



MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

MINISTER GORDHAN ANNOUNCES FURTHER DETAILS OF THE TAX REVIEW COMMITTEE AND THE TERMS OF REFERENCE

The Minister of Finance, Pravin Gordhan, has today announced members of the Tax Review Committee as well as the committee's terms of reference.

Today's announcement gives effect to the Minister's announcement in February when he tabled the 2013/14 budget that government will initiate a tax review this year "to assess our tax policy framework and its role in supporting the objectives of inclusive growth, employment, development and fiscal sustainability".

Members of the Tax Review Committee

Judge Dennis Davis will chair the Tax Review Committee. The other members are:

1. Professor Annet Wanyana Oguttu,
2. Professor Matthew Lester,
3. Professor Ingrid Woolard,
4. Ms. Nara Monkam,
5. Ms. Tania Ajam,
6. Professor Nirupa Padia, and
7. Mr Vuyo Jack

A National Treasury official, Mr. Cecil Morden, and a South African Revenue Service (SARS) official, Mr. Kosie Louw, will be ex-officio members, providing technical support and advice to the committee. In addition, a team comprised of National Treasury and SARS officials will provide secretarial support to the committee. SARS will provide office accommodation and logistical support to the committee.

Terms of Reference of the Tax Review Committee

The terms of reference for the Tax Review Committee are to inquire into the role of the tax system in the promotion of inclusive economic growth, employment creation, development and fiscal sustainability. The committee will in its work take into account recent domestic and global developments and, in particular, the long term objectives of the National Development Plan (NDP).

The committee will make recommendations to the Minister of Finance. Any tax proposals arising from these recommendations will be announced as part of the normal budget and

legislative processes. As with all tax policy proposals, such proposals will be subject to the normal consultation and Parliamentary oversight.

The committee should evaluate the South African tax system against the international tax trends, principles and practices, as well as recent international initiatives to improve tax compliance and deal with tax base erosion.

The following aspects should receive specific attention from the committee:

1) An examination of the overall tax base and tax burden including the appropriate tax mix between: direct taxes, indirect taxes, provincial and local taxes. An analysis of the sustainability in the long-run of the overall tax-to-GDP ratio, and the tax-to-GDP ratio for each of the three major tax instruments, personal income tax (PIT), corporate income tax (CIT) and VAT should be undertaken. This in essence requires an evaluation of the economic and social impact of the tax system and an assessment of whether the current tax structure is able to generate sufficient and sustainable revenues to fund government's current and future expenditure priorities.

2) The impact of the tax system in the promotion of small and medium size businesses, including analysis of tax compliance costs, the possible further streamlining of tax administration and simplification of tax legislation.

3) A review of the corporate tax system with special reference to:

- the efficiency of the corporate income tax structure;
- tax avoidance (e.g. base erosion, income splitting and profit shifting, including the tax bias in favour of debt financing);
- tax incentives to promote developmental objectives; and
- the average (and marginal) effective corporate income tax rates in the various sectors of the economy.

4) As noted in the 2013 Budget Review, the committee will consider

a) Whether the current mining tax regime is appropriate, taking account of:

- the agreement between Government, Labour and Business to ensure that the mining sector contributes to growth and job creation, remains a competitive investment proposition, and all role players contribute to better working and living conditions; and
- the challenges facing the mining sector, including low commodity prices, rising costs, falling outputs and declining margins, as well as to its current contribution to tax revenues.

b) Various elements of taxation within the financial sector, namely the taxation regime of long term insurers (BR, page 55), the taxation of hedge funds (BR, page 56), the taxation of various innovative financial instruments (BR, page 63), and the VAT treatment of financial services and VAT apportionment within the financial sector (BR, page 63).

5) Value added tax with specific reference to efficiency and equity. In this examination, the advisability and effectiveness of dual rates, zero rating and exemptions must be considered.

6) The impact of e-commerce (especially the use of digital delivery of goods and services) upon the integrity of the tax base, in particular upon value added tax and corporate income tax revenues.

7) The progressivity of the tax system and the role and continued relevance of estate duty to support a more equitable and progressive tax system. In this inquiry, the interaction between capital gains tax and the estate duty should be considered.

8) An evaluation of proposals to fund, for example, the proposed National Health Insurance (NHI) and long term infrastructure projects to boost the growth potential of this economy.

9) An evaluation of the legislative process with a view to both enhancing simplicity and ensuring the protection of the tax base and to recommend how to improve the current process.

The Committee is mandated to study any further tax issues which, in the Committee's view, should be addressed in order to promote inclusive economic growth, employment creation, development and fiscal sustainability. The Committee is required to submit interim reports and a final report which will be published on dates to be determined after consultation between the Committee and the Minister of Finance.

Objectives of South African tax system

The committee should take into account the following broad tax policy objectives:

- a) Revenue-raising to fund government expenditure is the primary objective of taxation
- b) Social objectives, building a cohesive and inclusive society can be met partially through a progressive tax system and by raising revenue in order to redistribute resources.
- c) Market failures can be corrected by applying a tax on production and/or consumption to internalise negative externalities, e.g. pollution or consumption of harmful products.
- d) The tax system can influence behavioural changes by encouraging certain actions (e.g. savings) and discouraging others (e.g. smoking).
- e) Taxes and tax incentives are sometimes used in targeted ways to encourage higher levels of investment to help facilitate economic growth.
- f) International competitiveness is important, although the tax system is not the main driver of international competitiveness. Innovation and productivity improvements are far more important. We should guard against the 'race to the bottom' in our efforts to strive for a "competitive tax system".

Background to the Review

The South African tax system has changed significantly since the recommendations of the last tax commission (The Katz Commission). The changes to the system include the establishment of an independent tax and customs administration (the South African Revenue Service), the broadening of the tax base, and the lowering of marginal tax rates. These and other changes have contributed to the development of a relatively robust and competitive tax system. Today South Africa's tax policy and tax administration compares favourably with those of many developed and emerging economies.

However, given the pace of globalisation, the relatively modest economic growth after the 2008/09 economic recession, and the significant social challenges such as persistent unemployment, poverty and inequality, there is a need to review what role the tax system can play as part of a coherent and effective fiscal policy framework in addressing these challenges. There is also a need to address concerns about base erosion and profit shifting, especially in the context of corporate income tax, as identified by the OECD and G20.

The email address for the Tax Review Committee is: taxcom@sars.gov.za. Other contact details will be announced shortly.

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