

Taxpayers may get some shocks

Working South Africans could be in for some nasty surprises when Finance Minister Pravin Gordhan delivers his Budget speech.



Pravin Gordhan's budget may deliver some nasty surprises for taxpayers. Image: GCIS

Four of every five income-tax rands come from a small pool of only 1.7m people, the mostly middle class who are already under pressure financially and unlikely to get any breathing space soon.

Though most economists do not believe Gordhan will raise income taxes directly, they suspect the Treasury has a few tricks up its sleeve.

Apart from steep increases expected in the so-called "sin taxes" levied on alcoholic beverages and tobacco products, the middle class should brace itself for a few other hikes.

"We will probably see the fuel levy go up again by a few cents," said the economic researcher for the Solidarity union, Paul Joubert.

This is despite the petrol price having increased by nearly 14% since Gordhan gave his last Budget address to parliament a year ago. The fiscus pockets about half of what motorists pay at the pumps. The petrol price is to increase again next week, by more than 30c, according to figures from the Central Energy Fund.

Levies

According to Joubert, in the past decade the levy had mostly been pushed up, with only a slight pause in 2008 and he

expects the same will happen with levies on tyres and new vehicles.

South Africa had nearly 14m registered taxpayers last year, but Joubert says the overwhelming majority of the tax revenue comes from a much smaller pool of people.

Solidarity's research shows that 3.7m people paid 96% of all income tax. And even in this smaller group, a million people contributed very little - so that, in fact, 2.7m South Africans shoulder 90% of the burden (and 1.7m fork out 80% of the tax).

"It's like being a member at a gym. Just because you're registered, doesn't necessarily mean you will be active," Joubert said.

Old Mutual Investment Group's economist Rian le Roux said no big tax changes were expected in this year's Budget, though he would not rule them out completely. A commission appointed by Gordhan last year to review the tax system was still busy with its work.

"The ministry is unlikely to enact any major changes with the commission's work still not done," said Le Roux.

Bracket creep may erode increase

According to Joubert, Gordhan's announcement of "tax relief" to the tune of R7bn last year actually amounted to a veiled increase because "bracket creep" was allowed to gnaw away at amount of money taxpayers actually take home.

"For the 2013/14 tax year the tax threshold was increased by only 5.6%, while the thresholds of the other tax brackets were increased by 3.5%. As those increases were lower than the prevailing inflation rates, these adjustments, in fact, brought about a heavier tax burden and did not constitute relief," he said.

"Only if one's income remained unchanged would the tax break have amounted to relief," he claimed.

Sanisha Packirisamy, an economist at Momentum Asset Management, said that there was potential for some allowance for bracket creep at the middle- to lower-end of the consumer market.

She said Gordhan might increase income tax rates for higher-income earners or, possibly, even effect a rise in the value-added-tax rate.

"However, we see this as being more of a risk next year, given that SA has an election coming up," she said.

Joubert agreed and added that the middle class was being squeezed from all sides and could, in fact, be double-paying for many services.

"That is why we approached the Treasury to allow private security costs to be tax-deductible, but after initial discussions we have not heard anything from them," he said.

Meanwhile, most economists expect Reserve Bank governor Gill Marcus to push up repo rates again next month as inflation expectations are still uncomfortably high.

Source: The Times via I-Net Bridge