Let's be as prudent with this Budget as consumers are with their household budget

By Hannes van den Berg

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Winston Churchill, controversial as he may be, was ever quick with the soundbite. He once famously said that "for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle."

Source: Supplied. Hannes van den Berg, chief executive officer at Consult by Momentum.

While the South African Revenue Service (Sars) may be proudly touting its improved tax-revenue collection figures thanks to new measures designed to get errant citizens into line, we should be wary of the threat that disillusioned taxpayers pose to South Africa's economic progress.

To boost tax-revenue collection that was falling up until a few short months ago, units were initiated to tackle possible leakages in the tax affairs of high-net-worth individuals (HNWI) and corporates. Sars commissioner, Edward Kieswetter's approach was more carrot than stick; instead of wagging a finger, he curled it in invitation, beckoning consumers to share their tax affairs with Sars in an 'open cards' gambit that is now starting to pay dividends.

We're also seeing Sars taking no prisoners when it comes to indirect tax loopholes in the system, such as the sale of cigarettes produced outside the country. Our value-added tax (VAT) system is both proven and strong.

While Kieswetter has said that Sars' main objective is to improve administration competence and not increase the burden on taxpayers, it seems to have its eye set on those who are looking to move abroad, becoming far more stringent in its legislation concerning assets leaving the country. Sars has also made clear its intention to identify more 'low-hanging fruit' to bolster its coffers, through auditing cases of 'unexplained wealth'.

So perhaps think twice about sharing your fancy new ride on social media if you don't have your tax affairs in order.

The question is, will these measures prove to be sustainable? Particularly given the fact that South Africans, who face mounting pressure – load shedding, unemployment, escalating food and fuel costs and lack of service delivery, to name but a few – are becoming increasingly frustrated.

Standard Bank's chief economist: Emigration is a budding threat to South Africa's public finances
Katja Hamilton 9 Feb 2023

The Laffer Curve is an economic construct that illustrates that as tax levels rise, they eventually hit a tipping point before taxation starts to reduce the total value of tax revenue collected (either through evasion or avoidance). Are we approaching this point?

When it comes to SA's tax-to-GDP rate (which is expected to hit 25% in 2022/2023) and the country's growing tax revenue, the South African Institute of Chartered Accountants (SAICA) was last year reported as saying that "high tax-to-GDP ratio is not a problem where taxpayers are receiving good value for their money; however, this is not a reality currently in South Africa."

So while our tax rate might be on par with many other developing countries, people will always feel that they are paying too much if they're not seeing this value. Moreover, due to rising unemployment, our taxpayers face a high tax burden, which is to say that a small pool is responsible for driving the country.

While a tax revolt is unlikely (simply because employers are mandated to deduct taxes from salaries before they are paid over to employees), we may see emigration increase. While Kieswetter did not appear too concerned about the 6,000 odd taxpayers that left the country, this pool will continue to grow. And with the majority being young professionals, they might very well go on to become high-earners – which means a loss for SA.

Emigration of high earners problematic

Ultimately, the higher the tax-to-GDP ratio, the slower our country's progress. We want to see people becoming richer and having more disposable income to spend. This is what speeds up economic growth.

This year's Budget Speech will again be a balancing act. We will continue with the social relief of distress grant, which will need to be funded from somewhere. Given the pressure on consumers, this is unlikely to be in the form of personal income tax or corporate tax, and so the shortfall will probably be made up through indirect and sin taxes.

The minister must show how funds will be allocated to address unemployment, and South Africa will be watching to see exactly how the country plans to double down on crime, which, if successful, would no doubt boost our tourism.

Given our current energy crisis and concerns around water supply, our local green economy will be an interesting one to watch this year, with the President indicating that tax breaks would be implemented to encourage people to invest in solar.

"With a view to addressing the load shedding crisis, we are going to proceed with the roll-out of rooftop solar panels. In his Budget Speech, the Minister of Finance will outline how households will be assisted and how businesses will be able to benefit from a tax incentive," promised President Ramaphosa at the State of the Nation address.

Ultimately, money is scarce and needs to be spent wisely. Consumers are expecting their hard-earned taxes to be spent with as much prudence in this Budget as they do with their own, dwindling household budget.

ABOUT THE AUTHOR

Hannes van den Berg is the chief executive officer at Consult by Momentum.