Unprecedented times for tax revenue collection

By Sharon Smulders

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In February 2020, when Minister of Finance, Tito Mboweni, tabled his 2020 Budget Speech, he projected that the budget deficit would be R370bn for 2020/21, the debt-to-GDP ratio would grow to 65% and the projected growth rate was 1,3% in 2021,

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Fast forward a few months later, and the above projections bear so little resemblance to the current estimates that we now need a Supplementary Budget.The cause for the gap between original projections and current estimates is the president's announcement that government would spend R500bn to support the economy following the outbreak of the coronavirus. The impact of Covid-19 has forced the government to reprioritise its expenditure to cater for the increased needs in the health care sector, to relieve social distress for individuals and companies and to provide for tax relief measures.

In April, it was announced that the R500bn would be funded by the Unemployment Insurance Fund (UIF), a reshuffle of the expenditure allocation in the original February Budget of R130bn and the remainder coming from international institutions such as the World Bank, IMF, the African Development Bank and the Brics New Development Bank. On June 19, 2020, it was confirmed that the New Development Bank approved a $1bn Emergency Assistance Programme loan to South Africa. The loan will assist in providing a social safety net to alleviate the economic impact of the disease containment measures on vulnerable individuals and preventing, detecting and responding to the health threat posed by Covid-19. Previous loans of this nature were given to China and India. No details about the repayment terms of this loan have yet been provided.

Tax collection

Notwithstanding the R500bn funding made available, the impact of Covid-19 on tax revenue collection cannot be disregarded. At the beginning of May 2020, the South African Revenue Service (Sars) Commissioner, Edward Kieswetter, projected that the loss of tax revenue would be 15% to 20% of anticipated tax revenue, amounting to R285bn in fiscal year 2020/21. This figure may be underestimated taking into account the Moody's downgrade and the effect of the lockdown on the economy since March. In addition, the hopes of collecting income from employees' tax (PAYE), which has over the years been the largest source of tax revenue (almost 40%), will be dashed due to the large number of workers either not being paid during the lockdown period, forced to work reduced hours or being retrenched.

This has had a knock-on effect on VAT (contributing 25% of tax revenue collections), as consumer spending has subsided and many businesses were not allowed to trade at all or were only permitted to open up to a limited extent, resulting in estimates of VAT revenues not being nearly as high as was predicted in the February budget speech.

From a corporate income tax perspective (previously contributing 17% of tax revenues), businesses are not only making lower than anticipated profits, but they are in fact struggling for their survival. This has resulted in reduced provisional tax payments, which is over and above the Covid-19 tax deferral relief provided in this regard.

Due to the outright ban on the sale of tobacco products, the fiscus will also see a reduction in the amount of excise duties/VAT collected on these items. Lockdown has also resulted in a reduction of alcohol sales, the number of imports and the sale of fuel, all of which will have a negative effect on the collection of taxes – customs and excise taxes, import duties and fuel levies.

Most of the tax relief measures provided to companies have meant that tax revenues will be deferred, however, outright relief has been given in respect of the Skills Development Levy. This relief has cost the fiscus R70bn according to the 2020 Special Adjustment Budget Guidelines released in May 2020.

The full impact on tax revenue collection is difficult to predict, but some clarity will be provided when the minister tables his Supplementary Budget. The reliance on personal income tax can no longer cushion the blow of the loss of tax revenue, and relying on loans from foreign organisations, although helpful in the short term, may provide further woes for South African citizens when repayments need to be made and could put South Africa in a sovereign debt crisis by 2024.

Structural problems

Mboweni stated that we need to “live within our means” and incur expenditure according to the revenue collected. With a very small individual tax base (just over 5% of the country’s population paid almost all of the personal income tax in 2019) Covid-19 might just have forced government to focus on the structural problems that existed before the pandemic. These include focusing on rebuilding the capacity at Sars, addressing crime and corruption, using realistic revenue and growth estimates in forecasting, creating certainty and transparency in the macroeconomic framework, reducing the public sector wage bill and rebuilding the country’s deteriorating health, water and sewage infrastructure.

These factors will require Parliament to ensure that each ministry meaningfully scrutinises each and every taxpayer rand spent, to ensure that it is spent efficiently and productively. “Zero budgeting” for South Africa, as mooted by Mboweni recently, and “zero tolerance” for unproductive use or misappropriation of funds should become the new norm, especially during these unprecedented times of tax revenue collection. No longer can South Africa afford for its taxpayer money to be spent on things that are not critical to its citizens. Perhaps Covid-19 can leave in its wake, not only death and devastation on the economy, but the start of a new era of bold and courageous leadership that ensures that its people are safe and that fiscal and government policy cohesion exists.

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