Lower tax collection may hurt companies

By Amanda Visser

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The warning bells for tax collections had already rung in October when Finance Minister Pravin Gordhan announced collections for the 2012-13 tax year were expected to be R5bn less than budgeted.

The outlook for achieving even the revised target seems bleak and tax advisers predict harsh times this year.

Prolonged strikes in the country, a huge trade deficit and lack-lustre growth could see a further decline in tax collection, while the bleak global backdrop continues to cast a pall over economic growth prospects.

Edward Nathan Sonnenberg's tax executive Ernie Lai King says South Africa is facing increased borrowings and possible increases in tax rates.

"As far as trying to bleed more out of the existing tax base, it is going to be very difficult.

"We have a thin tax base, especially on the personal income tax side and our companies are subject to global and South African economic conditions," he says.

"To increase tax rates is not a good idea and neither is increased borrowings, because all you are doing is mortgaging your future tax collections. The answer has to be to grow the tax base as much as we can in the constraints of a global economic slowdown. We need to be investor friendly and we need new money."

Increase tax rate?

However, Lai King says he will not be surprised if the government decides to increase the tax rate for companies. Companies are sitting on a mountain of cash, and they are not investing. The government can argue there is justification for an increase.

Besides the fact that local companies are sitting on a pile of cash, secondary tax on companies has been scrapped (and replaced by dividend tax), dropping the effective tax rate for companies from 33.4% to 28%.

African National Congress (ANC) economic policy head Enoch Godongwana has already called for higher mining taxes, despite global analysts' fears that South Africa is losing even more lustre as a mining investment.

Law firm Cliffe Dekker Hofmeyr tax director Johan van der Walt says there is no doubt tax revenue targets will come under pressure, citing the trade deficit of more than R100bn for the past 10 months as one of the reasons.

"Taxpayers who are already in the tax net are under tremendous financial pressure. There is limited scope for tax rate increases. Market commentators have already referred to increased taxpayer resistance due to increased food, electricity and medical aid costs in the wake of lower salary increases."

Gordhan admitted in his medium-term budget policy statement in October that the country's economic recovery had been tepid. Investment, trade and employment growth have remained hesitant. He has revised the tax collection estimate for 2012-13 downwards, by R5bn to R821.4bn.

Deloitte's lead director of financial services and taxation, Nazrien Kader, says the government has committed itself to restoring orderly labour relations, improving living conditions for miners, investing in infrastructure, promoting special economic zones and providing support to small business, yet no one seems convinced that it will have any impact on the budget deficit for 2012-13.

"Although a case may be made in favour of a government incentive to boost investment in domestic infrastructure, there has been no major tax proposal hinting at a change in tax policy," she says.

The pressure is on the South African Revenue Service (SARS) to collect as much tax as possible. However, increased tax rates in this environment will not be popular, Kader warns, saying the focus will shift to anti-avoidance measures.

Lai King says SARS and the Treasury have done very well in stopping aggressive and unacceptable tax avoidance schemes, but warns the tax system is in danger of becoming over-complicated because of anti-avoidance measures.

"South Africa does not have an 'open for business' sign. We have highly regulated industries, but little sign of special economic zones or user-friendly tax incentives.

"The reaction to the downgrading of companies and the country by rating agencies is disappointing," he says.

"The government's attitude is that the agencies are getting it wrong, that they do not understand the country and its industries.

"We need to realise that we are not that important to the global economy. We need the world more than the world needs us," Lai King says.

Source: *Business Day* via I-Net Bridge