No room for government to cut taxes

By Helmo Preuss

9 Jan 2013

Slowing domestic growth, a shortfall in the collection of individual and company taxes and strike action in key economic sectors will prevent government introducing tax cuts to provide some economic stimulus and could leave the South African Revenue Service (SARS) having to adapt their tax collection focus in 2013, Nazrien Kader, Deloitte's national taxation service line leader said on Wednesday (9 January).

Statistics SA reported that third quarter real gross domestic product growth slowed to 1.2% quarter-on-quarter (q/q) seasonally adjusted and annualised in the third quarter from 3.4% in the second quarter, while real retail sales growth slowed to 1.0% year-on-year (y/y) in October from 4.7% y/y in September and 6.7% y/y in August.

The National Treasury said last month that personal income tax collections, which is the largest individual component of tax revenue, slowed to a 3.0% y/y increase in November from an eight month average of 9.6% y/y, while the October 2012 forecast was for a 14.2% increase in the full fiscal year that ends in March 2013.

The second largest component, namely value added tax (VAT) collections, had a 1.4% y/y decline in November, although its eight month average of 11.8% is slightly above the forecast of 9.8% for the full fiscal year.

"The pressure is on SARS to collect as much tax as possible. Given that the tax collection estimate for 2011/12 had to be adjusted downwards by R5bn and it may not be feasible to introduce more cost-cutting strategies, so government will have little option but to examine other avenues to collect tax revenues as increased tax rates in this environment will not be popular," Kader said.

"To fill the ever-widening hole in tax collections, the focus must shift to areas such as decreasing the rate of tax avoidance practices.

"Already SARS, with other tax authorities across Africa, have played a major role in pulling together tax resources on the continent to enhance trade and stem the tide of capital and tax outflows from key economies. Multinational companies have also recently come under fire for not paying what is due in-country by way of taxes," she added.

National Treasury data showed that corporate tax collections surged by 63.8% y/y in November taking the eight month average increase to 13.3% y/y, well above the 10.7% forecast increase for the full fiscal year.

"Our transfer pricing rules were recently changed to place the burden of compliance firmly on the taxpayer.

"We foresee the focus on single and simultaneous tax investigations of multinational companies in SA and between African countries continuing as part of a concerted strategy for generating additional tax collections," Kader noted.

"As SARS organises itself to deal with errant multinational companies trading cross-border, companies should begin shifting their focus away from the cost of tax compliance to effective tax risk management.

"Where companies have yet to embed tax compliance into their 'business as usual' activities, they should consider the costs of a series of reactive responses to tax investigations and weighing these against the benefits of adequate tax systems for monitoring, managing and reporting tax risks," said Kader

She added that technology and tax data management would play a pivotal role in managing tax risk in the long term and ultimately reduce the cost of tax compliance.

Kader said it was time that tax management became an integral part of "strategic thinking".

"As a country we have made significant progress in tax reform. Although modernisation and improvement of the tax system cannot be faulted, we still have some way to go with the execution of tax policies.

"This will remain our greatest challenge," Kader added.