Why Treasury needs a brand new 2020/21 budget

The South Africa Revenue Services (Sars) has predicted that it would lose around 15 to 20% of its tax revenue this year as a result of the nationwide Covid-19 lockdown, and the responsibility of filling the gap will fall upon the South African taxpayers. However, the real question is whether there will be a large enough taxpayer base left at the end of the lockdown period to make a meaningful contribution to the revenue office's collection efforts by the end of the financial year.

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This is according to David French, tax consulting director at Mazars, who says that Treasury had no choice but to relook the national budget that it presented to Parliament in February of this year. “It looks like South Africa will get some reasonable funding from institutions like the World Bank and the International Monetary Fund, but on the collections side the loss to the fiscus is going to be huge. With Treasury planning to table a special adjustments budget on June 24, we can only hope that the measures that will be introduced, will not be destructive to the taxpayer base.”

In particular, he points to excise duties which have already seen a significant drop in collections for Sars. “Items like the fuel levy, VAT as well as sin taxes on alcohol and tobacco sales, are going to perform well below what was expected because of the low economic activity and outright bans on certain products. We also do not expect to see this recovering once lockdown ends because consumers and businesses are probably going to be spending less and focusing more on saving throughout the rest of the year.”

Sars can only collect what is there

French says that it is likely that Sars does not yet know how to manage the crisis that this has created. “Sars will be looking at very technical issues once the lockdown is over. There may be the question of whether any expenditure during this lockdown time would be taxable, because any money spent by companies may not be in the production of income – which poses a risk to taxpayers. Also, how aggressive is Sars going to be about collecting these taxes, given that taxpayers are likely to be in dire straits?”

Ultimately, he points out that Sars can only collect what is there. “Economic activity hasn’t stopped completely, so there will be at least some VAT and other taxes, like import duties, to collect. But from the sectors that have suffered losses or that weren’t active, there simply won’t be anything to collect.”

Even once the economy restarts, French says that there will not be enough recovery taking place to fill the collections gap. “Collections on excise taxes may pick up again, but it is likely to be subdued. Corporate income taxes on the other hand, may see many more companies submitting tax deductions based on expenditure and losses as a result of the lockdown. It would be interesting to see how Sars approaches these submissions, since such deductions would cover the taxes on the future incomes of these companies as well.”

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