Budget 2023: Tax proposals

The National Treasury published the 2023 Budget Review on 22 February 2023. This article highlights proposals relating to energy incentives, investment products, trusts as well as offshore and foreign-owned corporate structures.

The Budget 2023 sets out the National Treasury's proposals for tax amendments in the 2023 legislative cycle. This article briefly considers a selection of proposals.

Energy incentives

The Budget Review proposes two incentives to encourage private energy generation.

The first proposal expands on the existing allowances in section 12B of the Income Tax Act for two years. The allowances will be enhanced by removing generation thresholds and allowing 125% of the expenditure incurred as a deduction in the first year for renewable energy projects. This incentive will only apply for assets brought into use for the first time between 1 March 2023 and 28 February 2025.

The second proposal involves the introduction of a rooftop solar incentive for individuals at private residences. An individual would qualify for a tax rebate of 25% of the cost of new and unused solar PV panels, up to a maximum of R15 000. Other equipment necessary to use the panels, such as inverters and batteries, does not qualify for the incentive. The taxpayer benefits from the incentive through lower provisional tax payments or at assessment. By implication, the person must still fund the total cost of the installation until then.

Financing and investment

The tax law contains specific rules for some Sharia-compliant financing arrangements. Although these products still represent a very small part of the overall South African banking and investment assets, some evidence suggests that growth in the number of these assets far exceeds that of conventional banking. The National Treasury proposes to extend the Sharia-compliant arrangements dealt with in the tax legislation.

Wealth structures

The Income Tax Act treats income and capital gains of trusts that vest in beneficiaries differently. Capital gains can only be attributed to residents. The trust remains liable for capital gains tax on gains vested in non-residents. No similar restriction applies to trust income vested in non-residents, although the attribution rules of section 7(8) may sometimes apply. The National Treasury proposes aligning the treatment of income vested in non-resident beneficiaries with that of capital gains.

Cross-border corporate structures

The Budget Review contains various proposals relating to the taxation of value in foreign or foreign-owned corporate structures. These include:

- Narrowing the foreign business establishment exemption in the CFC rules to exclude businesses where the CFC outsources important functions for which its clients compensate it.
- Restricting the application of the participation exemption in foreign restructurings.
- Clarifying the CTC rules for share issuances in foreign currencies and curbing an arrangement that creates CTC when an intermediary holding company changes its tax residence to South Africa.

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