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## *Budget 2021/2022*

### Proposed reduction in corporate income tax rate – the bigger picture

Minister Mboweni announced in the Budget Speech of 24 February 2021 that the corporate tax rate will be reduced from 28% to 27% for years of assessment starting on or after 1 April 2022. In some instances, this proposal was met with criticism on the basis that having regard to the current state of the economy, any reduction of tax rates should rather be focussed on the country as a whole and particularly the poor and needy – for example, a reduction of the VAT rate.

However, the rationale for the reduction in the corporate tax rate is to allow South African companies to be more competitive in relation to foreign companies who have much lower corporate tax rates. In addition, as noted by National Treasury, the burden of corporate income tax is effectively carried by three parties – the owners of the capital (i.e., shareholders), the labour force (through wages) and consumers (through pricing of goods and services).

The proposal to reduce the corporate income tax rate was first raised in the 2020 Budget Speech, it is clear from the Budget Speech yesterday that as was indicated 12 months ago, this proposal will not be implemented in a manner to reduce revenue collection. Rather, it is proposed that additional measures aimed at expanding the corporate tax base will also come into effect, including:

- Reducing the number of tax incentives: National Treasury has indicated that tax incentives can in certain instances erode the equity of the tax system or fail to meet their intended objectives;
- Limiting interest expense deductions: Mention was made in the 2021/2022 Budget of a possible limitation of 30% of earnings in respect of connected person interest;
- Limiting the availability of assessed losses carried forward for offset against taxable income: Although no further details in this regard were mentioned in the 2021/2022 Budget, prior indications were that potentially the ability of a taxpayer to apply its assessed loss carried forward against its taxable income would be limited to 80% of the taxpayer's taxable income.

Based on the above, taxpayers should carefully consider whether the future proposals to expand the corporate tax base may impact negatively on their businesses – despite the proposed 1% reduction in the corporate tax rate.

At this stage there is no clarity on the expected timing for the entry into force of any proposals aimed at the expansion of the corporate tax base, however, we will continue to monitor the proposals and keep our clients updated in this regard. For historic articles relating to this topic, please go to:

<https://www.pkf.co.za/publications/covid-19/impact-of-covid-19-on-proposals-to-limit-the-use-of-assessed-losses/>

<https://pkf.co.za/news/2020/south-african-corporate-income-tax-reforms-on-the-horizon/>

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