FIN24

Raising taxes won't help the fiscus, parliament hears

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Further tax hikes will not be helpful in raising revenue, as intended, the Financial Fiscal Commission warned.

The commission, which is a constitutional body that advises all organs of state on economic, financial and fiscal matters, on Tuesday briefed Parliament's committees in finance and appropriations on its analysis on the medium-term budget policy statement.

The policy statement was tabled in Parliament last week by Finance Minister Tito Mboweni. Treasury projects a revenue shortfall of R53bn and national debt is expected to breach 70% of GDP by 2022/23.

Treasury said it was considering additional tax measures to boost tax revenue.

However, FFC researcher Nomfundo Vacu told members of Parliament that the scope of increasing government revenue by raising taxes is "shrinking". "More tax hikes are most likely to impact negatively on the economy's performance and hence on revenue collection, as consumers are forced to economise their purchases," Vacu said.

Additional increases in the marginal tax rates of personal income tax are unlikely to be fruitful in improving revenue collection too, she said. In fact, it could lead to "perverse" incentives such as tax avoidance and tax evasion.

The commission is of the view that improving revenue collection would require economic growth and employment.

However, growth is lacking as Treasury downwardly revised growth from 1.5% to 0.5%. Most recently the unemployment rate hit an 11-year high of 29.1%, with more than half (58.2%) of the labour force being the youth (those aged between 15 and 24 years).

Similarly to Treasury, the commission pointed out that expenditure is exceeding revenue, which in turn is contributing to the rising debt position. The commission proposed that a fiscal rule for borrowing be considered.

Public sector wage

The FFC also weighed in on Treasury's proposals to curtail the growing public sector wage bill, which include freezing salaries of Cabinet members, premiers and MECs. The commission recommended that the initiatives be applied to state-owned enterprises and local governments too.

In its report, submitted to Parliament, the commission noted that the historical wag bill benefits over the last decade are unsustainable. The commission reiterated previous proposals that wage increases be linked to productivity.

The commission also noted the fiscal risk and the risk to the country's credit rating posed by government's exposure to debt owed by state-owned enterprises. In particular, guarantees to Eskom will account for over half (56%) of all government guarantees to SOEs. Overall, the FFC has urged government to take "bold, decisive" steps in dealing with state-owned enterprises whose social or economic value is "negative".

The FFC endorsed government's special paper outlining timeframes for the unbundling of Eskom into three entities – generation, transmission and distribution – as a means to stabilise the power utility's finances.

"The view of the commission is that the Eskom plan is the first step in the right direction in restructuring Eskom… The commission supports this reform because it is likely to enhance efficiency and cut costs," said FFC researcher Dr Mkhululi Ncube.

The FFC however noted that there are crucial details missing in the plan. This includes an analysis on cost pressures related to the unbundling.

Professor Daniel Plaatjies stressed there should be conditions that are to be met before Eskom, and other state-owned enterprises can get debt relief from government.

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