-Holdstock*

## FRINGE BENEFIT VALUE OF EMPLOYER-PROVIDED RESIDENTIAL ACCOMMODATION

Where an employer provides its employee with residential accommodation, either free of charge or for a rental consideration payable by the employee, which is less than the rental value of such accommodation, a taxable benefit is deemed to have been granted by the employer to his employee.

The value of the taxable benefit for the employer-provided accommodation is determined in relation to the 'rental value' representing the value of the use of the accommodation. Currently, the rental value is calculated according to the specific formula contained in paragraph 9(3) of the Seventh Schedule to the Income Tax Act, No 58 of 1962 (Act), otherwise referred to as the 'remuneration proxy' and the period that the employee used the accommodation. Alternatively, the 'rental value' can also be calculated by taking into account the aggregate of the total rentals payable and other associated costs or the portion of the accommodation costs borne by the employer that pertains to the use by the employee.

However, the Minister has proposed in the 2014 Budget Speech that the method of valuation of the fringe benefit resulting from employer-provided accommodation be reviewed so that the rental value is no longer determined in accordance with a specific formula or varying circumstances but that the 'rental value' is determined with reference to the actual market value of the use of the accommodation.

In this regard it is important to note the effect of the proposals made by the Minister, namely:

- Firstly, where the employer rents accommodation from an unconnected third party, it is proposed that the value of the taxable benefit should be the cost to the employer in providing the accommodation; and
- Secondly, the Seventh Schedule to the Act currently does not make provision for the apportionment where employees share employer-provided accommodation.

The Minister therefore proposes that some form of apportionment be considered where one has to determine the taxable benefit in instances where employees have to share the employer-provided accommodation.

## PROPOSED RELIEF TO BENEFIT PUBLIC-PRIVATE PARTNERSHIPS

Public-private partnerships (PPPs) generally refer to contracts between a public sector institution/municipality and a private party, in which the private party assumes substantial financial, technical and operational risk in the design, financing, building and operation of a project.

The government will normally be responsible for making the land available so as to support public-sector infrastructure projects while maintaining state ownership of the land on which the project takes place.

The success of PPPs is dependent on the financial viability of these projects and incentives and/or deductions for improvements in urban development zones and industrial policy projects. Currently the provisions of the Income Tax Act, No 58 of 1962 (Act) hinder the success of PPPs in that they require ownership of the land before any depreciation or allowances can be claimed for improvements on that land. Accordingly, the private parties who do not own the land on which the projects take place are not entitled to claim any incentives.

Accordingly, the Minister, in the 2014 Budget Speech, proposed that relief be afforded to improve the financial viability of these projects. In addition, the Minister has stated that the requirement of land ownership limits the incentive for improvements in urban development zones and industrial policy projects. The merits of allowing deductions where the taxpayer is not the owner of the land will therefore be considered.

The proposed changes announced by the Minister will bring relief to benefit the private-sector participants, while maintaining state land ownership.

*Nicole Paulsen*

## IT'S FOR A GOOD CAUSE: PHILANTHROPIC FOUNDATIONS CAN RELAX, SLIGHTLY

Section 18A of the Income Tax Act, No 58 of 1962 (Act) allows for the deduction of donations made by donors to defined public benefit organisations (PBOs), subject to certain requirements being met.

Section 18A(2A)(b) of the Act provides that in the case of PBOs that are non-profit companies, trusts or associations of persons incorporated, formed or established in the Republic (Foundations); up to 75% of the money generated by the latter Foundations through donations, must be distributed. Distributions must be made within 12 months of the end of the relevant year of assessment. The exception to this rule is where the Foundation can demonstrate to the Commissioner that the funds accumulated will be used in carrying on public benefit activities contemplated in Part II of the Ninth Schedule to the Act. Presently, the Commissioner may upon good cause shown, and subject to conditions he may determine, waive, defer or reduce the obligation of the Foundations to make the above distribution.

Given that this distribution requirement is subject to the discretion of the Commissioner and the fulfilment of certain requirements, s18A(2A)(b) of the Act affects the sustainability of these Foundations.

Consequently, in this year's Budget Speech, government proposes to relax this requirement, whilst incorporating measures to ensure that Foundations do distribute capital accumulated from donations for which receipts have been provided. Government also seeks to ensure that despite any amendments, distribution will still be made to worthy causes within a reasonable period. No guidance has been provided as to the form this relaxation will take.

Additionally, government has identified that lack of commercial skills and access to funding are major factors influencing the success of small and medium-sized businesses. As an encouragement to equity investment in these struggling businesses, certain entities providing support and financial assistance to micro enterprises classified as poor and needy, can obtain PBO status. Additionally, tax relief for foundations promoting the development of small enterprises through grants, has been earmarked for investigation. This relief could be implemented either through the PBO channel or a dedicated tax provision.

## DAVIS TAX REVIEW COMMITTEE TO PUBLISH FIRST REPORT

In July 2013, the Minister appointed a Tax Review Committee (Committee) headed by Judge Dennis Davis to investigate various aspects of the tax system and make recommendations regarding possible reforms.

The Committee's first interim report (First Report) will be published for comment soon. The First Report examines how the tax system affects small and medium-sized enterprises, their role in the economy and in the National Development Plan.

A draft document containing the Committee's views on the appropriate normative framework for tax policy has also been completed. The Committee is presently looking into the effect of base-erosion and profit-shifting on the domestic tax base, the manner in which the tax system responds to increased cross-border activity and aggressive tax planning by multinational corporations. These inquiries include transfer pricing, e-commerce, 'treaty shopping' and the use of hybrid equity instruments and should be completed by June 2014.

Furthermore, additional investigations by the Committee into the VAT system, the mining tax system and the role of wealth taxes in the tax system, have also commenced.

*Danielle Botha*

## TAX-PREFERRED SAVINGS ACCOUNTS TO PROCEED

In 2012, government proposed tax-preferred savings accounts. These tax-preferred savings accounts were presented as a means to encourage and increase savings within households. In the 2014 Budget Speech, it was announced that these accounts would proceed from 2014. The accounts will continue to have an initial annual contribution limit of R30 000 (to be increased regularly in line with inflation) and a lifetime contribution limit of R500 000. Further, the accounts will allow for investments to be made by way of bank deposits, collective investment schemes, exchange-traded funds and retail savings bonds. Banks, asset managers, life insurers and brokerages will continue to be eligible service brokers for purposes of the accounts.



## IMPLEMENTATION OF CARBON TAX – POSTPONED TO 2016

In the 2012 and 2013 Budget Speech, it was proposed that carbon tax would be implemented in 2014 at a rate of R120 per ton of CO<sub>2</sub> on direct emissions. This rate was to be increased at 10% per year during the first implementation phase. The 2013 Budget Speech proposed the implementation of carbon tax to be effective on 1 January 2015, in accordance with the rates suggested previously. Following public consultation, the National Treasury and the Department of Environmental Affairs have agreed to align the design of the carbon tax and proposed emission reduction outcomes. Consequently, the implementation of carbon tax has been postponed to 2016 to allow for this process of realignment as well as to ensure that there is adequate time for consultation on draft legislation. The postponement is interesting in the light of the failure of carbon taxes in Australia.

*Gigi Nyanin*

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