

# **The silver lining for South African business families – Budget 2024**

**Navigating the tax evolution**

# The importance of South Africa's fast growing private companies

KPMG Private Enterprise focuses on supporting fast growing private businesses and the owners of such businesses, including business families. These businesses are the backbone of the global economy, it is estimated that family-owned businesses contribute more than half of the world's GDP<sup>1</sup>. For South Africa, the statistics are not readily available, but it is estimated that family businesses make up as much as 70% of all South African businesses<sup>2</sup>, employing approximately 60% of the workforce in South Africa. The success of these family businesses is translated into investible capital, which is often governed by family offices (albeit a relatively new concept for South Africa – and they vary from informal embedded, to formal single or multi-family offices).



# Budget speech messaging – cautious with some positives

The Minister of Finance shared what some may term a cautious Budget, despite the urgency to kick-start the South African economy. Understanding the importance of the private businesses in South Africa is the starting point. How to incentivise these business families to reinvest in their South African operations to grow their revenues, and in turn support their employees with more opportunities to learn and grow and earn higher salaries and wages. Ultimately to earn sustainable profit margins in the long-term. Such incentives should not stop at the business level either, they need to also incentivise the owners of such business, who have and continue to build investible capital, or the custodians of such investible capital, to re-invest in South Africa.

Understanding how such incentives have a multi-pronged direct and indirect impact on the economy supports the messaging the Minister shared, which is to enable sustainable growth in the economy and in turn sustained tax revenues – ultimately to ensure a *“more stable fiscal position with long-term benefits”*.

What is clear from the Minister's speech is that there is a clear understanding that the tax base could be negatively impacted if there are any increases in tax rates – *“Many tax bases remain resilient, but underlying vulnerabilities limit the extent to which taxes can be increased.”* This aligns with the views shared by KPMG Private Enterprise<sup>3</sup> in prior years regarding the mobility of the individuals contributing a significant portion of the tax revenues, being mobile with their investible capital. To further reinforce the importance of the individuals tax base, the trend has continued where *“personal income tax collections have outpaced expectations”*.

Looking at the proposals shared in the Minister's speech, keeping business families in mind, there are some opportunities South African business families may wish to consider once more detail is released to expand on the proposals.

<sup>1</sup>Economic Impact of Family Businesses – A Compilation of Facts ([tharawat-magazine.com](http://tharawat-magazine.com))

<sup>2</sup>10 Inspiring Family Businesses in South Africa ([tharawat-magazine.com](http://tharawat-magazine.com))

<sup>3</sup>Personal Perspectives ([kpmg.com](http://kpmg.com))

<sup>4</sup>Redefining wealth in business families - KPMG Global

# Some opportunities to be considered

A recent KPMG Private Enterprise publication<sup>4</sup> has confirmed the understanding of business families what they need to do to ensure a sustainable business or returns on investible capital, starting with an investment in the community and people in the jurisdiction in which the family business operates and the family has invested. With this in mind, the following proposals may provide investment opportunities for such business families:

- **Local electric vehicle production incentive** – an investment allowance is proposed for new investments from 1 March 2026, where producers will be able to claim 150 per cent of qualifying investment spending on production capacity for electric and hydrogen-powered vehicles in the first year of investment.
- **Learnership tax incentive extension** – this incentive has been embraced by business families, to enable them to provide workplace education, skills development and employment. The good news is the extension of the sunset date for this incentive to 31 March 2027.
- **Embedded generation initiatives** – South Africa has seen a much-needed acceleration of renewable energy, from private rooftops to larger scale projects which many family offices have invested in, either directly or indirectly through renewable energy funds. To support a sustained acceleration of the larger scale projects, it is proposed to increase, from 1 January 2024, the threshold for eligible renewable energy projects from 15 megawatts to 30 megawatts installed capacity for purposes of the carbon offset allowance.

- **Renewable energy allowance** – Preceding the above initiative, it is proposed to re-assess the threshold and leasing restrictions applied to embedded solar photovoltaic energy production assets, where there is a tax write off in one year.
- **Tax treatment of certain infrastructure projects** – to encourage infrastructure investment, considering the investible capital of business families, it is proposed to investigate the feasibility of a flow-through tax treatment, similar to what is afforded to trusts and other investment vehicles, for certain clearly defined infrastructure projects under specified circumstances.
- **Rebate for foreign taxes on income in respect of capital gains** – the proposal is to explicitly allow for a full foreign tax credit against tax payable in South Africa on a capital gain for taxes payable in the relevant foreign jurisdiction on the disposal of an asset. This will ensure a similar treatment as for foreign tax credits for taxable foreign dividends.



<sup>4</sup>[Redefining wealth in business families - KPMG Global](#)



From a wealth governance perspective, for South African business families, Trusts are a commonly used vehicle to manage the investible capital. Trusts have been a focus area of the South African Revenue Service to eliminate the structures which sought to benefit from unintended loopholes in certain provisions of the tax legislation regarding Trusts. This year, it is welcomed that there are no new proposals regarding Trusts. The only proposal is to clarify the interaction of the anti-avoidance provisions in respect of low- and interest-free loans, advances or credit arrangements with Trusts, with the transfer pricing rules, specifically where the terms of a loan with cross-border connected party Trust structures may not be arm's-length.

South Africa is known for its Exchange Control regulations, unfortunately it is not in a positive light, as the restricted flow of capital out of South Africa is a disincentive for foreign investors. For business families, access to foreign capital can be an important driver of growth. The South African Reserve Bank (**SARB**) has been working on a capital flows management reform, to remove the negative investment sentiment. Continuing with the reform, the following proposals will also benefit business families seeking offshore capital:

- **Fostering business growth** – the proposal is to streamline the process for certain unlisted companies (which operate in the fields of technology, media, telecommunications, exploration and other research and development) to establish an offshore company and/or have their primary listing offshore in order to raise foreign loans and capital for their operations up to a limit of R5 billion – approval will only be required from Authorised Dealers (**AD** – banks that are authorised to trade in foreign exchange in South Africa).
- **Promoting investment in the region** – the proposal is for FSCA<sup>5</sup> licensed private equity funds to be able to invest offshore up to a limit of R5 billion – approval will only be required from an AD.
- **Promoting trade** – To support greater trade, an AD will be given greater discretion over certain payment arrangements for customer foreign currency accounts, subject to the relevant reporting to the Financial Surveillance Department.

The above are steps in the right direction to incentivise South African business families to reinvest in South Africa. As with many opportunities, there are some proposals we would be remiss to not highlight.

- **Global minimum tax rules** – This is not a new concept, and the relevance to business families should not be discounted, especially where the operations of the business or the investible capital has been taken offshore and structured through another tax jurisdiction. What these business families need to be aware of and need to consider are the potential implication of the introduction of global minimum tax rules, which effectively creates taxing rights in certain tax jurisdictions to ensure a minimum tax rate of 15% is applied against profits from income earned and profits from certain transactions entered into by business families, through the offshore structures. Draft legislation has been released for comment in this regard. KPMG Private Enterprise is hosting a webinar<sup>6</sup> to provide the key considerations for business families.
- **Abuse of the employment tax incentive scheme** – Despite the introduction of punitive measures to curb the abuse of this tax incentive, it has come to light that the abusive schemes have continued. Although unlikely to have any impact for a well governed business family, it is important to remain aware of such schemes, and for those charged with governance to perform regular reviews of any schemes entered into.

Overall, it is evident that there are a few encouraging proposals, with some cautionary notes, for business families to consider. It is safe to say that although not a rainbow of proposals with a pot of gold at the end, there is a silver lining that the overarching message is for long term sustainable growth in the economy. This long-term view aligns with the longer-term view of business families.

<sup>5</sup> Financial Sector Conduct Authority

<sup>6</sup> [KPMG Global Virtual Event Platform \(kpmgglobalevents.com\)](https://www.kpmg.co.za/global-virtual-event-platform)

# It comes down to implementation

Everyone will have their own view and take on what the Minister shared, but as we all know it comes down to the implementation of the proposals – which will be clearer when the legislation and regulations to support the proposals are released.

Please do reach out to us to discuss anything that may have caught your eye.

[kpmg.com/socialmedia](https://kpmg.com/socialmedia)



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