



Issue 4 - 26 February 2024

Budget Snapshots

Tax Rates for Companies and Close Corporations



Corporate Income Tax

The rate of Company tax is unchanged at 27% with effect from years of assessment ending on or after 31 March 2023.

The rates of tax payable on the taxable income of companies and close corporations in respect of years of assessment ending on or after 1 April 2024 and on or before 31 March 2025 are as follows:

- Basic rate (on undistributed income) remains at 27%. Foreign Dividend Income (where the shareholding and voting rights held is less than 10% in the foreign company) is taxed at the effective rate of 20%. The effective rate on capital gains also reduces. But see below.
- Basic rate (on undistributed income) of a Small Business Corporation is below 27% for income up to R550 000.
- Dividends Tax – 20%.
- Branch profits tax on foreign resident companies – 27%. No Dividends Tax applies.

Assessed Tax Losses

When tax deductible expenses of a Company/Close Corporation exceed its income, there is an assessed loss which (subject to certain limitations) is carried forward for offset against taxable income in future years.

In respect of years of assessment ending on or after 31 March 2023, such offset of assessed losses cannot exceed the higher of R1 million and 80% of current year taxable income. The amount of the loss not utilised is carried forward to subsequent tax years.

Examples in respect of years ending on or after 31 March 2023.

Example 1

Facts

Losses from past years	30 000 000
Current year taxable income before past losses	20 000 000

Calculation

Current year taxable income	20 000 000
Less losses from past years (R30 000 000 but limited to the greater of R1 million or 80% of current year taxable income)	16 000 000

Taxable income	4 000 000
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Losses carried forward	R14 000 000
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Example 2

Facts

Losses from past years	1 500 000
Current year taxable income before past losses	1 000 000

Calculation

Current year taxable income	1 000 000
Less losses from past years (R1 500 000 but limited to the greater of 80% of current year taxable income or R1 million) i.e. greater of R800 000 and R1 000 000 but limited to current year income	1 000 000

Taxable income	NIL
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Losses carried forward	R500 000
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Small Business Corporations

In respect of years of assessment ending on or after 1 April 2024 and on or before 31 March 2025, the rate of normal tax payable by companies and close corporations remains at 27% of taxable income.

A “small business corporation” is separately recognised for tax purposes. To be classified as a “small business corporation”, a company /close corporation needs to comply with and continue to comply with the following rules-

- the entire shareholding of, or interest in, the company/close corporation must be held during the entire year of assessment by shareholders/members all of whom are natural persons, and
- the gross income for the year of assessment does not exceed the amount of R20 million (or a proportion thereof if the trading period is less than 12 months), and
- not one of the shareholders/members at any time during the year of assessment held any shares or had any interest in any other company/close corporation (other than a listed company or unit trust or share block company or sectional title body corporate), (the holding of shares in a dormant company/close corporation which is in the process of liquidation or deregistration will not be a barrier even if the existence of such company has not yet formally ceased), (the shareholders/members can hold shares in a company or close corporation if it has not traded during the year and did not own assets in excess of R5 000 in value), and

- not more than 20% of the company's/close corporation's gross income (including capital gains) consists collectively of “investment income” and income from the rendering of a “personal service”, and
- the company/close corporation is not a “personal service provider” company.

“Personal service” is defined as any service which is performed personally by any person who holds an interest in the company/close corporation referred to in the definition of “small business corporation”.

“Investment income” includes income in the form of interest, rentals derived from immovable property, annuities, royalties, dividends and income derived from trading and investing in financial instruments, marketable securities or immovable property.

In a subsequent issue of Snapshots, we will deal with the rates of tax and other concessions available for small business corporations.

Dividends Tax

Dividends Tax is payable by shareholders and collected by the company as a separate final withholding tax at the rate of 20%. The dividend will thereafter be exempt from further tax in the hands of the shareholder (i.e. it will not form part of the taxable income of the shareholder). Dividends tax will be payable not only on distributions during the life of the company but also on liquidation or deregistration.

Non-corporate and non-resident shareholders will be subject to the 20% Dividends Tax but subject to the terms of a Double Tax Agreement providing for a lower rate.

No dividends tax applies if there is a dividend payable by a resident company to another resident company.

Overall Tax Payable

The overall tax payable on company normal profits is and will be as follows -

	2025	2024
Company normal profits (other than a Small Business Corporation)	100,00	100,00
Normal tax	27,00	27,00
	<u>73,00</u>	<u>73,00</u>
Dividends Tax - 20%	14,60	14,60
	<u>58,40</u>	<u>58,40</u>
After tax amount to individual shareholders	58,40	58,40
Overall tax burden	<u>41,60</u>	<u>41,60</u>

The effective rate of tax on company Capital Gains is calculated as follows -

	2025	2024
Taxable Capital Gain	100,00	100,00
Normal tax thereon (inclusion rate 80%) at normal tax rate	21,60	21,60
Balance available for distribution	<u>78,40</u>	<u>78,40</u>
Dividends tax at 20% of distributable amount	15,68	15,68
Dividend (after deduction of dividends tax)	<u>62,72</u>	<u>62,72</u>
	<u>78,40</u>	<u>78,40</u>
	<u>NIL</u>	<u>NIL</u>
Overall tax burden	<u>37,28</u>	<u>37,28</u>



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