Business Day

SA’s rich ‘likely to bear brunt of expected tax increases’

by Ntsakisi Maswanganyi , 29 January 2015, 05:53

HAVING already announced a raft of austerity measures five months into his position, Finance Minister Nhlanhla Nene now has to consider raising taxes, particularly on luxury goods and capital gains.

Mr Nene is due to present his budget on February 25, with a likely budget deficit of about 4% for this financial year leaving the government with little room for manoeuvre.

Kay Walsh, lead economic advisor at professional services company Deloitte, said on Wednesday that any tax increases were likely to be targeted at the wealthy rather than the poor and middle class.

Mr Nene is expected to consider input from the Davis tax committee that the government set up to investigate tax policy and how it can be reformed to facilitate economic growth.

"Our feeling is something around capital gains tax and luxury taxes," said Ms Walsh, who was among panellists at Deloitte’s pre-budget presentation on Wednesday. Treasury was unlikely to increase value added tax (VAT) as that would affect the poor.

The government needs to raise at least R27bn in additional tax revenue over the next three fiscal years, or about R9bn each year.

SA has an estimated 2,900 high net worth individuals — those whose annual gross income is R7m or more, or whose gross wealth is R75m or more.

The Davis tax committee has so far only released an interim report on base erosion and profit sharing for public comment. Although Deloitte does not expect any changes to VAT, it estimates that this tax category would have to increase from 14% to 14.5% to raise the R9bn.

A 3% increase in personal income taxes would be required to raise the R9bn. Personal income taxes were the main source of government revenue last year.

Industry players have speculated about an increase in mining taxes. But Deloitte did not expect Mr Nene to introduce any new taxes in the sector or increase any of the existing ones. The mining industry is reeling from weak demand and lower commodity prices.

The government also wants to cut costs and has its wage bill in its sights with the planned freeze on posts and a review of funding for vacant positions. The annual public service wage bill now stands at more than R400bn.

The Financial and Fiscal Commission said last year the government needed to attain moderate growth of the wage bill in order to ensure fiscal stability. Wage increases should be linked to productivity and pay scales standardised to achieve fairness in the public officials' earnings.

Mr Nene is also expected to look at resolving inefficiencies within the government as way of cutting costs. Equipping finance staff, particularly in municipalities, with skills and linking pay to performance could help with enhancing efficiency.

Deloitte public sector leader Nazeer Essop said creating jobs, particularly for the youth, could help ease their dependence on social grants and save government billions of rands.

SA needs to bring its high budget deficit down as it compromises the government's ability to spend on service delivery and forces it to borrow more. The deficit is forecast to narrow gradually in coming years and to reach 2.5% by the 2017-18 year, aided by higher economic growth and more employed people contributing towards taxes.

Barclays Africa economist Peter Worthington said earlier this month he was confident the government would meet deficit targets given its resolute commitment to "fiscal discipline".

But Ms Walsh warned of a "tough year" ahead. This would mainly be a result of the negative effect power outages would have on production.

"The consumer side of the economy is growing very sluggishly and on the producer side they are really being hard hit by load shedding which unfortunately is not going to be short term this time around," Ms Walsh said.

Power provider Eskom has implemented load shedding since Monday.

http://www.bdlive.co.za/economy/2015/01/29/sas-rich-likely-to-bear-brunt-of-expected-tax-increases