Tax hike risk: Don't do it, Mr Finance Minister!

By Jurgen Eckmann

19 Feb 2024

If this year's State of the National (Sona) address was more of an election manifesto rather than an X-ray of our nation that would provide a black-and-white picture of the policies needed to address our nation's many challenges, then our finance minister has just received the proverbial "hospital pass".

Source: Supplied. Jurgen Eckmann, wealth manager at Consult by Momentum.

What makes his challenge even more difficult is the current financial state of the country.

Credit-rating agencies Moody's and Standard and Poor's have slowly downgraded South Africa over the years, with an uninspiring outlook of 'stable to negative'.

Higher fiscal expenditure, dwindling tax revenue and spiralling government debt have led to a deficit of 6% of GDP – the highest in two years (December 2023). Unemployment, crime and interest rates remain stratospheric, while a functioning logistics system, secure water supply and uninterrupted power are starting to feel as likely as Trevor Noah returning to live in SA.

Now, couple this dismal fiscal position with the proposed NHI Bill and the promise of a continued social grant (which together, will cost the country billions if not trillions) and you need to ask yourself, where will Finance Minister Enoch Godongwana find the money?

This year, there's no commodity windfall to save our hide. This means that the finance minister will be forced to either cut social, state and infrastructural expenditure (bad news in election year, and unlikely, given the President's promises at Sona); increase taxes (which has its own implications); or a combination of both.

How likely is a tax rate hike in either personal income tax (PIT), value-added tax (VAT) or corporate income tax (CIT)? I believe we're unlikely to see a hike in VAT or CIT in an election year, and the fact that CIT was recently reduced to stimulate business growth means that we probably won't see it increased again soon.

And personal income tax? Well, considering that October 2023's Medium Term Budget Policy Statement (MTBPS) indicated that an additional R15bn in taxes would need to be found – and taking into account that at that point in time, the deficit was anticipated to hover around 4,9% rather than the 6% it landed on in December – we're on high alert status.

Taxpayer base strain

According to fiscal 2021/2022 figures, government derives the bulk (35.5%) of its tax revenue through PIT, followed by VAT at 25%, and CIT at 20.7%. That same year, the number of individuals registered for income tax was 24,8 million, or 62% of the "working-age" population (40 million people). And these 24,8 million individuals are supporting a total population of around 60 million people, meaning that 41% of the population is supporting the country.

Taxpayers are already under extreme pressure and are reluctant to shoulder any further burden (especially when they feel there's little to show for it), and this has played a role in the increased immigration of the wealthy, who are significant contributors to tax revenue.

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This has severe implications for us as a country: not only does a diminishing taxpayer base mean less revenue to fund important social and physical infrastructure, but it also means an exodus of critical skills needed to stimulate the economy.

Increasing the burden on taxpayers is not the answer.

Having said this, government knows that taxpayers are under pressure, and can ill afford an increase to their personal income tax, as the finance minister acknowledged in the last MTBPS.

So what can be done? I believe there are a few things the minister should consider:

- **Boost tax collection efficiency:** Instead of increasing personal income tax, focus on boosting revenue collection efficiency. Employ the new technologies at his disposal. Enable VAT returns on e-filing; make it easy for businesses to file their returns. Consider voluntary disclosures for previous tax errors without penalty. Look at improving the systems already in place, to bump up revenue collection.

- **Innovative financing models:** Planning, installing and financing infrastructure by pricing it at marginal costs or even on a loss-making basis with returns covered through the taxation system is one option.

  Another is partnering with the private sector to offer tax incentives to individuals and companies, opening a wide net on the current taxpayer base to provide funding for critical areas such as energy and water security.

  The president mentioned at Sona that the country had doubled its rooftop solar capacity in the past year, largely thanks to the solar tax incentive. Take the learnings from this success, and roll out tax incentives more widely.

- **Shift from 'spending' to 'generating':** Government needs to pivot its focus from 'spending' to 'generating' revenue. How? By shaping policies that are geared towards economic expansion by focusing on job creation and proactive healthcare models such as incentivised wellness programmes.

  I firmly believe that if their focus shifts towards incentivised employment and wellness opportunities, this would result in a more stable economy with a happier, healthier and employed population.

ABOUT THE AUTHOR

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