BIZCOMMUNITY

More taxes needed, but there's little wiggle room

By Patricia Williams

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The minister of finance, National Treasury and the South African Revenue Services (Sars) are facing a challenging tax revenue environment. Following the finance minister's Medium Term Budget Policy Statement on 30 October 2019, the revised tax revenue targets for the current year, 2019/2020, and subsequent two financial years, reflect a cumulative downward adjustment of R251.2bn, and budgeted expenditure is anticipated to significantly exceed revenue collections for the foreseeable future. Finance Minister, Tito Mboweni, indicated that future tax is on the cards, to mitigate the revenue shortfall.

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Within the context of several years of tax increases, there is concern around where further taxes are supposed to come from. The 1% increase in VAT from 1 April 2018 was a shock to the market, given that VAT is a regressive tax. Taxpayers are wondering what they could expect from Budget 2020, that would raise tax revenue without an undue burden on the consumer.

Taxing the wealthy without unduly burdening low- and middle-income consumers

In a paper titled *Taxing the Rich: Issues and Options*, issued on 11 September 2019, Batchelder and Kamin consider various options for taxing the wealthy. These suggestions included a high top marginal income tax rate, taxing capital gains at rates closer to or equal to income tax rates, specific wealth taxes, and financial transactions tax.

Specific application in South Africa: Budget 2020

If similar principles are applied in South Africa, we might see tax proposals such as the following potential “easy wins”:

- ### Increased capital gains tax

  Batchelder and Kamin suggest that the revenue-maximising rate for capital gains is in the range of 30%. Within South Africa, this conclusion should result in a capital gain tax inclusion rate of 100% for corporates, eliminating the difference between income and capital amounts; and an increase in the inclusion rate for individuals from 40% to 66.6%.

- ## Customs and excise taxes on alcohol: move from tax based on alcohol content to value-based tax

Many of the customs and excise taxes on alcohol are based on alcohol content. While this may be considered appropriate from a health perspective, the result is that cheaper alcohol would be subject to higher percentages of tax than more expensive alcohol (such as premium imported wines). This can result in regressive effects, in other words shifting more of the tax burden to lower income consumers, or under-taxing the wealthy on a relative basis. Value-based or ad valorem taxes would be more equitable in terms of the generally accepted objective of progressive taxes, and would raise higher taxes on premium imported alcohol.

- ## Tax on supercars or other luxury items

South Africa may consider tax on certain ultra-luxury items, for example a 10% extra tax on supercars such as in China, a tax on private jets, or boat sales and use tax on motorboats, sailboats, jet skis and motorised personal watercraft such as in several states in the United States of America.

- ## Financial transaction tax

Securities transfer tax is an existing transaction tax on shares, charged at 0.25% of value. Financial transaction tax may be extended to other financial transactions involving debt instruments and derivatives, or potentially even to commodities trading and cryptocurrency.
Apart from these tax measures that are aimed more at the wealthy, we can anticipate very little adjustment to the tax tables to compensate for inflation, to address so-called “bracket-creep”, which has recently been seen as an easy way to raise tax revenues.

Sars also has its role to play

The spotlight may be on the minister of finance during Budget 2020, but it is important to remember that Sars also has a critical role to play. Legislative change to raise taxes, without adequate enforcement activity in relation to existing tax laws, simply means that compliant taxpayers pay increasingly more tax while tax evaders get off scot-free Sars has been provided with a R1bn grant from National Treasury to rebuild capacity, and taxpayers are expecting to see the pay-off in the form of increased tax revenue collections from a firm but fair revenue authority.

ABOUT THE AUTHOR

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