Tax changes could stimulate growth

By Nomaxabiso Majokweni*

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President Jacob Zuma's announcement in his state of the nation address in February that a committee would be appointed under the chairmanship of Judge Dennis Davis to investigate the tax system and identify "possible new sources of income" was greeted with scepticism by some analysts.

The cynics felt this was merely a thinly disguised exercise "to pluck the greatest number of feathers from the goose with the least amount of hissing" and an admission that government spending could not be adequately disciplined - at a time when South Africa's fiscal "space" is undoubtedly shrinking as the growth rate declines.

However, Finance Minister Pravin Gordhan's publication this month of the terms of reference of the tax review committee and the names of the other committee members, as well as initial comments by Davis, establish that this is indeed intended to be an in-depth and independent investigation into the tax regime.

The terms of reference are wide, covering all the global and domestic developments that affect taxation and the South African economy. The magnitude of the task is underscored by the fact that Davis expects the tax review to take up to two years, although there is the possibility of interim reports, such as on SMMEs.

Ratings downgrades

Recent downgrades of South Africa by international credit agencies were prompted in part by the country's fiscal position. The fiscal sustainability of a country is now an important feature by which economies are judged.

The optimal balance between spending, borrowing and taxation is thus an essential litmus test.

With the South African Revenue Service experiencing diminishing returns in ensuring compliance from a small tax base, the only other way to enlarge the tax yield would be to expand the number of taxpayers through much higher job-rich growth.

This is the challenge of fiscal policy.

There are either existing tax arrangements that need to be revisited or new variables that must be factored into tax reform. For example, after nearly 20 years' experience of national, provincial and local government under a new constitution, the concern is how these tiers of authority are to be financed in future.

Tax system

The tax committee's work must address how the tax system can support the National Development Plan for 2030, the goals of which include an average growth rate of 5.4%, investment rising to 30% of gross domestic product and the creation of 11m new jobs.

How South Africa generates its tax revenues is crucial to an efficient economy and to creating incentives to work, save, invest and take risks.

The tax reform committee faces a formidable task. It will no doubt seek wide-ranging inputs and business must also respond. Because of the broad incidence of business taxation, its effects on national saving and investment are both significant and complex.

Ultimately, it is people (such as workers, consumers and shareholders) who eventually bear the brunt of the taxes imposed on business.

Although it is tricky to quantify the economic impact of a new tax regime, a considered approach to reform by the committee could do wonders for South Africa and unlock muchneeded growth.

•Majokweni is chief executive of Business Unity South Africa