This report provides helpful information on the current business environment in South Africa. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.

Global Banking Service

Report on South Africa

Contents

RBC Royal Bank®

Important to Know

Official language

- Afrikaans
- English
- Ndebele
- Northern Sotho
- Southern Sotho
- Swati
- Tsonga
- Tswana
- Venda
- Xhosa
- Zulu

Currency

- Rand (ZAR)

Bank holidays

2010	
January	1
March	22
April	2, 5, 27
May	1
June	16
August	9
September	24
December	16, 25, 27

Source: www.goodbusinessday.com.

Types of Business Structure

Under South African law, there are several business structures available. In South Africa, there is no requirement for a minimum amount of share capital to be paid up before the business can be established.

Public limited liability company

Ltd. This is a company whose shares are not registered to their owners and are tradable on a public stock market. A public limited company must have a minimum of seven shareholders. This requires no minimum share capital.

Private limited liability company

Pty (Proprietary Limited Company). This is a company whose shares are registered to their owners and therefore are not publicly tradable. A proprietary limited company must have a minimum of one and a maximum of 50 shareholders. This requires no minimum share capital.

Partnership

In a partnership, all partners have full and joint liability. This requires no minimum share capital. These are often created to operate a joint venture between two companies.

Close corporation

In a close corporation, all partners enjoy limited liability. A minimum of one and a maximum of ten people are permitted to be registered with the Close Corporation Registration Office (CCRO) as members (owners) of a close corporation. Non-residents are permitted to be members with the approval of the CCRO. This requires no minimum share capital. Corporate entities are not permitted to be members of a close corporation.

Cooperatives

In a cooperative, all members enjoy limited liability. To start a cooperative, a constitution must be agreed and the cooperative must be registered with the Register of Cooperatives. This requires no minimum share capital.

Branches

Non-South African companies are entitled to establish a branch office in South Africa. A branch's activities are subject to South African company law. Despite being considered part of the company's head office and therefore not a separate legal entity, a branch is considered as a separate entity for tax and exchange control purposes. It requires no minimum share capital. To open a branch a company must file a number of documents and obtain a South African registration number. A South African resident must be registered with the Companies and Intellectual Property Registration Office as responsible for the operation of the branch.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must either be formed or incorporated in South Africa or have its centre of management and control in South Africa.

Domestic and foreign currency account restrictions

Residents are not permitted to hold local currency (ZAR) accounts outside South Africa. Residents are permitted to hold open foreign currency accounts both inside and, subject to South African Reserve Bank (SARB) approval, outside South Africa. Residents are permitted to hold the equivalent of ZAR 2 million in foreign currency deposits.

Non-residents are permitted to hold local currency and foreign currency accounts in South Africa. SARB approval is required before non-residents can open foreign currency accounts.

Local currency accounts held by residents are not convertible into foreign currency. Those held by non-residents are fully convertible into foreign currency.

Anti-money laundering and counter-terrorist financing rules

- Account opening procedures require formal identification of the account holder and of a person acting on behalf the account holder.
- For legal entities, shareholders with 25% or more of the equity must be identified. However, there is no general duty to identify the beneficial owner.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at May 2009.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

Financial services are exempt from VAT.

Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for domestic and cross-border payments, in terms of value. They can be initiated using Internet and electronic banking facilities. Large companies use them to make the majority of their payments, including supplier, tax, treasury and payroll payments. Card payments are commonly used for retail transactions, with debit cards much more popular than credit cards.

Direct debits are becoming more popular and are currently used primarily by utility and insurance companies to collect domestic payments. Although cheque use remains significant, it has been declining in recent years. Cheques are now mainly used by smaller companies to make supplier payments and to pay wages.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change 2007/2006	Traffic (value) (ZAR billion)		% change 2007/2006
	2006	2007		2006	2007	
Urgent credit transfers	2.4	3.1	29.2	46,191.6	67,843.3	46.9
Retail credit transfers	270.0	304.8	12.9	3,121.3	3,730.7	19.5
Cheques	97.9	83.7	– 14.3	1,531.7	1,569.5	2.5
Direct debits	302.0	322.6	6.8	399.1	469.2	17.6
ATM transactions	193.0	234.3	21.4	47.5	59.9	26.1
Debit cards	**112.0**	**N/A**	**N/A**	**26.9**	**N/A**	**N/A**

Source: Payment Association of South Africa (PASA), Office Bearers' Annual Report 2006; Committee of Central Bank Governors in SADC.

International Payments

International payments, including foreign currency payments and payments to and from parties located outside South Africa, are processed through same-bank networks, through multibank alliances or by using traditional correspondent banking techniques.

Payment Processing Times

Transactions processed	Value dating rules	Cut-off time(s) in local South Africa Standard Time (SAST)
High-value and urgent domestic payments	Settlement in real time with immediate finality	16:00 SAST
Urgent domestic credit transfers with a maximum value of ZAR 5 million	Settlement on same-day basis within one hour	23:00 SAST (16:00 SAST for payments above ZAR 250,000)
Low-value electronic credit transfers up to a maximum value of ZAR 5 million and direct debits up to a maximum value of ZAR 500,000	Settlement on a next-day basis	19:00 SAST
Paper-based transactions up to a maximum value of ZAR 5 million	Settlement on a next-day basis, for same-day value, although payment is not irrevocable until paper vouchers are physically exchanged	19:00 SAST

Central Bank Reporting

The SARB collates balance of payments statistics from data collected via a system of compulsory statistical reporting.

All transactions made between resident and non-resident bank accounts must be reported immediately to the Exchange Control Department of the SARB. Banks usually report on behalf of their customers, although some large companies report information to the SARB directly.

Exchange Arrangements and Controls

South Africa is a member of a Common Monetary Area, which also includes Lesotho, Namibia and Swaziland, in which the South African rand is legal tender. There are no exchange controls within the Common Monetary Area.

The SARB administers currency exchange controls outside the Common Monetary Area. Export earnings by resident companies must be repatriated within 30 days, although they can be kept in foreign currency accounts held with authorized dealers for 180 days. Resident companies need approval to invest more than ZAR 50 million abroad in one calendar year. Financial loans from residents to non-residents require approval, as do commercial loans if they are for terms of more than one year. Resident companies require SARB approval to issue or sell shares abroad.

Cash and Liquidity Management

Liquidity Management

Because of the existence of exchange controls, South Africa is not used as a location for multinational companies to carry out their international cash management.

Physical Cash Concentration

Physical cash concentration is available from all large South African and international banks. Residents and non-residents cannot participate in the same physical cash concentration structure.

Notional Cash Pooling

Notional cash pooling is available from most large South African and international banks. Residents and non-residents cannot participate in the same domestic notional cash pooling structure, although notional cash pools can include accounts held in the name of different legal entities.

Short-term Investment

Bank instruments

Interest-bearing current accounts are available. Banks offer time deposits in a range of currencies for terms from overnight to over a year, although these are often subject to minimum investment requirements. Banks also issue negotiable certificates of deposit (NCDs) for terms up to five years, although the most common maturities are three, six and nine months. These are subject to minimum investment requirements.

Non-bank instruments

Some South African companies and public bodies issue commercial paper, although the domestic market is limited. Companies also issue promissory notes, usually for periods from two to five years. Larger companies and public bodies also issue longer-term bonds, listed on the Bond Exchange of South Africa.

The SARB issues Treasury bills via weekly auctions for periods of three and six months. The minimum investment amount is ZAR 100,000. The SARB also issues debentures via weekly auctions with maturities of one or two months and occasionally for different maturities. SARB debentures are issued in denominations of ZAR 1 million.

South African companies have access to a range of money market funds.

Bankers' acceptances are also available as a short-term investment instrument. They are available for terms of one month to one year; the most popular maturity is three months. Although investment amounts vary, ZAR 100,000 to ZAR 1 million is most common.

Short-term Borrowing

Bank

Overdrafts, bank lines of credit and bank loans are all available in South Africa to both resident and non-resident companies. Loans to non-resident companies often require SARB approval. Banks will usually charge a margin over their base rates for ZAR-denominated facilities. Other commitment and arrangement fees will also be charged.

Bankers' acceptances, offered at a discount, are commonly used. Meanwhile, leading banks offer factoring and invoice discounting.

Non-bank

Larger companies issue commercial paper or bonds into both the domestic and international markets.

Trade bills are seldom discounted.

Taxation

Corporate Taxation

- Income tax is imposed on a company's gross income minus exemptions, allowances and deductions, plus specific inclusions and after the set-off of an assessed loss brought forward from the prior fiscal year.
- To be allowed as a deduction, expenditure and losses must be incurred in the production of income and may not be of a capital nature.
- The standard rate of corporation tax is 28%.
- Secondary tax on companies (STC) at a rate of 10% is levied on and payable by companies on net dividends declared by companies resident in South Africa. (The STC rate on net dividends declared out of oil and gas profits by oil and gas companies is 5% and in some cases 0%.)
- STC is to be replaced by a withholding tax on dividends, which will be levied at the shareholder level. It is expected that STC will be replaced by the new dividend tax in late 2010, after all relevant double tax treaties have been renegotiated and ratified by the respective governments.
- Resident companies are taxed on their worldwide income with certain exemptions.
- Non-resident companies are taxed only on their income sourced in South Africa.
- Non-resident companies' South African income is taxed at a rate of 33%, but no STC is payable in respect of branch profit distributions.
- Mining companies (other than gold mining) are taxed at a rate of 28%. Certain mining capital expenditure is deductible in full, in the year incurred, provided that there is sufficient mining taxable income to absorb this expenditure.
- Gold mining companies are taxed at varying rates depending on their profit margin percentage. The same rules that apply to non-gold mining companies regarding the deduction of certain mining capital expenditure also apply to gold mining companies.
- Non-resident oil and gas companies carrying on oil and gas activities in South Africa are taxed at 31% (28% in certain cases) on taxable income derived from these activities.
- Losses can be carried forward in most cases, but anti-avoidance rules generally apply.
- There is no carry back of losses.
- A company's annual income tax return must be submitted within 60 days of its year-end; however, a maximum of a 12-month extension request by the company is usually granted by the South African Revenue Service (SARS).
- Companies are required to make two provisional tax payments each year. These

are based on estimates of the company's annual taxable income and are paid at the end of the first and second halves of the company's fiscal year. To avoid penalties, the aggregate of the company's first and second taxable income estimates must be within at least 80% of the company's actual annual taxable income as finally determined. An optional final "top-up" payment based on actual annual taxable income for the year is payable within six months after the year-end to avoid incurring interest on underpayments of provisional tax.

Advance Tax Ruling Availability

- Advance tax rulings in order to promote tax clarity, consistency and certainty are available in certain circumstances and upon payment of a fee.

Withholding Tax (subject to tax treaties and other exemptions)

Payments to	Interest	Dividends	Royalties	Other income
Resident companies	N/A	*	N/A	N/A
Non-resident companies	N/A	*	12%	15% †

*See STC above.

†On payments to non-resident sportspersons and entertainers who perform in South Africa.

Capital Gains Tax

- Capital gains are taxed at 50% of the company tax rate.
- Non-residents are only subject to capital gains tax on disposals of:
  - immovable property (including shares in a property-owning company in some circumstances) situated in South Africa; and
  - business assets of a non-resident that trades through a permanent establishment in South Africa.

Securities Transfer Tax (STT)

- Securities transfer tax is levied at a rate of 0.25% on the taxable amount of any transfer of a listed or unlisted security (with certain exemptions).

Thin Capitalization

- Thin capitalization rules generally permit a maximum 3:1 ratio of interest-bearing debt to equity.

Transfer Pricing

- International transactions (i.e., cross-border) with certain connected parties that are carried out at amounts not considered to be at arm's length may be adjusted for by the SARS for tax purposes.
- Guidelines take account of Organisation for Economic Co-Operation and Development (OECD) recommendations.

VAT and Excise Duties

- The standard rate of VAT is 14% on the value of goods and services supplied by vendors.
- Certain goods and services are zero-rated (e.g., basic foodstuffs, goods exported and certain services rendered to non-residents).
- Certain services (e.g., financial services, renting / leasing of residential accommodation and road or rail transport) are exempt.
- There are excise duties on, inter alia, alcohol and tobacco products.
- A fuel levy and excise duty is imposed on fuel.
- Certain excise levies are imposed on environmental inefficiencies.

Insurance Tax

- Long-term insurers pay income tax at a rate of 28% on the taxable income of their company policyholder and corporate funds and at a rate of 30% on the taxable income of their individual policyholder fund.

Payroll and Social Security Taxes

- Unemployment Insurance Fund: Employers and employees contribute in aggregate 2% (up to maximum of ZAR 149,736 per annum per employee) of the employee's remuneration.
- Employers contribute to the Workmen's Compensation Fund at various rates depending on the industry.
- Skills Development Levy: Employers contribute 1% of monthly payroll to fund education and training.

Transfer Taxes on Transfer of Fixed Property

- In the case of companies the rate is 8% of the consideration payable.

All tax information supplied by Deloitte LLP (www.deloitte.com). Data as at April 1, 2009

Report prepared July 2009.

RBC Royal Bank®

31178