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Proposed new taxes to help dysfunctional municipalities

While undercollection of existing taxes continues.

Amanda Visser 30 Jul 2020

South Africa's municipalities are dysfunctional and barely viable, and the functionality levels of the majority of them have worsened, a report by the Financial and Fiscal Commission stated in March.

In the same report it is suggested that several new taxes be considered at local government level to ensure alternative or additional revenue for struggling municipalities.

These include advertisement taxes, hotel occupancy taxes, fire and drought levies, amusement taxes or construction taxes. According to the commission, an increasing number of municipalities, both in developed and developing countries, supplement conventional revenue sources with development charges.

These charges are 'one-time' levies imposed by municipalities on property developers of new or existing properties.

The same report notes that many municipalities cannot "fully" collect the revenue due to them. "Some municipalities lack both tax administration infrastructure and human resources to fulfil the basic revenue collection function."

Keith Engel, CEO of the South African Institute of Tax Professionals, says instead of dealing with the problem, namely the failure to collect the revenue earned, more taxes are introduced on the honest.

"This is a typical problem in SA – rather than going after the dishonest people who are not paying, government introduces new laws to regulate the honest. The only way to regulate the dishonest is to enforce the laws. We never get there."

He says the real issue is to stimulate growth, not to take more money out of the economy. "There comes a point where people just say that they have had it. You are failing with my money," says Engel.

Auditor-General Kimi Makwetu sketches the undesirable picture of billions of rands allocated to municipalities being manag

In his local government general report, published at the start of July, Makwetu strongly cautions that these administrative and governance lapses “make for very weak accountability and the consequent exposure to abuse of the public purse”.

Perspective

Bernard Mofokeng, partner and co-head of tax at corporate law firm CMS, says the timing for introducing any new taxes is “terrible” considering the current ban on the sale of alcohol and tobacco products.

The ban has resulted in the loss of excise duty and value-added tax (Vat) amounting to billions of rands on the sale of tobacco and alcohol.

“Before any new taxes can be introduced, the collection of excise duties on tobacco and alcohol must resume and all excise duty lost during the ban must be recovered,” says Mofokeng.

He adds that the collection of excise duty must improve and that the fight against the illicit tobacco trade before, during and after the ban must be prioritised by the South African Revenue Service (Sars) and border management agencies (the Department of Home Affairs and South African Police Service).

The urgent and immediate aim must be to recover and stimulate the economy in order for all other taxes such corporate income tax, personal income tax, payroll taxes and Vat to recover to their pre-Covid-19 levels.

“There is no point in introducing new taxes when collections on the existing taxes are not optimal,” notes Mofokeng.

New taxes at local government level will not result in more revenue, he says. Municipalities need to improve their governance and management structures in order to manage their current resources better and deliver better services to their residents.

“Better service delivery may encourage more residents to pay for services, which may result in the municipalities collecting more revenue.”

If they cannot efficiently collect revenue now, what makes them think they will be able to collect more with the proposed new taxes, he asks.

Joon Chong, partner at Webber Wentzel, says the commission confirmed that the key drivers of poor property tax collection in municipalities are:

- Poor billing and credit control systems
- Affordability
- Willingness to pay
- Traditional leadership, and
- Lack of capacity.

She says credit controls would be improved significantly if electricity disconnections in areas supplied by Eskom could be done for ratepayers who are in default. “It is essential for local municipalities to build capacity for property rates collection.”

The Fiscal and Financial Commission says it undertook a survey targeting all 257 municipalities (eight metro, 44 district and 205 local municipalities). The purpose of the survey was to obtain direct feedback on what practitioners in municipalities believe could be on the list of alternative revenue sources.

The survey also solicited reasons as to why municipalities are not exploiting these revenue sources. The response rate to this survey was 9%.

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