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Municipalities advised to consider new taxes, including on parking lots and fires

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- **The Financial and Fiscal Commission, which advises Parliament and government on state spending and income, has proposed a raft of new taxes that municipalities could adopt to bring in more money.**
- **These include taxes on parking lots, a "fire service fee", and levies on hotel beds and billboards.**
- **Municipalities are facing a cash crunch, and government is not in a position to extend more help.**
- **But new taxes may encounter great resistance from a tax-fatigued public.**
 - South Africa's municipalities, which are already struggling with big financial problems, will face increased pressure in coming years as government – battling a ballooning budget deficit of its own – won't be able to bail them out.
 - Many municipalities, which in total are owed more than R150 billion in unpaid taxes and levies, are experiencing a cash crunch, with half not in a clear position to pay their short-term debts, [research by Statistics SA shows](#).
 - The Financial and Fiscal Commission, which advises Parliament and government on state spending and income, recently released a [technical report](#) which proposes new ways for local governments to raise their own income.
 - "As virtually all municipalities face diminishing own revenue and, in almost all instances, a very difficult task of financing their own infrastructure and services to meet the needs of a rapidly growing population, the urgency to find alternative revenue sources to augment conventional ones cannot be overemphasised," the report says.

- It researched these alternative income options from around the globe and found a number of new taxes that could work in South Africa, including:
- Advertisement taxes
- Advertisers would have to pay taxes on the use of sign boards.
- Hotel occupancy taxes
- Usually a value added sales tax on the hotel bill, this could be a significant source of income for rural municipalities.
- Fire service fees
- This levy is often imposed on insurance contracts, or added to property rates.
- Amusement or entertainment taxes
- This is charged on admission to amusement parks, or other entertainment outlets. Cities like Tokyo, Seoul, Chicago, New York, Istanbul, and Cairo already charge a similar tax.
- Development charges
- This is not new in South Africa – in the Western Cape, it has been levied by 1935. “However, quite surprisingly, South African municipalities have not exploited this revenue source to its fullest, given the potential for additional revenues to finance large capital expenditures,” the commission found. These charges are usually one-time levies imposed by municipalities on property developers of new or existing properties. This is usually done at the point when the property is subdivided or when a building permit is issued. “The purpose of development charges is to ensure that private developers contribute to the cost of the municipal infrastructure they will use, e.g. costs of new connections to water, sanitation, roads and electrical infrastructure or other infrastructure services such as roads, schools, parks, library services, and fire and police protection. Proceeds of the development charges are then used to finance infrastructure projects such as local roads, street lighting and

sewers. The attraction of DCs is that they make urban development pay for itself,” the commission says.

- Natural resource taxes
- Mines already pay mining royalties and other taxes, but because there is a link between natural resource extraction and the benefit principle at local level, many have argued that this tax should be localised, the commission says. It says rural municipalities could levy a flat rate surcharge or “piggyback” on an existing tax. “Alternatively they could impose levies that would partly pay for the damage on the environment and infrastructure caused by natural resource extraction.” For example, rural municipalities could have weigh-in bridges for trucks that carry natural resources within their jurisdiction to pay a tax or levy, the commission proposes.
- Toll fees and parking lot taxes
- While South Africans already pay VAT when they buy a car, as well as fuel levies, and car licence and toll fees, the report believes surcharges on toll fees should be possible since local governments “also provide ancillary infrastructure to vehicles passing through their jurisdiction”. Levies or taxes on parking lots may also be considered.
- Local business taxes
- In South Africa, the idea of a local business tax has been discussed since 2012, when eThekweni municipality applied (unsuccessfully) for permission to levy such a tax. “In South Africa, local business taxes would suit metros, intermediate cities and some fast growing urban municipalities, as they need the revenues to accommodate their rapid growth and development. Local business taxes are more stable and simpler to administer than taxes on profits. The only drawback of [local business taxes] is that it requires high levels of accounting and record-keeping and sound tax administration capacity.”

- The Financial and Fiscal Commission also surveyed municipal managers and found that these were the proposed revenue sources that they thought could work in their own municipalities:

Table 3: Alternative revenues as suggested by different categories of municipalities

Metros and intermediate cities	District municipalities	Local municipalities
Lease of optic fibre cables and sale of bandwidth	Fire levies	Fees for driver testing grounds
Business tax	Rental fees	Fire levy
Parking lot taxes	Roads fines	Dumping site usage fees
Pooled financing	Mining rights levies	Tourism levy
PPPs	Weigh bridges	Weigh bridge
	Air pollution	Mining rights fees
	Harbour taxes	Parking lot taxes
	Licensing of mortuaries	Street advertising

Source: Commission compilation of survey

Source: Financial and Fiscal Commission

Tax revolt?

Strong resistance is expected to any proposed new taxes. South Africans are already among the most-taxed people in the world, with the [International Monetary Fund \(IMF\) placing South Africa in the top 10 list of countries](#) with the highest tax-to-GDP ratio.

Taxes on the tourism, construction, and entertainment sectors, which are already hard hit by the coronavirus pandemic, could also face a revolt from business organisations.

Apart from tax fatigue, there would also be distrust in how the money would be used.

Municipalities generally have a terrible track-record in spending money. [The latest report from the auditor-general into local government financial management](#) found shocking instances of fraud and lack of financial control, with only 8% of municipalities receiving a clean audit. In total, irregular expenditure exceeded R32 billion – up from R24 billion in the previous year.

<https://www.businessinsider.co.za/municipalities-advised-to-consider-new-taxes-including-for-fires-and-entertainment-2020-7>