'Wealth tax' unlikely to be government policy in near future as pressure on tax base mounts

By Albertus Marais

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Looking back at 2020, the most significant development on the tax front must certainly have been government's tax relief measures aimed at helping businesses mitigate the impact of the Covid-19 pandemic. These relief measures cost government an estimated R26 billion in direct relief provided, with a further R44 billion in the form of interest cost linked to the deferral of certain taxes. It is moreover estimated that government may lose as much as R300 billion in tax revenues in the wake of businesses either having to reduce operations or close shop permanently.

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The effect of the Covid pandemic led to government tabling a supplementary budget on 24 June 2020 to provide for an amended budget for the remaining part of its 2020/2021 financial year to address how the increased budget shortfall (compared to the February budget tabled) will be funded. As with any budget, government's budget is also ultimately driven by the income that it is able to earn (predominantly in the form of taxes levied) and expenditure incurred in funding operations. It is therefore unsurprising that Treasury – both in the supplementary budget as well as in the medium-term budget policy statement of 28 October 2020 – announced that tax hikes will form part of future efforts to address future fiscal recovery measures.

What may be considered surprising, though, is the limited extent to which government intends to rely on increased tax revenues. In terms of the supplementary budget tabled, as well as the medium-term budget policy statement which reiterated government's intention, National Treasury seeks to raise an additional R5 billion in tax revenue for the 2022 financial year, R10 billion in each of the 2023 and 2024 financial years and R15 billion in the 2025 financial year.

While objectively this may seem like a significant amount, considering that South Africa's budgeted revenue annually exceeds R1.5 trillion, the extent by which tax increases are intended to cover budget shortfalls fades into insignificance. In fact, an average annual increase in tax revenues of 0.6% in real terms is actually a reduction in taxes going forward.

This means government has realised that the South African public is overtaxed and that further increases in tax rates cannot continue to shore up funding shortfalls. In raising taxes, government may actually prejudice tax revenue. As a result, talks of a so-called “wealth tax” being introduced is, in the view of this writer, completely misplaced, and certainly not government policy in the near future.

Treasury’s policy in addressing future funding shortfalls is clear: to limit expenditure, and specifically expenditure in the form of the public sector wage bill. The policy statement has now been consistently raised by government in the National Budget Speech in February of 2020 and in every address by the Minister during a significant policy debate in Parliament during this year, being that the public sector wage bill needs to be reduced significantly. This political hot potato is what will ultimately need to be confronted in 2021. Will Treasury’s policy manifest to reduce the public sector wage bill (which will inevitably also lead to a decrease in government debt and interest), or will the unions have the final say and force government’s hand to rely (arguably mistakenly so) on increasing tax revenues against an increasingly smaller tax base remaining in South Africa?

Put differently, will government be brave enough to take a longer-term view as to the health of South Africa’s public finances, or will short-termism ultimately prevail? Only time will tell.

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