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Submission File

3 November 2022

Mr Wicomb and Ms Sepanya
Parliamentary Standing Committee on Finance
90 Plein Street
Cape Town
8001

Mr Mangweni
Parliamentary Select Committee on Finance
90 Plein Street
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Dear Sirs and Madam

SUMMARY OF SAICA'S COMMENTS ON THE 2022 MEDIUM TERM BUDGET POLICY STATEMENT (MTBPS)

We present below a summary of the South African Institute of Chartered Accountants' (SAICA) National Tax Committee on the Medium-Term Budget Policy Statement (MTBPS) released by Minister Enoch Godongwana on 26 October 2022.

We once again thank the Standing and Select Committees on Finance for the ongoing opportunity to provide constructive comments in this regard. SAICA continues to believe that a collaborative approach is best suited in seeking solutions to complex challenges.

Yours sincerely

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1. **We applaud** the fact that no further tax increases are proposed and that SARS will be allocated more funding over the medium term. Other initiatives such as the move to a single remuneration framework, the approval of the “Framework for professionalizing public sector”, the funding framework and enforcement of minimum criteria for state guarantees and the strengthening of National Treasury’s early warning system to improve oversight and timely assistance for municipalities are also welcomed.
2. However, despite all these initiatives (some of which we fear are being implemented too late), the **credibility of the budget is in question**. This is evidenced by **revenue predictions** that are growing despite weak (and declining) economic growth and worsening tax buoyancy ratios. Even the SARS Commissioner stated that these estimates are steep and the MTBPS documentation also admits that there is significant uncertainty associated with these projections which could lead to significant downward revisions and put the fiscal strategy under pressure.
3. Submission: National Treasury (NT) should provide Parliament with evidence of their research proving that breaching the 25% tax-to-GDP level will not result in the fiscal policy becoming detrimental to the economy.
4. The lack of credibility is also reflected on the expenditure side, with the consistent **breaches of the expenditure ceilings**. NT has noted that the expenditure ceilings are too weak and it is considering various approaches to safeguard fiscal sustainability and limit excessive deficits, for example, debt ceiling, expenditure or revenue rule.
5. Submission: NT should be requested to provide regular feedback on its research on the most appropriate model/policy to safeguard the country’s fiscal stability.
6. **Unbudgeted items remain a significant risk** to the credibility of the budget. SAICA noted these in its 2022 Budget Review and Appropriations Bill submissions and these included: SoEs contingent liabilities that are fast becoming government debt, financial support for *municipalities* that are in a precarious financial health situation, costs to fix the dilapidated water and sanitation infrastructure, costs needed to appoint 12 000 new police recruits as promised by the President in the 2022 SONA as inflation will erode the increases given to the Police Department in the 2022 Budget, IRBA’s financing needs and the potential underfunding of the long-term funding requirements of the GEPF.
7. The latest known unbudgeted expenses are the **Eskom debt** that will be taken over by the government (+/-R200 billion) as well as the wage increases for 2023/24. The **increase in wages** of 3.1% for the medium term is insufficient considering the unions’ current demands of between 6% to 10%.
8. Submission: The budget should be adjusted to cater for at least a realistic estimate of the above matters. Furthermore, professionalising the public sector should be expedited



so that the **structural mix** as well as **individual performance management** can start being addressed.

9. Regarding the SoEs, NT should be requested to prepare a **risk-based schedule of all guarantees** with a reasonable estimate of risk realization in the medium term and PPP's should be escalated. The **R479 billion accumulated deficit** of the **Road Accident Fund** needs urgent attention.

10. The **MOST SERIOUS RISK** to the budget is, however, the inevitable **grey listing by FATF**. This has not been factored in at all, yet it will have a profound effect on the budget and cash reserves in the National Revenue Fund that are already decreasing rapidly.

11. Submission: The budget should have at least prioritised **immediate allocations** to departments/entities tasked with enforcing the law, such as to the NPA for instance, by allocating R1.7bn from the "VIP unit" budget.
12. Parliament should review its committee mandate concerning the separation between SCoF, SCoA and SCoPA to ensure that oversight obligations don't fall in-between the cracks and that Parliament is effective as a single collective arm of government.