

Constitution could allow provinces a surcharge on personal taxes

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THE financial and fiscal commission expects the final constitution to be changed to give the provinces power to raise revenue — paving the way for a small provincial surcharge on personal income taxes.

The surcharge would, to start off with, add a few percentage points to the national tax rate.

Commission chairman Murphy Morobe said yesterday he expected a favourable response to submissions

made to the Constitutional Assembly calling for provinces to be given the power to levy a surcharge on personal income tax.

The commission made the submissions after the draft final constitution had specifically outlawed such a move, along with corporate tax, VAT, fuel levies and customs and excise duties at a provincial level.

The commission placed a major emphasis on accountability in its submission. It argued that the only way to compel provinces to become account-

able for their actions was to make them less dependent on finance from central government. If the current system continued, they would become unsustainable as viable political and economic entities. "They will have all the paraphernalia of political entities but merely be spending agencies of national government," the commission said.

The maximum surcharge had to be limited to a few percentage points, which would initially be added to the national tax rate. Central government should set a band of, say, two to five

percentage points on the tax base — and the provinces could choose within those tight constraints.

Central government should initially not raise less tax to compensate for the provinces raising some tax because that would shrink the revenue pool available to the poorer provinces. The surcharge had to be kept to only a few percentage points to prevent people — especially the rich — from moving between provinces. It should be levied at a flat rate on the tax base.

"With the future in mind, when

provincial disparities have been reduced, the use of surcharges should be encouraged and entrenched," the commission said.

Provincial taxation powers had to be spelled out in an Act, which finance sources said could take more than a year to set up after the finalisation of the constitution.

The commission noted that the departments of finance and state expenditure, the commissioner for inland revenue and the provinces had not objected to the proposal.