



Over the next three years, the team will focus on implementing the proposals set out in this year's Budget. Key among these is the review of the tax treatment of retirement savings. This year a second detailed discussion document on the retirement tax reform proposals and the underlying policy considerations will be released. The process will encourage open consultation with various stakeholders so that the final legislation represents a fully deliberated product. Mindful of a range of stakeholder concerns and drawing on the findings of the responsible task team, the 2003 tax proposals suggested that the retirement fund tax rate should be reduced from 25 per cent to 18 per cent.

Internationally accepted taxation principles and administrative concerns inform the proposed package of domestic investment stimuli. Key among these are the retention of the accelerated depreciation arrangements for manufacturing assets, previously introduced as a temporary measure and a double deduction for the first R20 000 of costs incurred in the start-up of new businesses.

Many urban areas in South Africa suffer from inadequate infrastructure maintenance and environmental decay. Urban renewal requires greater business investment in the regeneration of inner-city areas. With this in mind, the 2003 Budget proposes that investment in the refurbishment or the construction of buildings in certain urban areas receives special accelerated depreciation treatment. A complementary proposal extends tax advantages to public benefit organisations that provide affordable housing to low-income households in underdeveloped urban areas, as part of a more comprehensive broadening of the list of activities for tax-deductible donations.

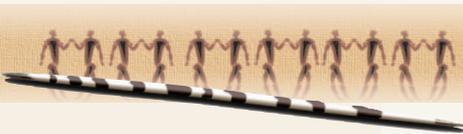
The current system of taxing foreign dividends has the unintended effect of discouraging dividend inflows. In order to eliminate this disincentive, the tax on foreign dividends will be removed where a South African taxpayer has a meaningful interest in the foreign subsidiary paying the dividend.

On the indirect tax side, there is a temporary elimination of the general fuel levy between leaded and unleaded petrol to allow the industry scope to increase its clean fuel production capacity. And mindful of the effect that increases in the dollar-denominated international crude oil price has on domestic fuel prices, the 2003 Budget recommends that the fuel taxes be adjusted by less than inflation.

A key proposal this year is the introduction of an "environmental levy" on plastic bags, in support of the "polluter pays" principle. Some of the revenues collected will be earmarked for the recycling of plastic bags. The team intends to release a discussion document on Environmental Fiscal Reform (Environmental Taxes) in South Africa in July 2003. Complementary research will review the VAT treatment of appropriations or grants to public entities and public enterprises by June 2003, ready for incorporation in the second Taxation Amendment Bill by the end of October 2003.

The tax trump card in the 2003 Budget most certainly is the joint foreign amnesty, in relation to both exchange controls and the Income Tax Act. The window period for filing for amnesty relief will run from 1 June 2003 to 30 November 2003. The purpose of the amnesty is not to raise revenue. It is, instead, to allow past transgressions of the law to be dealt with, while improving disclosure of foreign assets and income. It will permit the





repatriation of capital by those persons who desire to bring funds back into South Africa, but who fear the consequences of past illegal acts.

The *Tax Policy* unit is working hard on the draft Mineral Royalty Bill that the Minister of Finance will introduce in the Parliamentary Portfolio Committee on Finance and the Portfolio Committee on Minerals and Energy Affairs this year. Presentations and hearings with stakeholders in the minerals industry will accompany the process.

The drafting of the Mineral Royalty Bill was preceded by a comprehensive international comparative analysis on the introduction of a mineral and hydrocarbon royalty regime in support of the Mineral and Petroleum Resources Development Act.

Finally, the *Tax Policy* unit, as Chair of the Southern African Development Community (SADC) Tax Subcommittee, will continue to play a leading role in delivering on regional tax coordination. A key driver for this process is the implementation of the “SADC Memorandum of Understanding on Taxation and Related Matters”, which was signed in August 2002. This initiative will be reinforced by the incorporation of the memorandum of understanding in a binding SADC Finance and Investment Protocol that is due to be signed later this year. The coordination programme aims to identify and develop areas for cooperation in tax administration and policy and to build stable and efficient tax systems that will facilitate trade and investment, while securing regional tax bases. This work is being carried out in parallel with the macroeconomic convergence programme being undertaken by the *International Economics* unit.

The *Financial Sector Policy* unit (formerly the Financial Regulation unit) advises the Minister of Finance on the financial regulatory and supervisory policy issues and the regulatory architecture of the domestic financial system. The unit is also responsible for formulating the Government’s financial sector policy; providing the legislative and regulatory framework required for its implementation; and influencing the international financial sector policy agenda in the areas of financial regulatory policy; banking development; financial services; financial markets and anti-money laundering.

The unit has lead responsibility for liaison between the Treasury and the South African Reserve Bank on matters related to bank supervision, exchange control, financial stability and the national payments system. It is also responsible for liaison between the Treasury and the Financial Services Board, which supervises the non-banking financial services sector under the policy direction of the Minister of Finance. The unit is therefore is charged with ensuring that various financial services legislation prepared by the South African Reserve Bank and Financial Services Board is in accordance with the policy objectives of the Minister of Finance.

Accordingly, the *Financial Sector Policy* unit fulfils its mandate through liaison with various supervisory authorities and organisations. It liaises with the South African Reserve Bank on matters relating to bank supervision, exchange control, financial stability and the National Payments System. It engages the Financial Services Board in its supervision of the non-banking financial services sector under the policy direction of the Minister of Finance. It addresses the Micro Finance Regulatory Council on micro-lending matters, and interacts with various financial-sector industry representative



groups, such as the Banking Council of South Africa and the Life Offices Association. The unit also actively engages international organisations on anti-money laundering and the combating of terrorist financing. It also engages with regional organisations, such as the Common Monetary Area and the Committee of Insurance, Securities and Non-banking Financial Authorities, a subcommittee of SADC.

The *Financial Sector Policy* team represents the National Treasury on numerous committees. These include, the Policy Board for Financial Services and Regulation – in terms of the Policy Board for Financial Services and Regulation Act (41 of 1993) – which is a statutory advisory body that furnishes advice to the Minister on the financial services industry and the regulatory framework of the financial system; the Financial Markets Advisory Board – in terms of the Financial Markets Control Act (97 of 1989) – a statutory advisory board that furnishes advice to the Minister on issues that affect the financial markets; the Standing Committee for the Revision of the Banks Act (94 of 1990), a statutory advisory committee that furnishes advice to the Minister on amendments to the Banks Act (94 of 1990).

The National Treasury has recognised the importance of maintaining a high level of financial regulation and supervision to ensure that our financial system remains sound, robust and generally well regulated, and is not prone to major vulnerabilities that could endanger macroeconomic and financial stability.

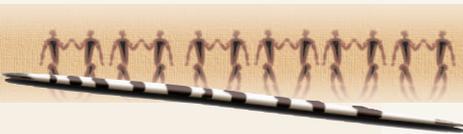
The *International Economics* unit undertakes policy research and analysis, providing advice and support to key decision-makers, notably the Minister of Finance, on issues that contribute towards deepening and extending economic linkages between African economies, strengthening South Africa's capital account, reforming the international financial architecture and shaping the international development policy agenda.

Ongoing analysis is taking place in the areas of financial market development and capital account policies. The unit is responsible for advising on exchange control policy and capital account liberalisation, and is actively involved in the development and implementation of the exchange control reforms announced in the 2003 Budget.

Over the next three years, the unit will focus on developing and implementing proposals for regional financial sector strengthening and integration, assessing policies to manage capital account shocks, and managing the transition from exchange controls to prudential regulation of foreign investment by institutional investors.

International Economics continues to engage actively with multilateral institutions, including the International Monetary Fund, the World Bank, the G20, and the G24. Over the next three years, the team will strengthen its engagement, focusing on shaping the global development policy agenda to improve development policies for African economies, increase the level of aid flows, provide policy reform ideas for the international financial architecture, and shift the operations of the World Bank toward achievement of the Millennium Development Goals (MDGs). The latter is facilitated through Minister of Finance, Trevor Manuel's role as chair of the World Bank's Development Committee. In 2002, the Development Committee agreed to the elaboration of an implementation and monitoring framework for the achievement of the MDGs.





This will be developed further and made operational in the next three years, facilitating a much tighter link between the activities and major programmes of the Bretton Woods Institutions and the MDGs.

The capital account of the balance of payments is a key focus of the *International Economics* unit, with major projects being initiated in the areas of exchange control policy, prudential regulation of capital account risk, and the linkages between the capital account and monetary policy.

International Economics plays an important role in South Africa's relationship with other African countries. Key initiatives in the next three years include efforts to develop and implement the Nepad capital flows initiative, incorporating debt and development assistance issues, conceptualising the establishment of an African Central Bank, the ongoing reform of SADC institutions, and strengthening the Common Monetary Area.



MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Medium-term output targets

Programme 2 Economic Planning and Budget Management

Measurable objective: To promote growth, social development and poverty reduction through sound economic, fiscal and financial policies, efficient revenue raising measures and an effective and appropriate allocation of public expenditure					
Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target/ Milestone
Budget Office	Medium Term Budget Policy Statement including the budget framework and division of revenue	Produce within deadline	End October / early November	End October / early November	End October / early November
	Budget Review, appropriation legislation and Estimates of National Expenditure	Produced within deadline	Published on Budget day	Published on Budget day	Published on Budget day
	Public finance statistics	% compliance with the IMF Special Data Dissemination Standard i.r.o. timeous reporting of data in requisite format	85% compliance	90% compliance	95% compliance
		% coverage of general government statistics, including national and provincial government and public entities	10% incorporation of public entities into statistics	20% incorporation of public entities into statistics	40% incorporation of public entities into statistics
	Public-private partnership (PPP) agreements	No. of closed PPP deals	10 closed PPP deals	12 closed PPP deals	14 closed PPP deals
		Compliance with Treasury Regulation 16 on PPPs	Treasury Approval I – III provided	Treasury Approval I – III provided	Treasury Approval I – III provided
		Building provincial PPP capacity	2 provincial secondments to the PPP Unit	2 provincial secondments to the PPP Unit	2 provincial secondments to the PPP Unit
		No. of persons trained in respect of PPPs	200 persons trained	250 persons trained	300 persons trained



Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
	International cooperation agreements	% alignment between Government and departmental priorities and donor assistance	80% + satisfaction between donor and beneficiary department (measured by customer assessment ratings)	80% + satisfaction between donor and beneficiary department (measured by customer assessment ratings)	80% + satisfaction between donor and beneficiary department (measured by customer assessment ratings)
		% compliance of donor agreements with the Overseas Development Assistance (OPA) Policy and Procedures manual	100% compliance	100% compliance	100% compliance
Public Finance	Analysis of and recommendations on sectoral and departmental financing and budgets	% rating by the MTEC on analysis of departmental budget and MTEC submissions	70% rating by the MTEC on analysis of departmental budget and MTEC submissions	75% rating by the MTEC on analysis of departmental budget and MTEC submissions	80% rating by the MTEC on analysis of departmental budget and MTEC submissions
	Monitoring and analysis of reports on financial management, expenditure and service delivery	% compliance within a 14 day turnaround time for Treasury approval and advice on departmental requests	75% compliance with turnaround time	80% compliance with turnaround time	85% compliance with turnaround time
	Appropriate financial management, expenditure and service delivery monitoring systems in place	Appropriate systems developed and implemented	Review of the Early Warning System and adjustments to system	Measurable objectives and service delivery requirements agreed with departments	Annual service delivery report compiled for each department
	Policy analysis and support	Development and implementation of guidelines on policy analysis and costing	Consistent approach to policy analysis and costing developed and consulted with departments	Guidelines on policy analysis and costing published	Phased implementation of guidelines on policy analysis and costing
	Project management support	% of compliance with sustainability indicators at the level of project purpose and core results incl. budget targets achieved of projects assisted	80% compliance with sustainability indicators to reach project goals (measured by monitoring reports)	85% compliance	90% compliance



Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
Intergovernmental Relations	Provincial and local government grants and fiscal framework	Annual Division of Revenue Bill produced within deadline Explanatory memorandum on the Division of Revenue Bill produced within deadline	Bill published on Budget day Published on Budget day	Bill published on Budget day Published on Budget day	Bill published on Budget day Published on Budget day
	Support for provincial and municipal financial development	No. of provinces and municipalities in which financial management programmes/ reforms have been implemented	9 provinces and 37 pilot municipalities	9 provinces and 62 municipalities	9 provinces, 62 municipalities and all district councils
	Analysis of intergovernmental financial relations	Timeous production of Review according to pre-announced publication date Monthly and quarterly monitoring of provincial finances Monitoring of municipal finances	2003 Review published in April 2003 Quarterly reports gazetted Monthly provincial reports Finalisation of the Municipal Financial Management Bill and implementation plan	2004 Review published on pre-announced date Quarterly reports gazetted Monthly provincial reports Quarterly reports by selected pilot municipalities including all metros	2005 Review published on pre-announced date Quarterly reports gazetted Monthly provincial reports Monthly reports by selected pilot municipalities



Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
Economic Policy and International Financial Relations	Macroeconomic policy analysis and advice	No. of parliamentary questions answered according to % Ministerial satisfaction	An average of 20 parliamentary questions answered according to 100% Ministerial satisfaction	An average of 20 parliamentary questions answered according to 100% Ministerial satisfaction	An average of 20 parliamentary questions answered according to 100% Ministerial satisfaction
		No. of speeches written	An average of 1 speech per month for DG, Deputy Minister and Minister	An average of 1 speech per month for DG, Deputy Minister and Minister	An average of 1 speech per month for DG, Deputy Minister and Minister
		No. and quality of policy and modelling reports produced (measured by satisfaction rating on completed report) Economic forecasts	An average of 10 reports at 80% satisfaction Four sets of macroeconomic forecasts per year Twelve monthly inflation forecasts	An average of 10 reports at 80% satisfaction Four sets of macroeconomic forecasts per year Twelve monthly inflation forecasts	An average of 10 reports at 80% satisfaction Four sets of macroeconomic forecasts per year Twelve monthly inflation forecasts
		Presentations to rating agencies and investor groups	Two macroeconomic presentations to rating agencies or investor groups per month	Two macroeconomic presentations to rating agencies or investor groups per month	Two macroeconomic presentations to rating agencies or investor groups per month



Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
	Tax policy analysis and advice	% alignment of policy proposals with macroeconomic and fiscal framework Introduction of Exchange Control Amnesty and Amendment of Taxation Laws Amendment Bill 2 nd Taxation Laws Amendment Bill Retirement Fund Tax Review Fuel Levy Review to promote the introduction of clean fuels Review and consolidate or amend VAT Act (89 of 1991) Release of discussion document of Environmental Fiscal Reform (Environmental Taxes) No. of instruments significantly revised/newly introduced	100% alignment Exchange Control Amnesty and Amendment of Taxation Laws Amendment introduced by September / October 2003 2 nd discussion document by November 2003 Review completed by October 2003 Temporary equalisation of fuel levy between leaded and unleaded petrol implemented by 02 April 2003 Review completed by June 2003 Document released on 01 July 2003 2-day workshop held in August 2003 100% Ministerial satisfaction	100% alignment 1st Taxation Laws Amendment Bill on Retirement Fund Taxation May 2004 Adjustment of fuel levy to incorporate a special levy on leaded petrol and high sulphur diesel from 2004 onwards Consolidation or amendment of VAT Act by October 2003 Draft legislation prepared by late 2004 100% Ministerial satisfaction	100% alignment New environment tax introduced in 2005/06 100% Ministerial satisfaction



Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
	Financial Sector policy advice, legislation and regulations	<p>Introduction of Financial Services Ombudschemes Bill 2003</p> <p>Introduction of revised Security Services Bill 2003</p> <p>Enactment of legislation for a new system of regulating auditors and accountants (Review of draft Accountancy Professions Bill)</p> <p>Introduction of Financial Reporting Bill 2003</p>	<p>Financial Services Ombudschemes Bill introduced by June / July 2003</p> <p>Security Services Bill 2003 introduced by July / August 2003</p> <p>Consider Report of the Ministerial Panel for the Review of the draft Accounting Professions Bill during August 2003</p> <p>Consider public comment on the recommendations of the above Ministerial Panel during September 2003.</p> <p>Consider Report of the Ministerial Panel for the Review of the draft Accounting Professions Bill with particular regard to Financial Reporting Bill and public response to above Report during September 2003</p> <p>Consider introduction of Financial Reporting Bill 2003 during October 2003</p>	<p>Enact Financial Services Ombudschemes Bill by 1 January 2004</p> <p>Enact Security Services Bill 2003 by 1 January 2004</p> <p>Legislation on revised Accountancy Professions Bill enacted by 31 July 2004</p> <p>Financial Reporting Act enacted and implemented during First Quarter 2004</p>	



Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
		Review of Pension Funds Act 1956		Issue Treasury discussion document by end March 2004 Introduce draft legislation for a new Pension Funds Act by 31 December 2004	
		Establishment of a Single Financial Services Authority for the financial services sector (the single regulator)	Develop an implementation plan for the single regulator including draft legislative framework by 31 May 2003 Introduction of draft Financial Services Authority Bill by 30 September 2003	Implementation of all processes for the establishment of the single regulator in terms of the Financial Services Authority Bill during by 31 December 2004	
		Establishment of a Deposit Insurance Scheme (DIS) for retail banking depositors	Develop an implementation plan for the DIS, including draft legislative and regulatory amendments by 31 December 2003	Obtain Cabinet approval by end first quarter 2004 Introduction of draft Bill by end second quarter 2004	
		Introduction of Co-operative Banks Bill 2003	Co-operative Banks Bill 2003 introduced during August / September 2003	Enact Co-operative Banks Bill 2003 by 30 June 2004	
		Formulation of Treasury policy regarding combating of money laundering and financing of terrorism	Facilitating SA membership of OECD/FATF by 31 July 2003 Considering and preparing Treasury policy response document to FATF country assessment (conducted April 2003) to address areas of partial compliance by 31 December 2003	Treasury policy document to FATF 40 + 8 recommendations and to further address areas of partial FATF compliance by 31 December 2004	Treasury policy document to FATF 40 + 8 recommendations and to address any outstanding areas of FATF compliance by 31 October 2005
		Introduction of Financial Intelligence Centre Amendment Bill 2003	Financial Intelligence Centre Amendment Bill introduced by end September 2003	Enact Financial Intelligence Centre Amendment Bill 2003 by 1 May 2004 Implementation of further Regulations under Financial Intelligence Act 2001, as amended, by 30 June 2004	

