



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA



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## **Portfolio Committee on Finance**

### **Taxation Laws Amendments Bills**

#### **Response Document**

**12 June 2007**

## **1. Background**

### **1.1 Process**

The Taxation Laws Amendment Bills, 2007, represent the first instalment of this year's tax proposals, as announced in the 2007 Budget Review. These Bills cover rates, thresholds, technical corrections (mostly from 2006) and certain urgent matters (e.g. taxation of retirement lump sums, extension of small business tax amnesty and prevention of amalgamation avoidance).

The Portfolio Committee on Finance held informal hearings on the Taxation Laws Amendment Bills, 2007 in early March. National Treasury and SARS presented the initial briefing on 9 March and public hearings were conducted on 13 March.

Initial versions of the Bills were provided to the Portfolio Committee on 26 February in order to satisfy the 10-day rule. Website release of the Bills occurred a few days thereafter. Comment for most issues was due by 23 March. Because of the delayed release of certain key retirement tax amendments, comment period for these retirement issues was extended to 25 April.

### **2.2 Public comments**

Three stakeholders made submissions to the Portfolio Committee. The most comprehensive formal comments were submitted by the South African Institute of Chartered Accountants, which covered all aspects of the Bills. The Life Offices' Association and the Institute for Retirement Funds submitted combined formal comments on issues relating to the effective date of the repeal of the Tax on Retirement Funds.

The response document normally does not take into account informal comments submitted solely to the National Treasury and SARS (as opposed to submissions made to the Portfolio Committee). However, informal comments have been added to the response document because comments were solicited after the hearings, especially in respect of retirement tax issues. These informal submissions originated from:

Aroma Management Services  
Bendels Consulting  
Bruce Cameron  
Deloitte and Touche  
Edward Nathan Sonnenbergs  
Ernst & Young  
H. Miller Ackermann & Bronstein  
Institute of Retirement Funds (IRF)  
Legal Resource Centre  
Life Offices' Association of South Africa (LOA)  
KPMG  
Mallinicks  
PricewaterhouseCoopers  
South African Institute of Chartered Accountants (SAICA)  
Werksmans  
University of Cape Town Pension Fund

### **3. POLICY ISSUES AND CHANGES**

Provided below are responses to the policy issues raised by the (formal and informal) comments. This response document is divided into two segments. The first segment deals with general tax issues. The second segment deals with retirement-related tax issues. Comments that fall wholly outside the scope of the Bill are omitted.

#### **3.1 General Comments**

##### **A. Income Tax**

##### **1. *Annuity payments to dependants of former employees and partners (section 11(m))***

*Background:* Were it not for section 11(m), employers could deduct payments to former employees and their dependents under section 11(a) only to the extent these payments are incurred in the production of income. These payments typically involve situations where the employer