Moment for contemplation, followed by a leap of faith

By Nazrien Kader

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Names of places in South Africa are fascinating. My favourite is a place in the Northern Cape called Stilstaan-en-Afspring. I have never been there but I have often wondered how it got its name. I was reminded of that place as we approach Budget 2021/22. It seems this time yet again, proud South Africans require a moment's contemplation, followed by a leap of faith as we gear up to listen to minister of finance, Tito Mboweni as he considers the options for the National Budget he will present on 24 February 2021.

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The gaping hole

Mboweni must also be taking a moment to contemplate the current economic and fiscal position of South Africa. Whilst all indications are that results have outperformed the numbers presented last in his medium term budget statement, the fact is we still have a gaping hole in the country’s fiscal position, too huge to close, caused by years of virtually stagnant economic growth, the decimation of the South African Revenue Service's (Sars') collection capacity (a causal connection to the revenue short falls presented), rampant corruption and mismanagement at state-owned enterprises.

Poor service delivery by key state-owned enterprises requiring massive bailouts from the state and the unsustainable, ever increasing public sector wage bill – add to that, the impact of the Covid pandemic – create the impression there is no end in sight.

Half empty or half full?

Economists have been quick to predict that if the revenue collection trend we saw recently, holds for the rest of the fiscal year, it is plausible that revenue collections should overshoot the medium term budget predictions by up to R100bn. The ‘half empty’ scenario on the other hand, suggests that the result could still be a massive budget deficit of around R600bn.

All indications are that National Treasury has been able to borrow sufficient funds to cover this projected deficit, as reflected by the massive positive cash balance that National Treasury has of over R375bn. The upside is this positive cash balance should relieve the short-term pressures of the government having to go to the market to borrow additional funds at huge cost. Whilst the economy was predicted to contract by 7.8% in 2021, per the medium-term budget, economists again predict that a growth rate of anything between 3% and 5% is attainable.

The real leap of faith: expansionary or continued austerity?

Contemplating this landscape, Mboweni is expected to take a leap of faith in deciding the course of action to take South Africa forward: does the government of South Africa adopt an expansionary mindset and try and spend its way out of this crisis, following the trend of the USA and other Western countries (knowing that South Africa does not have the borrowing capacity of these nations to fund expenditure as it stares into a debt trap) or does it take further austerity measures, that South African citizens fear will further impact the presently inadequate delivery of health care, education, safety and security most?

The only option that Mboweni has is to find the middle ground and walk the precarious tightrope balancing between expansionary and austerity measures.

Trusted commissioner for Sars

Relying on a combination of factors and practically banking on any upside predicted by economists thus far, Mboweni is likely to expect more from trusted commissioner for Sars, Edward Kieswetter, to make up the R5bn in taxes he announced in the medium term budget, by way of the 3 Cs:

1. **Collections**

   Rapid debt collection by Sars of taxes due and acknowledged by taxpayers (Sars has a debtors book to boot)

2. **Compliance**

   Enforcement of tax laws to broaden the tax base (there is some pressure on commissioner for Sars to fill vacancies and restore the compliance and enforcement function to back on track)

3. **Cooperation**

   With tax payers and other revenue authorities to #bring-back-the- money – that is, eliminate unfair profit shifting and tax base erosion through enforcing exchange of information agreements and repatriation of taxes. But Kieswetter has been candid about what it is going to take to deliver on his mandate and high up on that list is an increased allocation in this year’s budget to Sars, to facilitate the hiring of skilled resources and modernise technology to allow him to flex his muscle.

What about tax increases?

Mboweni is not oblivious to the sentiments that any tax increases is just Not. Going. To. Be. Tolerated. Not in this landscape at least. The perception is that the pool of individual tax payers (the largest contributor to tax coffers) is permanently shrinking with the uptick in emigration and exodus of professionals seeking greener pastures.

For those left behind, with the number of retrenchments, shutting down of small businesses and salary cuts (never mind the lack of bonuses) being consequential damages of the pandemic, the expected dip in individual tax collections is real.

There is little appetite for increased taxes or even the touted once-off tax, when there is so much scope for the government to act – to implement cost containment measures and reign in spending using the resources at its disposal to enforce good governance at SOEs, bring to book not just those who enrich themselves at the expense of the state but those too, who authorise wasteful expenditure, commit the white collar crimes and turn a blind eye to mismanagement under their watch.

This might be easier said than done given that labour unions are agitating for a higher than inflation increase in the wage bill this year, due to the cancellation of the 2020 increase, the additional cost to the state of the Covid-19 pandemic (including the cost of vaccines and the rollout plan), SOEs continuing to hold out for further bailouts, and the drive for the R350 Covid grant, to become a permanent feature of the national budget.

Are some more equal than others?

There is sustained pressure on the government to adopt a zero tolerance approach to corruption and enforce the laws of our country to collect what is due. To end the perception that “some are more equal than others” and can get away with it.

One would expect any impact of tax increases that Mboweni must be contemplating to be more subtle - the usual suspects - of lower than inflationary adjustments for bracket creep, super high increases in sin taxes, more than inflationary adjustments to fuel taxes, as well as increased, visible measures to clamp down on tax evasion and tax fraud.

The implementation of some of these measures announced in the last year’s budget was delayed primarily due to the impact of the pandemic and we can expect these to be resurrected in the 2021/22 budget, on 24 February 2021. The obvious impact of the lock down on company profitability and hence lower annual company tax collections is also a ‘no brainer’.

The promise of a lower corporate tax rate made by Mboweni in last year’s budget presentation, is also top of mind.

The great expectation

South Africans have shown we are a resilient bunch. Even as the signs are evident, ordinary South Africans are so in need of hope and confidence. The greatest expectation is that Mboweni will do the right thing and in his classic No Nonsense approach, he will tell it like it is, throw down the gauntlet to his colleagues in the government and above all, he will take action.

ABOUT THE AUTHOR

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