

Extensive tax review underway

By [Linda Ensor](#)

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Finance Minister Pravin Gordhan has initiated a far-reaching and fundamental review of SA's tax system which will be undertaken by a team of tax experts led by Judge Dennis Davis.



Pravin Gordhan (Image: GCIS)

The team has been tasked with assessing whether SA's tax system is able to generate sufficient and sustainable revenues to fund government's current and future expenditure priorities, including the much vaunted National Health Insurance plan.

Gordhan's announcement at a media briefing Wednesday (17 July) - and first signalled in his budget speech in February - comes as SA faces increasing pressure on its macro-economic and fiscal projections. In his budget speech Gordhan warned that government might have to reassess its revenue and spending plans if economic circumstances deteriorated so that SA remained on a firm fiscal footing. In addition to the tax review, he also announced that a comprehensive review of expenditure, focusing on both controls and value for money would be undertaken.

The minister warned earlier this week that SA's growth outlook and its fiscal stability were threatened on various fronts. He said that the pace of globalisation, the relatively modest economic growth after the 2008/09 economic recession and SA's significant social challenges required a review of the role the tax system could play in addressing these issues.

There was also a need to address concerns about the erosion of the tax base and profit shifting by companies.

Mandate of committee

As part of its mandate the newly appointed committee will make recommendations to Gordhan. Any tax proposals arising from these recommendations will be announced as part of the normal budget and legislative processes. The committee will be required to submit interim reports before its final report which will be published on a date to be determined.

Gordhan said the committee would be required to evaluate the South African tax system against international tax trends, principles and practices, as well as recent international initiatives to improve tax compliance and deal with tax base erosion.

In particular, he said it would have to look at the overall tax base and tax burden including the appropriate tax mix between: direct taxes, indirect taxes, provincial and local taxes.

"An analysis of the sustainability in the long run of the overall tax-to-GDP (gross domestic product) ratio, and the tax-to-GDP ratio for each of the three major tax instruments, personal income tax, corporate income tax and VAT should be undertaken. This in essence requires an evaluation of the economic and social impact of the tax system and an assessment of whether the current tax structure is able to generate sufficient and sustainable revenues to fund government's current and future expenditure priorities," Gordhan said.

The committee will also have to examine the impact of the tax system on the promotion of small- and medium-size businesses, and this will include an analysis of tax compliance costs, streamlining the tax administration and simplifying the tax legislation.

Corporate tax and compliance

With regard to corporate tax, the committee will be required to look into its efficiency, tax avoidance, tax incentives to promote developmental objectives and the average (and marginal) effective corporate income tax rates in the various sectors of the economy.

Mining taxes would also be reviewed to ensure that the mining sector contributed to growth and job creation and remained a competitive investment proposition. The review would take into account the challenges facing the mining sector, including low commodity prices, rising costs, falling outputs and declining margins, as well as its current contribution to tax revenues.

Various elements of taxation within the financial sector, namely the taxation of long-term insurers, hedge funds and various innovative financial instruments as well as the application of VAT sector by sector would also be examined.

Value added tax with specific reference to its efficiency and equity would be investigated and the advisability and effectiveness of dual rates, zero rating and exemptions considered.

The impact of e-commerce (especially the use of digital delivery of goods and services) on the integrity of the tax base and the impact that e-commerce has on value added tax and corporate income tax revenues has also been included in the terms of reference for the committee.

Also to be addressed is the role and relevance of estate duty to support a more equitable and progressive tax system with a specific focus on the relationship between capital gains tax and the estate duty.

Source: Business Day via I-Net Bridge