Sars' 2017 Tax Statistics identifies "PITfalls"

By Des Kruger and Wesley Grimm

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National Treasury and the South African Revenue Service released the 10th annual edition of the tax statistics for South Africa on 12 December 2017. The document provides data on the key trends in tax revenue collections and highlights the role the tax system plays in contributing to South Africa's fiscal health and socio-economic development, specifically for the 2013 to 2016 tax years in this edition.

Personal income tax grew 9.4% for the 2016/2017 fiscal year. Personal income tax, which is usually relied on to boost revenues, grew at a slower rate than in previous years. At over 37%, personal income tax remains the largest contributor to fiscal revenue. Importantly, the document highlights that the increased individual tax rates, which commenced on 1 March 2017, may act as a disincentive for economic activity, savings and investment.

In focusing on personal income tax, in March 2017, there were 20 million individuals registered for income tax, a 4.7% increase from March 2016. The increase is attributed to the requirement that employers must register all employees as taxpayers, regardless of their tax liability. Bearing in mind that an individual earning less than R350,000 a year from a single employer, with no other sources of income and no deductions need not submit a tax return, only 6,367,627 individuals were required to submit tax returns for the 2016 tax year. Of this number, 4,800,344 returns were submitted and assessed. Those taxpayers who submitted returns had an aggregate taxable income of over R1.4 trillion and a related tax liability just short of R297 billion, with an average tax liability of R61,862 per individual. Assuming the same R61,862 average tax liability per individual, the implication of 2.6 million individuals not submitting returns is that a large potential tax liability may still be outstanding. While the number of outstanding returns does not necessarily represent tax that is due, as PAYE and provisional tax may have been paid in respect of these returns, as these outstanding returns are processed there will no doubt be additional tax that will be payable.

The document acknowledges that when the personal income tax rate increases were introduced, assumptions were made that the South African economy would remain largely unchanged. This was not the case and the "top" personal income tax bracket did not produce as much revenue as expected, due largely to job losses in managerial ranks, as well as fewer bonuses and reduced increases in salaries. They also noted a slippage in compliance among taxpayers.

The main "PITfalls" identified by the Tax Statistics document are: (i) increasing personal income tax rates in economically uncertain and depressed times will not, necessarily, result in increased tax collection rates, and (ii) there is a pressing need to address personal income tax non-compliance rates.

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