Standing Committee on Finance / Select Committee on Finance
Parliament of the Republic of South Africa
Plein Street
Cape Town
South Africa

[redacted]

28 February 2022

Chair, Members,

Budget 2022 Fiscal Framework and Revenue Proposals – Preliminary Comments

1. We present herewith our commentary on the fiscal framework and revenue proposals included in the 2022 Budget Review.

A. Fiscal framework

The fiscal deficit

2. Even prior to the effects of the COVID-19 pandemic, South Africa faced an extremely challenging economic environment, characterised by weak economic growth, high unemployment and inequality, high revenue shortfalls, growing debt levels, and spending pressures (particularly from state-owned entities and the public sector wage bill).

3. Although in our view, the 2022 Budget presented relatively conservative revenue figures for 2022/23 to 2024/2025, this is understandable in view of the elevated risks to the outlook that the Minister highlighted, i.e. global economic conditions (which would likely be exacerbated by the Russian invasion of the Ukraine since the Budget Speech) and domestic economic and fiscal challenges, including possible new COVID-19 variants leading to new waves of infection, continued interruptions in power supply, rising inflation and fiscal risks.

4. Accordingly, although the 2022 Budget forecasts a narrowing of the deficit over the medium term from 6% of GDP in 2022/2023 to 4.2% of GDP in 2024/25, significant risks remain to this forecast, from both a revenue and expenditure (if ceilings continue to be breached) perspective.

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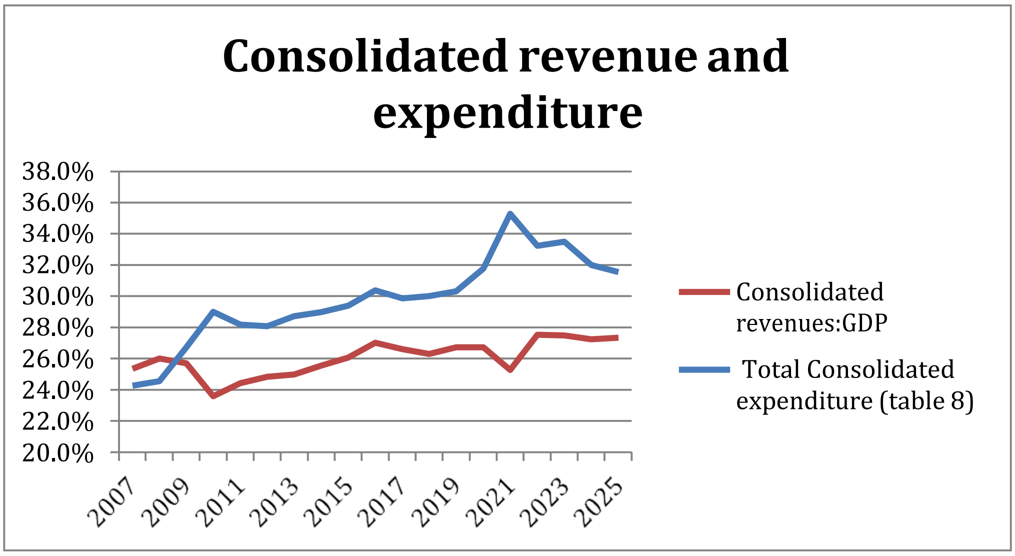
5. Since 2008/09, total government expenditure grew from 26.7% of gross domestic product (GDP) to 35.3% in 2020/21. For 2021/22, total government expenditure is estimated to be 33.2% of GDP. Consolidated revenue as a percentage of GDP, decreased from 26.7% of GDP in 2019/20 to 25.3% of GDP in 2020/21, and is estimated to recover to 27.5% of GDP in 2021/22. Not only did growth in government expenditure far outpace growth in revenues over the period between 2008/09 and 2019/20, revenues (as a percentage of GDP) contracted to close to 2008/09 levels for 2020/21. Although revenues have recovered to record levels in 2021/22, the gap between revenue and expenditure has remained stubbornly high, resulting in a sticky deficit and growing debt levels.

6. Although Budget 2022 makes a strong and welcome commitment to reducing non-interest expenditure over the medium term expenditure framework (primarily through restraining growth in the public sector wage bill), there is still a disparity between revenue and expenditure, and this disparity (and the resulting structural fiscal deficit) will continue over the medium term, as is clearly illustrated in the below graph. What is more, there are significant risks to both revenue and expenditure. Revenue is at risk should the current high commodity prices fall sooner than expected or economic growth is significantly lower than anticipated. Risks to expenditure include the public sector wage bill, state-owned entities requiring further support and temporary social grant support being extended or becoming permanent. Should any of these risks materialise, they could have a material effect on the forecast deficit and debt consolidation.



Revenue and the fiscal deficit

7. Budget 2022 estimates gross tax revenue to exceed the 2021 Budget estimate by R181.9 billion and the 2021 MTBPS estimate by R61.7 billion.

8. Based on revenue collection figures to date, we estimate gross tax revenues could exceed the original Budget 2021 estimate by up to R200 billion, assuming the strong performance in CIT collections continues through March. This estimate is approximately R20 billion more than the Budget 2022 projection. Accordingly, we are of the view that Treasury has been conservative in its tax revenue estimates for the current fiscal year.

9. Although the upward revisions to revenue estimates in 2021/22 should flow through to higher medium-term revenue projections in almost all categories, we note that Budget 2022 does, however, acknowledge that these higher projections depend on a strong and sustained economic rebound. In this regard, personal income tax collections remain under pressure due to the elevated levels of unemployment flowing from the pandemic, and – given the uncertain economic outlook – there is a risk that revenue may underperform estimates. Moreover, Treasury acknowledges that some reversal is expected in commodity-driven revenues over the medium term. Accordingly, Treasury has seemingly taken a conservative approach to estimating tax revenues for 2022/23 with revenue growth forecast at only 3.3%. This approach is understandable and prudent given the risks highlighted above.

Expenditure and the fiscal deficit

10. Regarding the expenditure component of the fiscal deficit, prior to the onset of the pandemic, the two primary drivers of the rapid increase in expenditure since 2009 were the public sector wage bill and debt service costs. In addition, spending pressures from state-owned entities also exerted significant upward pressures on expenditure.

11. The pandemic has added additional spending pressure on government in the form of short-term support to low-income households and funding for the health policy response. Interventions in this regard include the special COVID-19 social relief of distress grant and funding for employment initiatives.

12. We note that compared with the 2021 Budget, the expenditure ceiling has been increased by R 192.2 billion in the first two years of the medium term expenditure framework period, indicating a significant slippage in expenditure. This slippage is mainly in the form of increased social spending (SRD grant, health, education) and the public sector wage bill. Notably, the additional expenditure for the SRD grant and public sector wage bill are only budgeted for 2022/23. They therefore present a significant risk to the outer years of the medium term expenditure period forecasts should they become a permanent feature of expenditure.

13. We are in full agreement with the statements made in Budget 2022 to the effect that the outlook is subject to significant risks, noting specifically the calls for a permanent increase in social protection that exceeds available resources, pressures from the public-service wage bill and continued calls for financial support from financially distressed state-owned companies. These concerns were echoed by Fitch Ratings, post the Budget Speech.

14. Accordingly, the concern is that some of the expenditure which may currently be classified as “temporary” (e.g. the Social Relief of Distress grant) may well become “permanent”.

15. Although we applaud Government for its efforts to contain public-sector wages, it remains a concern that future wage negotiations may weaken this resolve.

16. The above matters will impact on Government’s ability to pursue fiscal consolidation and it is not clear what the proposed strategy will be, should the spending pressures translate into additional expenditure. As permanent increases in expenditure cannot be funded by temporary increases in revenue, hopes will be pinned on a structural increase in revenue resulting from a substantial acceleration of economic growth. However, in these uncertain times the question remains – what happens if the expected growth does not materialise / does not materialise on a timely basis? In the event that increased expenses should then have to be funded by tax increases, this will in turn have a negative impact on economic growth. In this regard we note that we are in full support of the statement in Budget 2022 that any proposals to fund permanent additions to public expenditure will require careful scrutiny.

17. To conclude, expenditure slippage will clearly put the projected deficit at risk at a time when global borrowing conditions are difficult (as aptly stated in the Budget).

Zero-based budgeting

18. An overarching concern with government expenditure has, for some years, been that government does not get good value for money in public spending. A series of spending reviews conducted in 2020 has highlighted significant restructuring opportunities (i.e. merging or closing entities to reduce duplication of functions), and exposed large inefficiencies in spending. Importantly, these reviews have, as acknowledged by Budget 2021, revealed the limits of incremental budgeting – guaranteed increments in previous allocations invariably create further inefficiencies, as well as create perverse incentives to enter into contracts that have high unit costs.

19. Last year, we welcomed the announcement in Budget 2021 that, during 2021/22, the Department of Public Enterprises and the National Treasury will pilot zero-based budgeting, thereby producing significantly re-costed budgets from 2022/23 and ultimately improving the efficiency of spending.

20. However, no mention was made in Budget 2022 regarding the progress with the implementation of zero-based budgeting which is disappointing, as we strongly believe that a review of government programmes and expenditure (as envisaged for zero-based budgeting) will be beneficial for the fiscal framework.

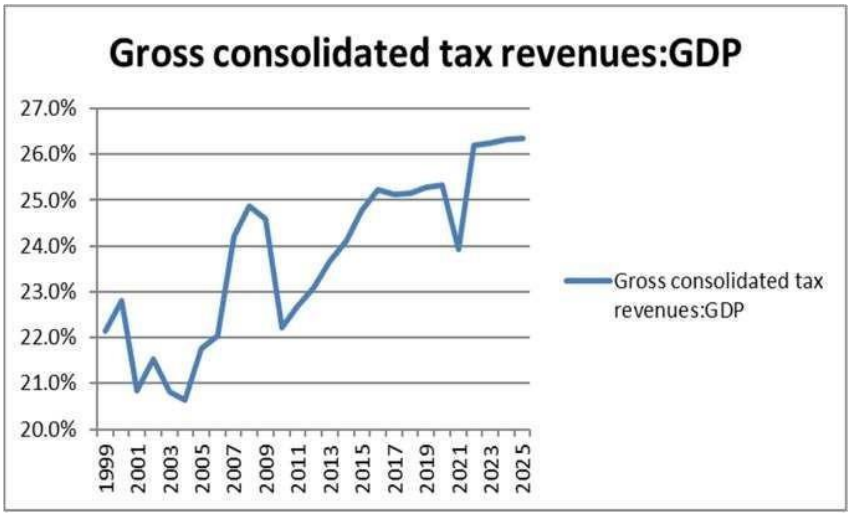
Improving the composition of expenditure

21. Generally, the thrust of the policy announcements relating to expenditure is to shift the composition of expenditure towards capital investment, to improve the quality of expenditure. We are fully supportive of this approach, which will facilitate the stabilisation of debt, reduce borrowing costs and the cost of capital, thereby providing a greater incentive for investment that will support economic recovery and growth. We note that Budget 2022 has made some strides in this regard to improve the composition of spending by allocating a greater proportion of expenditure to capital investment over the next three years. However, much more will need to be done in this regard if the investment environment is to be improved.

Level of taxation

22. In 2003/04, gross consolidated tax revenues (before SACU payments) stood at 20.6% of GDP. This ratio reached a peak of 24.9% in 2007/08 before falling substantially in the wake of the global financial crisis. Between 2009/10 and 2019/20, tax revenues recovered, and the level of taxation reached 25.3% of GDP in 2019/20. The distortionary effect of the pandemic on both GDP and gross consolidated revenues resulted in tax revenues being at 23.9% of GDP for 2020/21, recovering to 26.2% of GDP in 2021/22. As such, the tax:GDP ratio is back at record levels and is forecast to continue to grow over the medium term.

23. The below graph illustrates the level of taxation from 1998/99 to 2024/25.



24. This year's proposals to provide real relief for taxpayers, primarily in the form of the expansion of the employment tax incentive and no increase in the general fuel levy are welcome and hopefully indicate that stabilisation of the tax burden is expected in the medium term.

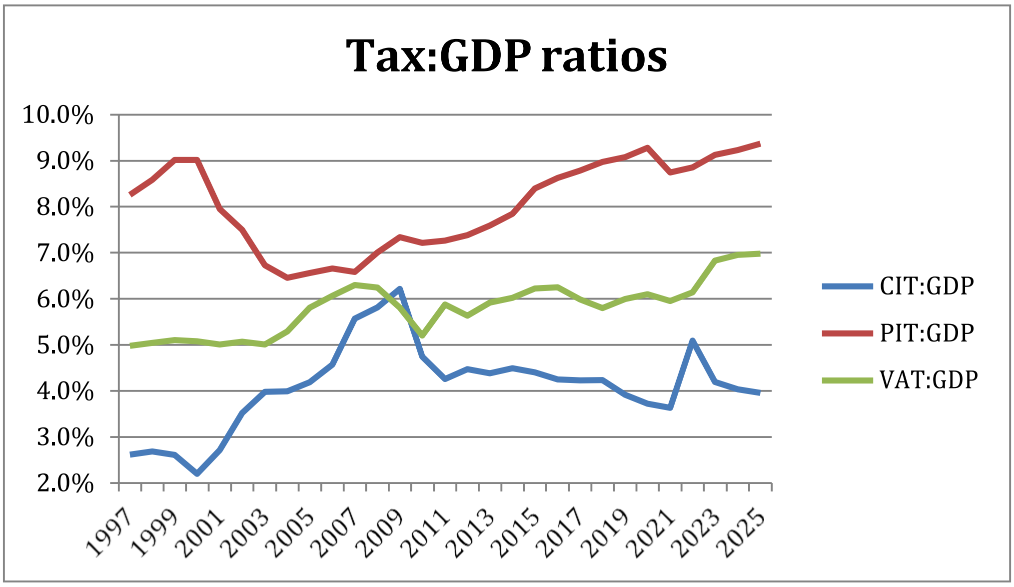
25. It is acknowledged that South Africa's high income and wealth inequality necessarily requires that its fiscal policy plays a crucial role in reducing inequality. South Africa does extremely well in this regard, with the largest reduction in inequality achieved by any of the countries studied to date by the World Bank (according to the *World Bank's South Africa: Economic Update - Fiscal Policy and Redistribution in an Unequal Society, published in November 2014*). It must, however, be pointed out that the World Bank has noted that South Africa has probably reached the limit that can be achieved by fiscal policy and that further reductions in inequality require higher and more inclusive economic growth. As Government's progress on these initiatives to date has not been sufficient to provide the required stimulus, a substantial increase (and acceleration) of the efforts will be required in the immediate future.

26. Although the above World Bank study was based on 2010 data and published in 2014, developments since then have not changed the situation. Since 2010, South Africa's tax system has been made even more progressive as a result of significant tax increases in the period until 2019/20 and the manner in which they have been imposed. The result is that South Africa's tax system and fiscal system as a whole are highly progressive.

Tax mix

27. In 2022/23, South Africa is forecast to obtain 36.8% (9.1% of GDP) of its tax revenues from personal income tax, 27.5% from VAT (6.8% of GDP) and 16.9% (4.2% of GDP) from corporate income tax.

28. Since the financial crisis of 2008, the individual contributions of each of the three main taxes to the tax mix has changed substantially. As is illustrated in the below graph, the contribution of personal income tax has increased substantially, the contribution of corporate income tax has decreased, while the contribution of VAT has remained relatively constant.



29. The significant drop off in corporate taxes following the financial crisis is evidence of the fact that corporate income tax revenues came under severe pressure as a result of the poorly performing economy since 2009. This clearly supports the widely accepted principle that corporate income tax revenues are particularly susceptible to weak economic growth. This is of particular concern in the wake of the pandemic and the low growth rates that have been forecast over the medium term. While there was a significant increase in corporate income tax revenues in 2021/22, this was primarily driven by favourable terms of trade in the form of higher commodity prices, which are widely expected to be temporary in nature.

30. Regarding the upward trend in personal income tax, this is a clear result of substantial tax increases in each of the five fiscal years until 2018/19. These increases were aimed at raising additional revenue, and included below-inflation increases in the tax brackets and rebates, as well as the introduction of a new top rate of 45% in 2017. As mentioned in Budget 2022, these increases did not, however, translate into the expected increased revenue collections, largely as a result of their adverse effect on consumption and spending, and therefore economic growth. Moreover, these tax increases have had an adverse effect on levels of tax compliance. Accordingly, no increases in personal income tax were implemented in 2021/22 (when slight real personal income tax relief was given). Similarly, Budget 2022 provides fiscal drag relief for personal income tax and an inflationary adjustment to the value of medical tax credits. This relief is welcomed.

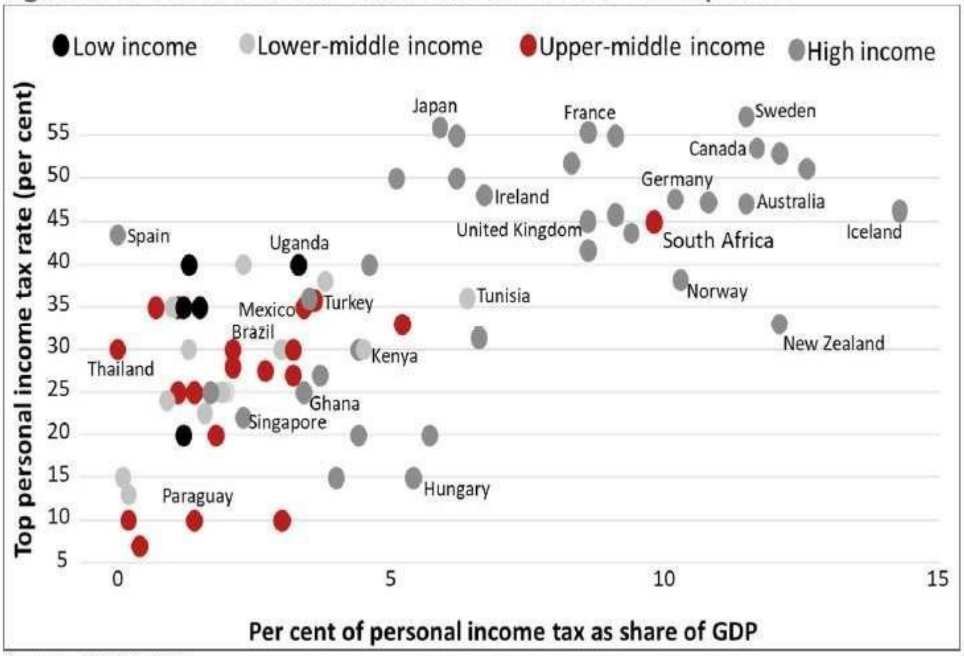
31. As stated in Budget 2021, notwithstanding the effects of the pandemic and even after some real personal income tax relief, South African income tax rates (i.e. the corporate income tax rate and personal income tax rates) are still relatively high compared to South Africa's peers, and the VAT rate is relatively low.

32. The over reliance of South Africa on income taxes results in a number of disadvantages:

- Regarding corporate income tax, tax revenues are highly exposed to volatile corporate profits. In this regard, it is noteworthy that the higher-than-expected revenue collections for 2021/22 were largely driven by higher corporate tax revenues, which (in turn) were driven by the mining sector on the back of high commodity prices. However, Budget 2022 also notes that, notwithstanding this strong performance, commodity prices are likely to decline over the next two years. Accordingly, Treasury has forecast corporate tax revenues to fall substantially in nominal terms in 2022/23. This underlines the risk arising from an over-reliance on volatile corporate tax revenues in contrast to more stable tax bases that produce more predictable revenues.
- Corporate taxes have been shown to have the greatest distortionary effect on economic growth. To illustrate this point, although corporate income tax is paid by a company, the burden of a high corporate tax rate is ultimately borne by three parties – the owners of capital (who have less incentive to invest in the economy), labour (through lower wages) and consumers (through higher prices).
- A high corporate tax burden therefore translates to lower economic growth. The high tax burden on South African companies means that our corporate tax system is relatively uncompetitive compared to those of our main trading partners and countries with whom we compete for investment.
- South Africa's relatively high corporate income tax rate creates an incentive for profit shifting to jurisdictions with lower tax rates, thereby affecting SARS' efficiency in administering CIT, and ultimately reducing revenue collections overall.

33. Personal income taxes are collected from an increasingly small pool of taxpayers. It is estimated that just 25% of those who pay income tax pay 80% of all personal income tax that is collected. Over the past few years, a smaller proportion of taxpayers has become responsible for an increasingly large portion of total personal income tax payable. Regarding the relatively high personal income tax rate burden, this is illustrated by the following scatter plot provided in the 2021 Budget Review:

Figure 4.3 Personal income tax as a share of GDP and top rates



Source: OECD, IMF

34. High income taxes result in lower levels of consumption and savings. These in turn translate into lower economic growth. According to studies conducted by the OECD and others, personal income taxes are, after corporate income taxes, the next most damaging tax for economic growth.

35. In contrast, consumption taxes (such as VAT), because they do not distort savings and investment, have been shown to be less damaging for economic growth. Similarly, recurring taxes on immovable property (for example municipal property rates) have been shown to be the taxes that are most conducive to economic growth as they have a limited effect on the demand and supply of land. This means, essentially, that direct taxes reduce economic activity to a greater extent than indirect taxes, and therefore have more of a negative effect on economic growth than indirect taxes. Conversely, a decrease in direct taxes will have more of a positive effect on economic growth than a decrease in indirect taxes.

36. It is also widely accepted that direct taxes serve as a disincentive to save and invest. Consequently, relief from direct tax (such as a reduction in personal income taxes) could result in an improvement in South Africa's poor levels of household savings.

37. High tax rates also act as an incentive for taxpayers to avoid or evade the taxes. It is apparent, from SARS's tax statistics, that there has been a marked decrease in the

levels of compliance in recent years. PIT rate deductions should therefore assist in reducing the incentive to avoid and/or evade taxes by improving taxpayer morale.

38. The above having been stated, we do not support any increase in the VAT rate. Instead, we are fully supportive of the stated intention of Treasury to reduce the corporate income tax rate (and personal income tax rates) over the medium term through broadening the tax base in a revenue neutral manner. Over the medium to long term, this will result in a relatively reduced reliance on income taxes, and a relatively increased reliance on indirect taxes (such as VAT). This will not only address the concerns outlined above, but also contribute to economic recovery and growth. In addition, measures announced to review or eliminate tax incentives and certain expenditure deductions, with a view to limiting favourable treatment of certain taxpayers and or groups of taxpayers, will enhance the overall progressivity of the tax system (notwithstanding the reduction in income tax rates).

39. We would add that, while the above reform would potentially reduce the overall progressivity of the tax system, best practice tax policy is to collect revenues in the most efficient manner (both economically and administratively) and address progressivity through the expenditure side of the budget. This approach suggests that the progressivity of fiscal policy should be considered as a whole rather than expecting that every element thereof should be progressive. In this regard, South Africa's fiscal policy is highly progressive, with expenditure contributing the lion's share of the redistribution of income.

SACU

40. We note that Budget 2022 revises upwards payments to the Southern African Customs Union (SACU) by R1.9 billion in 2023/24 and R2.1 billion in 2024/25. As stated in the Budget review, this upward revision is mainly due to an improved GDP growth outlook, and better performances in customs, specific excise duties and *ad-valorem* excise duties.

41. In previous years, we have, in our submissions on the Budget to the Standing and Select Committees on Finance, drawn the attention of the Committees to the fact that the revenue sharing formulae (which determine the share of customs and excise revenue between the members of SACU) are weighted heavily against South Africa and in favour of the other member countries. Of particular concern is the formula for sharing of customs duties. South Africa has significant trade surpluses with all of the other member countries. The result of these significant trade surpluses is that the bulk of customs duties in the combined revenue pool accrue to the other member countries, notwithstanding that the vast majority of customs duties collected relate to goods that are consumed in South Africa.

42. In short, the BLNE countries have become heavily dependent on the SACU revenues to fund their fiscuses. The result is that South African taxpayers are effectively subsidising

SACU member countries to a significant extent, and this puts a large strain on South Africa's fiscal position. We believe that a more equitable sharing of the customs revenue pool would see South Africa entitled to a greater share of the pool. Given the fiscal crisis in which South Africa finds itself, it is difficult to justify South Africa's continued subsidisation of the BLNE countries to the extent that is currently taking place. While the fiscal stability of these countries must obviously be taken into consideration in order not to destabilise the region, it is now more urgent than ever that the agreement be renegotiated in order to provide for a more equitable sharing of revenues.

B. Revenue proposals

43. We set out below our comments on the revenue proposals.

General

44. Generally, we welcome and fully support government's continued policy commitment to avoid tax rate increases by expanding the tax base through stronger economic growth, employment and enforcement.

45. As was abundantly demonstrated by the effects of the significant personal income tax increases over the five year period ending in 2018/19, once levels of taxation reach a certain point, rather than increasing tax revenues, they actually result in a reduction in tax revenues as the disincentive elements outweigh the higher tax rates.

Personal Income Tax

46. For many of the reasons set out under our comments above relating to South Africa's tax mix, we welcome the fiscal drag relief provided to individuals.

Company tax rates

<u>Timing of the corporate income tax rate reduction and base broadening measures</u>

47. While we support the general principle of a reduction in the corporate income tax rate on a tax neutral basis, in order to support economic growth and attract investments, the effective date of the reduced rate is at odds with National Treasury's comments in its Final Response Document on the 2021 Draft Taxation Laws Amendment Bill (published on 25 January 2022) seemingly indicating a postponement of the proposed base-broadening measures (i.e. the limitations on the utilisation of assessed losses and interest expense deductions) to allow space for recovery.

48. In respect of the limitation on interest expense deductions (page 26):

    Comment: Companies' earnings have been severely affected by COVID-19. If this proposal is introduced in the years where the impact of the COVID-19 pandemic is felt, interest deductibility will be further impacted by the significantly lower tax EBITDA in the current and post COVID-19 pandemic years.

Response: *Accepted*. This measure was first proposed before Covid-19 reached South Africa. The current rules are an important tool to mitigate the use of excessive debt and interest payments that reduce taxable profits in South Africa. Government maintains the view that these rules need to be strengthened to protect the corporate tax base*,* but understands that many businesses may have had to rely on more debt to withstand the pandemic and its associated lockdowns. This coupled with lower earnings provides *the rationale to postpone this proposal to provide space for recovery*. For this reason, the proposal will remain in the 2021 Draft TLAB. However, the proposals will come into operation on the date on which the rate of tax in respect of the taxable income of a company is first reduced after announcement by the 27 Minister of Finance in the Annual National Budget, and will apply in respect of years of assessment commencing on or after that date. *[Our emphasis]*

49. In respect of the limitation on the use of assessed loss balances (page 32):

Comment: Most commentators understand and appreciate the overall objective of broadening the corporate tax base and lowering the tax rate. However, one of the biggest concerns raised was timing – that the proposal is too harsh given the continuing Covid-19 pandemic and recent unrest in the country. Many businesses have suffered losses as a result of the pandemic and associated lockdowns. Having to use cash to pay tax on 20 per cent of taxable income rather than using cash flows to recover and reduce debt will place an additional burden on companies that are trying to recover from these adverse events. Many countries have temporarily relaxed their tax loss regimes as part of the relief measures to support businesses in these times.

Response: *Accepted*. This measure was first proposed before Covid-19 reached South Africa. Government holds the view that a broad tax base with as few distortions as possible, combined with a lower rate, will be more efficient – an important tax policy design principle. It is also acknowledged that businesses have faced difficult economic circumstances in the past 19 months. Some businesses are in survival mode *and providing the space for recovery is important*. For this reason, the proposal will remain in the 2021 Draft TLAB. However, the proposals will come into operation on the date on which the rate of tax in respect of the taxable income of a company is first reduced after announcement by the Minister of Finance in the Annual National Budget and will apply in respect of years of assessment commencing on or after that date. [Our emphasis]

50. The announcement in the budget that the rate reduction would apply for years of assessment ending on or after 31 March 2023 has the effect that there is no postponement of the introduction of these measures from the date announced in the 2021 Budget Speech and originally proposed in the draft TLAB.

51. The seemingly sudden about turn (within the space of a month) on the postponement of these measures is concerning. In the current economic environment, the implementation of these proposals are harsh and the (promised) space to recover would have aided taxpayers in having an (earlier) recovery from the adverse financial impacts that they had to suffer in the past two financial years. The implementation of the assessed loss amendment in these times will, in particular, prejudice certain hard-hit sectors that have been the most negatively impacted by the pandemic (e.g. hospitality and entertainment) in their journey to financial recovery.

52. National Treasury indicated during workshops that they have used SARS micro-data to quantify the impact of the base broadening measures and the rate reduction, including on a sectoral basis. This data would provide a good indication of how each sector will be impacted by these measures. Importantly, some taxpayers and sectors will be net winners from the changes while others are likely to be net losers. Unfortunately, the data has not been made publicly available for review – we would recommend that this is published so that it can inform the public consultations in this regard.

53. That said, it is immediately obvious that taxpayers that have made losses over the past two years as a result of the pandemic will face a significant disadvantage as they return to profitability as a result of those losses not being able to be set off against their profits in coming years to the full extent of those profits. This will result in the affected taxpayers having tax liabilities that will require cash outflows.

<u>Rate reduction – Proposed way forward</u>

54. Greater clarity is required on the stated intention to further reduce the corporate income tax rate on a revenue neutral basis as the tax base is broadened. The targeted tax rate (noting that we have previously suggested a rate of 25%), as well as the base broadening measures and timelines to achieve the target rate should be indicated.

<u>Base broadening measures</u>

55. Budget 2021 announced a review of the tax incentive regime with a view to reduce wasteful tax incentives.

56. Resulting from this review, Budget 2022 announced that certain tax incentives will not be renewed, including section 12DA (rolling stock), section 12F (airport and port assets), section 12O (films) and section 13*sept* (sale of low-cost residential units through an interest-free loan).

57. As Budget 2022 does not provide a detailed breakdown of the spend on these incentives, the potential "revenue" (base broadening) that may be achieved by terminating these incentives is not clear.

58. We do, however, note that a mere R19 million was spent on the film incentive in 2019/2020 and that the cost of these incentives is likely to be small given the specialist nature thereof.

59. It is further noted that the proposed implementation of the Pillar 1 and Pillar 2 measures agreed as part of the OECD/G20 Inclusive Framework constitutes a base-broadening measure. These measures could result in significant additional revenues for South Africa and should be taken into account in considering further reductions in the corporate tax rate.

Review of monetary amounts

60. We note the statement that Government will review the approach to adjusting thresholds for inflation. This is welcomed, as in the spirit of transparency, National Treasury should state any policy decisions not to adjust for inflationary increases as this has an impact on the real (effective) tax rates.

61. It is noted that a number of tax tables and thresholds have not been amended for the effects of inflation over a number of years. The lack of regular changes to these result in tax increases by stealth, in the absence of any explicit statement of intent on the part of Treasury to increase taxes.

62. Examples include, but are by no means limited to:

- the retirement fund lump sum tax tables;
- the tax table for small business corporations;
- transfer duty tax tables;
- the cap on deductible contributions to retirement funds;
- capital gains tax annual exclusions.

63. It is recommended that all tax tables and monetary amounts should be reviewed by Treasury (and Parliament) on an annual basis as part of the budget and tax legislative cycle process to ensure transparency in policy-making.

Employment Tax incentive

64. We support the increase in the maximum value of the employment tax incentive.

65. We also note the statement that there will be an expansion of the eligibility criteria for qualifying employees to improve the incentive for small businesses. While the budget provides no detail in this regard, we note that there are a number of challenges with the incentive in this regard.

66. In particular, the design whereby the incentive decreases in terms of a formula up to a maximum where the incentive will no longer be available appears to be inherently

contradictory. Logic suggests that the more a young, inexperienced employee (the target of the incentive) is paid, the greater would be the need for the incentive. Yet, as the pay of an employee increases, the value of the incentive reduces. The result is that there is a perverse incentive to pay the lowest possible remuneration to qualifying employees.

General fuel levy and RAF

67. The proposal not to increase the general fuel levy and RAF is welcomed in the current environment. We also consider that,in the circumstances, this is the most appropriate way to provide tax relief to taxpayers. Ordinarily, we would advocate that such relief should be provided in the form of personal income tax. However, in the context of rising oil prices, the broad-based effect this has on inflation and the fact that inflation hurts the poor more than other income groups, relief from further fuel taxes is considered appropriate.

We thank you for the opportunity to offer our opinion on the Budget fiscal framework and revenue proposals, and we trust that you find this to be of assistance in your deliberations. Please do not hesitate to call on us for further analysis.

Yours sincerely,

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