

Can one per cent increase in VAT solve government's hunger for funding?

Introduction

In his State of the Nation Address on 9 February 2017, President Zuma addressed among others the issue of government's role in stimulating economic growth. It is still not clear how the national budget would provide the funds to reach all the stated goals in terms of transforming the economy. In this article we look at tax as an option, and specifically focus on VAT. We reflect on how VAT could play a role in spreading the burden of financing measures to stimulate growth, while freeing up the South African economy and reducing red tape for small and medium enterprises (SMEs).

Increase the VAT rate

The South African VAT rate is completely out of sync with the rest of the world. Government has to find the political will to increase the VAT rate. A one percent increase in the rate will go a long way towards solving government's hunger for funding, and is unlikely to have a significant impact on the cost of living for the average South African consumer.

Increase the VAT registration threshold

The Davis Tax Committee expressed the view that the current compulsory VAT registration threshold of R1 million compares favourably to international standards. However, it is important to keep in mind that this view was based on conditions at a particular point in time, and cannot be treated as an on-going governing principle. The findings of the Davis committee should therefore be reassessed periodically, and consider changing circumstances such as the impact of the consistent weakening of the South African currency against global currencies.

I may now be the time for government to take a bold step and increase the compulsory VAT registration threshold to R5 million. This will assist SMEs, and greatly reduce SARS' operational burden if there are fewer VAT-registered vendors.

Assist SMEs with cash flow

Currently SMEs trading as sole traders and whose annual sales are less than R2.5 million, may register on the *payments* basis of VAT, as opposed to the *invoice* basis for VAT that applies to SMEs operating as close corporations or proprietary companies. (VAT for sole traders is only accounted for at SARS once cash flow in respect of transactions has reached the R2.5 million level.)

In this context, government should extend the use of the payments basis to all SMEs and increase the level of participation to R5 million, irrespective of whether they are registered as sole traders, close corporations, or companies. More red tape could be removed by increasing the level of participation to R5 million, and extending the use of the payments basis to companies.



Funding education

President Zuma announced that R32 billion would be set aside during the 2016/17 tax year to support education (and specifically mentioning tertiary education). He also remarked that 'we will find the money.' How would the Minister of Finance potentially address this challenge?

One option is to zero-rate educational services, and thereby unlock those input tax deductions to which educational institutions are currently not entitled. Will this solve the problem? Probably not, but it could be a meaningful start.

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