

Commission to probe 'past-era' council levies

Greta Steyn

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THE Financial and Fiscal Commission is to investigate the feasibility of continuing with the R1,8bn payroll and turnover taxes businesses pay in Regional Services Council levies.

Commission chairman Murphy Morobe said yesterday it would respond to the parliamentary finance committee's call for an urgent investigation. He said: "RSC levies belong to a past era and the question is whether they are appropriate in the new dispensation. Many believe the resource is there and should be used, but at which level of government?"

It is understood the provinces want to get their hands on the revenue. At present the new metropolitan councils are still collecting the taxes, which were implemented at a low rate — less than 1% of companies' turnover and payrolls — in 1987. Morobe said the commission's preliminary finding was that the levies were detrimental to economic activity. They were only justifiable because of the difficulties in finding appropriate local government revenue sources, and the fact that they were levied at a very low rate. "One of the major considerations when looking at the taxes is economic — the disincentive effects."

He said interaction between the commission and the Katz commission would increase now that there was greater urgency to resolve revenue issues at the lower levels of government.

The Katz commission called for an investigation into the RSC levies.

The parliamentary standing committee, in its report on tax reform, called on the financial and fiscal commission to investigate urgently the collection of RSC levies, their allocation and their appropriateness to the new local government system. "The distortionary effects on other areas of taxation and the possible disincentive that could arise from increased rates of such levies needs to be borne in mind," the committee said. It called on the commission to evaluate how efficiently the levies were being allocated.

It called for an immediate prohibition on the use of private agents to collect the levies on a commission basis to prevent abuse. This followed submissions from businesses which objected to tax collection by private agents. According to the submissions, private tax collectors were not bound by the secrecy provision of the Income Tax Act and the use of commissions could lead to unscrupulous tactics. Other submissions objected to the existence of the levies because they were not based on profits. This was particularly unacceptable to mines which could not pass on the cost to customers.

Katz commission member Dennis Davis has said the levies could be unconstitutional and although they bring in R1,8bn a year, no-one seems to know what is being done with the money. He believes the tax should be implemented at provincial level or scrapped.