

29 October 2018

Mr Allan Wicomb
Parliamentary Standing Committee of Finance
3rd Floor
90 Plein Street
Cape Town
8001

By e-mail: Allan Wicomb, SCoF (awicomb@parliament.gov.za)

Dear Sir

COMMENTS ON THE 2018 MEDIUM TERM BUDGET POLICY STATEMENT (MTBPS)

1. We set out below our comments and submissions on the 2018 MTBPS on behalf of the South African Institute of Chartered Accountants' (SAICA) National Tax Committee.
2. We once again thank the Standing Committee of Finance (SCoF) for the ongoing opportunity to provide constructive comments in this regard. SAICA continues to believe that a collaborative approach is best suited in seeking actual solutions to complex challenges.

Meeting market expectation

3. The purpose of the MTPS was described by National Treasury in 1997 as follows (own emphasis):

"What is the Budget Policy Statement? This Medium Term Budget Policy Statement sets out the policy framework for the coming budget. It describes Government's goals and objectives. It explains the economic environment within which those objectives are being addressed, and projects the total level of resources that will be available. The Policy Statement analyses the trade-offs and choices that the nation confronts in addressing its reconstruction and development priorities. The Medium Term Budget Policy Statement is an important step forward in the budget process. In keeping with our commitment to open, transparent and cooperative policy-making, it invites the nation to share with Government the important choices that must be made."

4. So, as can be seen from the above statement, rather than just being a progress report for the current year's budget, the MTBPS is a critical factor in informing the following year's budget.
5. In this regard, the new Minister of Finance must be commended for not only acknowledging the problems with the fiscal and economic landscape but also for identifying specific matters. In fact, prior to the 2018 MTBPS he made the most



appropriate observation in that things cannot continue as in the past, a “new fiscal dawn” so to speak was needed, especially given that South Africa has experienced two successive quarters of a technical recession while the rest of the world is growing.

6. Therefore, it was common cause that much was expected from the 2018 MTBPS and the budget framework in creating this “new fiscal dawn”.
7. However, an outstanding presentation by the Minister could not hide the reality of the detail that, in fact, nothing had changed from the policy of the last ten years and no real additional plans to address the common cause challenges had been presented.
8. This was reflected by the fact that by the end of the Minister’s speech the currency had declined by 2,2% and by the end of the week Moody’s had issued a media release that the economic outlook after the 2018 MTBPS was credit negative.
9. The reality of declining revenues and tax buoyancy, coupled with growing deficits and debt, together with merely a hope of future economic growth has been an all-too-familiar fiscal policy that has not worked in the last decade.
10. It is submitted that the market and the country expected, as the Minister noted, a dramatic change which, at a very minimum, set definitive fiscal boundaries to prove that government will seek to enforce fiscal discipline.
11. In this regard, the market expectation was as a minimum:
 - 11.1 Government would set an absolute threshold for public debt that it would not exceed;
 - 11.2 Government would set an absolute threshold for the deficit that it would not exceed;
 - 11.3 Government would seek to apply tougher spending austerity measures in the Budget should the budgeted revenue not materialise.
12. In addition, the President and the Minister’s seemingly tough stance on procurement transgression and lack of accountability by departments and State Owned Entities’ (SOE’s) senior staff, as reported by the Auditor General, created an expectation that detailed proposals would be made regarding how to address this challenge to hold people fully accountable. Unfortunately, this was not forthcoming.
13. Lastly, the Minister again acknowledged the looming crisis of the growing salary bill but provided no detailed concrete proposals to address the public wage bill which again has exceeded the budget by R30 billion over three years, notwithstanding prior undertakings to address this. However, the Minister must be congratulated for expanding transparency on the public sector employment and wages and we hope that even more consolidated detail will be forthcoming in future.
14. The anomalies of very high wage increases over the last decade (i.e. in excess of CPIX +3%) and the highly distorted public sector employment numbers, in especially KZN and the Eastern Cape, are however very evident.

15. Submission: The perilous position in which South Africa's finances finds itself requires "a new dawn" and new approach of fiscal discipline, effective spending, public sector austerity and private sector tax morality.
16. We will be heading towards a precipice if we don't start addressing these challenges in Budget 2019, and rather dare ignore the market at our own peril and the ultimate cost of future downgrades.
17. We hope that SCoF will prevail upon National Treasury to seek a new path and solutions in collaboration with business and civil society, as we will all face the fallout irrespective of race, economic class or political affiliation, should the "new dawn" fail to materialise.

SARS tax refunds and pre-collection practices

18. The downward adjustment by R20 billion for VAT refunds represents "chickens coming home to roost" as this off-balance sheet financing, so questionably obtained, unwinds and is brought on balance sheet by being sovereign debt funded.
19. This has been the major contributor to the R22 billion upward budget deficit forecast and has resulted in a material overstatement of the tax base and the illusion of a higher tax buoyancy (as reflected in the significant downward forecast adjustments).
20. What is of greater concern is that this is only one of the SARS' revenue activation measures that is being addressed.
21. Other concerns remain, including the fact that the income tax credit book has grown to R29 billion in 2017/18 from R14 billion in 2014/15, suggesting that income tax refunds have also been held back in recent years.
22. There is also the issue of SARS having pre-collected PAYE and VAT (from SOEs in particular) in March of each year, which were only due for payment in April. If all of that had to be unwound, the impact on the deficit would be even more disastrous.
23. In part, the problem has further been fuelled by allowing SARS, since April 2012 (i.e. the date that the Accounting Standards Board set for implementation) to defer the full implementation of accrual based accountancy (Generally Recognised Accounting Practice) and in most part retain the current modified cash basis, to what we understand is 2022. The latter is especially subject to manipulation, given that tax is collected on a pay-now-argue-later basis and provisional payments, i.e. SARS is in possession of cash that is not legally its own to retain as revenue.

24. Submission: We submit that SCoF should require SARS to explain the observed anomalies on other tax refunds and pre-collections, besides VAT. Importantly, SARS should also confirm whether the fiscus may face further downward revisions in revenue if these off-book debt practices are confirmed, and the extent thereof.
25. Furthermore, it is submitted that SCoF should enquire from SARS why it has been unable to implement GRAP fully and why it would take a decade to do so.

Known unknowns

26. The Minister has acknowledged both the fiscal exposure of SOEs, failing municipalities and the CAPEX backlog (i.e. roads, rail, sanitation, water, electricity and telecommunications).
27. However, what has been unnerving for the market and foreign investors is that we don't seem to know exactly what the actual estimated financial exposure is, other than being very large.
28. Submission: It is submitted that National Treasury, together with Departments, SOEs and municipalities should be requested to compile a holistic financial exposure over the short and medium term in respect of these matters, irrespective of which entity is responsible for a particular part, so that proper and informed solutions can be sought in collaboration with business and civil society.

Rebuilding SARS

29. The ongoing Nugent Inquiry continues to reveal the devastation that has occurred at SARS in the last few years in respect of human resource capacity (SARS staff down to 12 801 in 2017/2018 from 14 780 in 2012/2013 and declining), staff morale and even IT and analytical systems infrastructure.
30. We worryingly note that the SARS 2017/2018 annual report attributes the reduction in SARS' costs from 1,03% ('2012/2013) of collections to 0.83% (2017/2018) to efficiencies and not loss of nearly 2000 staff and under investment in IT.
31. The recent Acting SARS Commissioner's apology to taxpayers for the of SARS' negative impact on them was also perceived to be genuine and we expect buy-in from SARS' officials in rebuilding the public trust in SARS.
32. The Minister is applauded for both acknowledging the challenges we now face at SARS but also budgeting for additional financial support of R1,4 billion to start rebuilding SARS.
33. To this extent we hope that the SCoF, the Minister and the President will acknowledge that it can't be "business as usual" at SARS and that checks and balances need to be introduced to avoid such a scenario recurring in future.
34. SAICA and many other civil society organisations have made submissions and proposals on governance structures at SARS, which also recognise civil society as a stakeholder and invariably voluntary compliance is the best form of compliance. We sincerely hope that these proposals will be considered and implemented once the final report and recommendations are submitted to the President by the Nugent Inquiry.
35. However, none of this rebuilding can be effected without a firm foundation of a permanent Commissioner of SARS.



36. Acting Commissioner Kingon has been doing a good job in rebuilding SARS, correcting the wrongs of the past in taxpayer relations but also ensuring that the disruptions are not exploited.

37. However, this becomes an impossible task without a permanent Commissioner, which SARS has already been without for six months, to create the permanent and far-reaching structural changes required.

38. Submission: SAICA submits that the SCoF should enquire from the Executive what they intend to do to remedy the situation of appointing a permanent SARS Commissioner with the required urgency and in the interests of the country as a whole.

39. The content of the Constitutional Court judgement in *Masetlha v President of the Republic of South Africa and Another* (CCT 01/07) [2007] ZACC 20; 2008 (1) SA 566 (CC); 2008 (1) BCLR 1 (3 October 2007) is also noted regarding the appointment and dismissal of Presidential appointees, which ironically has been used in relation to the appointment of Finance Ministers in the last decade.

Yours sincerely

Tracy Brophy

Pieter Faber

CHAIRPERSON: National Tax Committee

SENIOR EXECUTIVE: Tax