Input on Rates and Monetary Amounts Amendment Bill (2015/16)

Parliamentary Budget Office

PARLIAMENTARY BUDGET OFFICE NOTE

Rates and Monetary Amounts Amendment Bill (2015/16)

The objective of this note is to provide a brief, written input on the Rates and Monetary Amounts Amendment Bill ('Rates Bill') as requested by the Chairperson on the 15th of June 2015. The analysis has been limited by the time available. Members are also referred to the Parliamentary Budget Office's presentation on the Budget, fiscal framework and revenue proposals on the 3rd of March 2015.

As a procedural note: the Rates Bill gives effect to some of the revenue proposals put forward in the Budget Review. Therefore, in principle, the Committee's report on the revenue proposals – as per section 8.4 of the Money Bills Amendment Procedure and Related Matters Act (2009) ('Money Bills Act') – in the Budget Review should inform consideration of the Rates Bill. If Parliament were not to approve the changes proposed in the Rates Bill, it would need to endorse alternative mechanisms for collecting revenue since it has approved the revenue collection levels in the fiscal framework that already incorporate the estimated effect of these proposals (see sections 8.5 and 11.3 of the Money Bills Act).

General principles

The main issues to consider in relation to any taxation proposals are:

1. Impact on economic activity (individuals and firms)
2. Impact on distribution of income and wealth ('tax incidence/progressivity')
3. Efficiency and feasibility in terms of collection

As noted by the PBO in its work for the Budget, National Treasury have typically not provided detailed information on the reasons for selecting one mechanism over another or on the expected economic and distributional impacts. There may be good reasons for this, but it presents some challenges for oversight given the importance of such information for determining the merits and disadvantages of different tax proposals. Information on the expected effect of certain proposals on revenue collection is provided on p.156 of the 2015 Budget Review – see also discussion below.

Personal income tax rates

The proposed amendments to personal income tax rates are arguably the most important component of the Bill. In the Budget Review, Treasury indicated that the one percentage point increase in marginal tax rates would increase forecast revenue for 2015/16 by R9.42billion. This would have been offset, by approximately R7.5bn, for 2015/16 by the proposed once-off reduction in UIF. That proposal has, however, been withdrawn – see separate PBO brief on this.

National Treasury, and the Minister in his Budget Speech, have presented a number of reasons why additional measures are needed for revenue collection. If those are accepted, then perhaps the main issue for the Committee's consideration is: what are the appropriate mechanisms for raising this revenue?

In its Budget presentation, the PBO noted the desire to maintain the corporate income tax rate while increase personal income tax rates and potentially raising VAT in future. Part of the motive for this is presumably to encourage investment in the private sector during an economic downturn. However, households are also suffering the effects of slow economic growth and are taxed on income rather than profit (income minus expenses). Household demand is also important for economic activity. Effective household and corporate income tax rates have dropped since the 1990s, so there may be scope for increases in both – the issue is what is an appropriate balance, taking into account the generic matters described above.

Small business taxation

The Committee dealt in some detail with small business taxation proposals, partly from the work of the Davis Tax Commission (DTC), which were included in the 2014/15 Taxation Laws Amendment Bill. Due to opposition from some stakeholders a decision was made to postpone the implementation of some of those measures while: National Treasury engaged in further consultation; so that the DTC's proposals could be considered in a consolidated fashion.

The main proposals relating to small businesses in general are not included in the Rates Bill, consistent with the above.

It is unclear from the explanation accompanying the Bill whether the proposed amendment to the turnover regime for microbusinesses is consistent with what was agreed in 2014 and in the limited time available the PBO has not been able to check this. The Committee should satisfy itself that these proposals are consistent with the previous Committee report and decision(s).

It is not clear from the documentation provided what effect the proposed change in small business taxation will have on revenue collection. This information may be in the Budget Review, but it would be useful if National Treasury explicitly linked its proposals in the Rates Bill to estimates of the effect (negative or positive) on revenue collection that are sometimes provided in the Budget Review.

Customs and excise duties

The recent World Bank report on the distributional effects ('fiscal incidence') of South Africa's public finance system (expenditure and revenue collection) noted that excise duties on items like tobacco and alcohol are somewhat regressive because poorer South Africans pay a higher proportion of these duties.

There are differing views on the interpretation of that finding. If the aim of these 'sin taxes' is to discourage unhealthy consumption then the distributional effects may not be of primary importance. However, this also depends on how effective such measures are in discouraging individuals from these forms of consumption. If the duties are not having the desired impact on health, then the negative distributional consequences may be of greater concern.

Other issues

The Budget Review indicates that the change in medical credits is likely to decrease forecast revenue by R920million.

The adjustments to transfer duty, which are expected to have a broadly progressive effect since they increase the duty on more expensive properties while decreasing it on less expensive ones, is expected to increase revenue for 2015/16 by R100mil.

One oddity in relation to levies and duties is that the most significant individual levy – the fuel levy – is determined by Gazetting rather than through an amendment to the Rates Bill that requires Parliamentary approval. The proposed increase in this levy is expected to increase revenue by R6.49 billion, which is much larger than the combined effect of the change in the alcohol and tobacco duties R1.84bil).

The National Treasury has elected not to proceed with an increase in the electricity levy form 3.5c/kWh to 5.5c/kWh. In the Budget Review it was indicated that a final decision on this measure was subject to further consultation and its impact on revenue does not appear to have been incorporated into the original revenue forecasts or fiscal framework.

The Parliamentary Budget Office (PBO) has been established in terms of the Money Bills Amendment Procedure and Related Matters Act (Act 9 of 2009). The PBO provides independent, objective and professional advice and analysis to Parliament on matters related to the budget and other money Bills. The PBO supports the implementation of the Act by undertaking research and analysis for the Finance and Appropriations Committees.

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