

New tax threat to pay packets

By **PATRICK CULL**, Political Correspondent

CAPE TOWN — Provincial governments should have the power to impose a surcharge on the taxable income of individuals.

This shock proposal has been made to the Constitutional Assembly by the influential Finance and Fiscal Commission.

If accepted, it is estimated a one percentage point surcharge on all pay packets could net the nine provinces a total of R2-billion a year.

A uniform five percentage point surcharge would net R10-billion but this would not be spread evenly across the nine provinces, because some are more wealthy than others.

The commission states there has been "general acceptance" of the principle of provincial surcharges after numerous discussions with various parties.

These included the Finance Ministry, the Finance and State Expenditure departments, Inland Revenue, and the provinces. None had raised any objection to the recommendation that such surcharges be permitted.

The recommendation must now be debated by the Constitutional Assembly, which will decide whether it should be included in the next constitution.

The CA will also decide when such a provision should come into force if it is accepted.

The new constitution is due to be finalised by May 9.

The commission recommends the maximum surcharge should be "limited to a few percentage points".

This would keep maximum rates "within acceptable limits", and not dissuade people, especially the rich, from living in particular provinces.

The commission notes in its submission that provinces' own revenues on average are about five per cent of total revenues "leaving them almost totally dependent on national transfers.

"If provinces are not provided with the potential to raise a greater proportion of their own revenues, they become unsustainable as viable political and economic entities and remain unaccountable for their activities.

"They will have all the paraphernalia of political entities but merely be spending agencies of national government."

The “simplest and most cost effective” way to achieve a “reasonable measure of accountability is to allow provinces to choose a rate or a surcharge on personal income tax”. The commission says provincial surcharges would be controlled by national legislation to prevent provinces from undermining national economic conditions.

The national legislation would impose a maximum “surcharge band” – suggested at between two and five Percentage points – for all provinces.