Media Release

2020 Budget Predictions: Tickle on Tax

Johannesburg, 13 February 2020 – *As we approach Budget Speech Day on 26 February 2020, many people are wondering what kind of rabbit Finance Minister Tito Mboweni is going to pull out of his hat this year, writes Deborah Tickle, SAICA National Tax Operations Committee member and Adjunct Associate Professor at the University of Cape Town.*

Most commentators will talk about 'bracket-creep', sin taxes and an increase of 1% to the VAT rate. But the Minister needs to start becoming a little more creative.

'Bracket creep' is the concept whereby the table which sets out the tax rates should be adjusted for inflation, but is not adjusted. The effect is that the person's real after-tax cash income (assuming an inflationary increase in income (wages etc.)) has less buying power than the prior year. This approach has been taken for a number of years now, such that we now see that South Africans start to be taxed at 18% for each Rand exceeding R79 000 (for 2020), which is quite low in comparison to many other countries. In the UK, for example, people only start paying tax on each British Pound exceeding GBP11 000 (approximately R215 000). In SA the table has a lot more 'brackets' than the UK and the climb in rates is steep so that by the time a person is earning more than R1.5 million, every Rand exceeding that amount is taxed at 45%. This level is only reached at the Pound equivalent of around R2.9 million in the UK. Thus, South Africans who have taxable income of more than R79 000, are taxed more heavily relative to their foreign counterparts and the failure to address 'bracket creep' means that income earning South Africans become poorer each year.

This approach has been considered a necessity because there are so few people actually paying personal tax in South Africa. The 2019 tax statistics tables show that in 2018 there were 21.1 million (19.9 million in 2017) people registered to pay personal tax, of which only 6.52 million were expected to actually pay any tax. The tax statistics show that in the 2017 year, just 249 599 people paid R162.8 billion in tax which amounted to 58% of all personal taxes paid. This in a country with over 58 million people and almost 18 million people receiving government grants.

Against this background we need to realise that we need to look after our 6,5 million individual taxpayers as they fund a significant portion of our public goods. Unfortunately, in an environment where public trust in government is very low due to unfulfilled promises to address irregular and wasteful expenditure, they are becoming tired of bearing this burden. The auditor-general report in 2019 showed yet another year where wasteful and irregular expenditure increased. Consequently, many are engaging in a form of 'tax revolt' by deciding to do easier or less work that results in less tax, leaving the country, or engaging in tax evasion … not a good space for any country to be in. Thus, although it is likely to happen, not addressing the 'bracket creep' is a dangerous road for our government to go down.

Sin taxes (taxes on alcohol and cigarettes) are always a good target for the taxman and it is inevitable that there will be increases in the taxes on these vices. However, they will not fill the gap.

VAT is paid by everyone as it is levied when people purchase goods and services (other than those few that are zero rated). However, it has to be accepted that those with more money are likely to spend more and thus contribute the most to this tax category i.e. the same group of people already paying a lot of money to the government through personal income taxes. Thus, although an increase in VAT to 16% would provide a nice boost to the revenue coffers (it is estimated a further R15 billion to R16 billion, assuming the economy doesn't dip further as a consequence as people's belts get tightened even further) such an increase would be very unpopular as it would again result in working people effectively becoming poorer.

So, what other alternatives are there that can be immediately acted upon? For the man on the street, the best solution is to immediately and drastically cut government expenditure where it is wasteful or not really needed and then to adopt and implement a clear policy for economic growth. Our Finance Minister has already tabled the needed actions which, although unpopular, could ultimately result in growth, jobs creation and a consequent increase in the number of people paying tax, which could subsequently alleviate poverty. Sadly, these necessary actions seem to have fallen on deaf ears.

So, what other rabbits could our Finance Minister pull out of his hat? One option would be to re-impose a form of retirement funds tax (RFT). Such a tax was previously in place from 1996 to 2007 when it was raising around R7 billion. Tax was also raised when dividends were paid to retirement funds up until 2012, but this is no longer happening, although it raised around R5 billion per annum. Although the removal of these taxes was well argued due to the need to incentivise retirement savings, perhaps their reintroduction would help to simply level the playing field between people who save through retirement funds and those who invest directly into shares and unit trusts, etc. And such taxes would be more palatable than the 'prescribed assets' suggestion government keeps talking about but knows is untenable for trustees of such funds if the monies are to be used to prop up flailing State Owned Enterprises.

Another option could be to impose an undistributed profits tax. Again, such taxes have existed in the past. However, their effect is to force distribution of monies that companies may well need if the certainty and business confidence eventually comes for them to proceed with investment in the future.

Finally, the bandied about term 'wealth taxes' might leave our Minister's lips on Budget Day. This would be a huge mistake as its only benefit would be to sound good from a political point of view. We have wealth taxes – estate duty, donations tax, property transfer tax and securities transfer tax – which yield around R15 billion per annum. The studies show that any new wealth tax (an 'annual wealth tax' is generally suggested to replace these) would come with the risk that less would be collected at greater cost.

As always, the day is likely to be full of surprises. They need to be good ones this year if our country is to stop its downward trajectory.

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