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Mr Allan Wicomb
Parliamentary Standing Committee on Finance
3rd Floor
90 Plein Street
Cape Town
8001

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Dear Sir

COMMENTS OF THE 2016 BUDGET REVIEW

We present herewith our written submissions on the 2016 Budget Review.

Our submissions include a combination of representations from the various matters but limited to the matters we believe require the Committees attention the most. We have deliberately tried to keep the discussion of our submissions as concise as possible Should you require further clarification you are more than welcome to contact us in this regard.

We acknowledge again this year the Minister of Finance's difficult task at hand and the growing expectation of meeting so many different needs and challenges. In this regard we would like to extend a hand of collaboration to the Minister for SAICA to assist where we can in dealing with the challenges that affect us all.

As always, we thank the Standing Committee on Finance (SCoF) for the on-going opportunity to participate in the development of the South African law.

Yours sincerely

Pieter Faber
PROJECT DIRECTOR: Tax

Attachments:
Annexure A – Detailed submissions

ANNEXURE A

MATTERS TO BE PRESENTED TO THE SCoF

Contents

CHALLENGES

A. Consultation process

1. The finalisation of policy regarding retirement reform continues in the 2016 Budget Review with taxpayers having to wait another 2 years for an outcome and lessons should be taken from this matter.

2. However it is starting to raise broader policy questions as to legislation passed that is subject to continual or further public consultation.

3. The challenge remains that National Treasury should ensure that its policy is clear and documented and that public consultation should be in an open and transparent forum to ensure that no questions can be asked as to the veracity of the public consultation process should such legislation be withdrawn or amended 3 months later to now take heed of the public concerns.

4. For example, National Treasury have during the last two years expressly stated to the public on various occasions that its policy is certain regarding the implementation of retirement reform as proposed in the 2013 legislative amendments and that it would without a doubt implement it. As presented to the SCoF in October 2015, it was stated that 40 consultations had taken place even though SCoF referred NT back to consult with all parties not just some when it changed the proposals.

5. The same can be said for the section 8C 2015 amendments, which NT stated sought to assist taxpayers but faced heavy criticism from the public as to achieving the exact opposite from the policy expressed. Again SCoF referred NT back to consult, which consultation just highlighted the impasse instead of addressing it.

6. Even more worrisome are the consequences of the Legislature passing legislation which is constantly amendment or policy shifted. The Minister in his media release on retirement reform in 2016 has already acknowledge the wasted costs suffered by business and employers due to this toing and froing in retirement reform as example and such waste of resources by NT, SCoF and taxpayers should rather be avoided.

7. However the Legislator, as demonstrated in 2015, will in our view have to take a more prominent role in scrutinising whether the Executive are indeed sure of the policy unpinning legislative amendments proposed.

8. Submission: Further engagement will be requested by SAICA with both SCoF and the National Treasury to get clarity on these matters and a constructive way forward in ensuring that policy is properly scrutinised and documented and that all public consultations happen in open and transparent forums to avoid confusion later on.

B. South African Revenue Service – Deterioration of relations

9. The Minister has rightfully commended the SARS staff for the work done under pressing conditions, both political and other.

10. However, as highlighted by SAICA in our 2015 presentations to SCoF, there are many concerns we currently share with others, including business and taxpayers, that the SARS model and operations have been raining concerns.

11. A confident and efficient SARS is needed not only by the government but by taxpayers as well as we all share in the social pact.

12. Furthermore the political challenges current playing out in the media is not only breaking down relations between government departments but also between taxpayers and SARS. This places a further burden on SARS and its ability to collect the funds needed by the government.

13. The Minister has requested that he be given a short time period to take stock of the current uncertainties and we agree that the uncertainty currently applicable should be addressed within government through appropriate and constructive dialogue.

14. We should however not forget that once the dialogue has set the floor, an action plan will be needed to address the concerns of taxpayers as this matter is pressing and needs to be addressed in the interest of the country as a whole.

15. The Minister has also at the same time extended a hand of collaboration which we believe in this matter is of cardinal importance and that we can only return SARS to a world class organisation if we all invest in its success and the success of the relationships between it and taxpayers.

16. Submission: SAICA would again like to extend a hand of collaboration to assist in rebuilding SARS and relations with taxpayers and would like to meet with government to discuss a constructive way forward. We will again seek to address this matter with the SCoF and the Minister later in the year if no earlier opportunities arise to do so.

C. Effectiveness of business tax expenditure

17. Tax expenditure represents the tax income forfeited by the state to incentivise certain policy directives.

18. In principle we support few but effective tax incentives.

19. Various incentives are provided and we are pleased to see that the small business corporation (SBC) and motor industry development project (MIDP) incentives are increasing in uptake between 2010 and 2014, confirming that they are functioning.

20. It also confirms our conclusions that the SBC incentive remains the most supportive incentive for small business and that there is no need to replace it with a tax credit incentive which could have a negative impact.

21. However, what is also clear and concerning is the negative growth in many other incentives, which in our view also illustrates how tax administration and constant policy change can be counterproductive in achieving policy directives.

22. For example the uptake in the research and development incentive, which the economy dearly needs to function properly, has deteriorated from R1,2 billion to R745 million. The Strategic projects allowance has gone down from R294 million to a negligible amount and UDZ is down from a high of R975 million to R314 million. The learnership allowance which is also under review for extension also reduced from R1 368 million in 2010 to R966 million in 2014.

23. It is also noticeable that a considerable decrease occurred in the 2012/2013 year with partial recoveries the year later across various incentives, yet no explanation is provided.

24. Submission: The team appointed by the Minister to investigate the R&D incentive should also look at all "underperforming" tax incentives as it is concerning to see these negative trends without explanation as to why they are happening.

UNCERTAINTY

D. Shift in policy to indirect taxes

25. No tax increases were announced to the traditional big 3 taxes namely personal income tax (PIT), corporate income tax (CIT) and VAT.

26. However, the budget has introduced a myriad of new indirect taxes from sugar tax to tyre tax to the general fuel levy being another general revenue generator.

27. What has been a clear trend is that there is a shift in the tax mix from direct taxes to indirect taxes with carbon tax still to come.

28. The Minister has also emphasised that earmarked taxes will only be used sparingly and the UIF / RAF contrasts were used as justification.

29. However the comparative seems misplaced as the RAF shortfall is largely driven by our inability to reduce road accidents which are per a 2013 study comparable to the highest in the world. The recent RTMC 2015 report noted that SA has the highest incidence of drunken driving deaths in the world.

30. This directly impacts the RAF and the problem is therefore not the RAF funding model as alluded to but rather addressing the carnage on SA roads that results in this massive financial burden on the state.

31. On the same vein the removing of earmarked taxes has been as disastrous as can be seen with the general fuel levy which has become a tax to fund many things other than road infrastructure. This policy change has resulted in drastic underspending on road infrastructure and a greater policy shift to fund more road maintenance from additional taxes like tolls.

32. It is clear that earmarking certain taxes would be more beneficial than harmful, including the proposed carbon tax and especially the tyre levy which has been implemented as a customs and excise charge collected by SARS for the national revenue fund, but with a developmental policy directive. The latter can only be achieved if the funds are employed as originally envisaged.

33. Submission: The Minister should reconsider policy to further limit or discontinue earmarked taxes which in certain instances have many more benefits than shortcomings, especially in respect of behavioural taxes such as the carbon tax and the tyre levy.

34. However no clear policy statement has been made in this regard of a shift to indirect taxes as creating a future funding model and it is therefore unclear whether such policy shift has formally been made or is merely perception?

35. The impact of indirect taxes needs to be understood by the public as these taxes are mainly hidden in upstream costs though have downstream impacts. It furthermore also adds to the tax administration burden when multiple additional taxes are added to replace a single direct tax in part.

36. For example for the 2016/2017 year fuel taxes are predicted to form 45,4% of the pump price of diesel up from 28,1% in 2014/2015. The impact of this on the economy and how things may change should the oil price recover to over US$100 from its current price just above US$30 should also be considered.

37. Submission: Clarity is sought on whether National Treasury have now made a policy shift in adding more indirect taxes as part of the tax mix and what the policy thinking was in respect of this decision. Also clarity is sought on how this specific taxes would remain effective if not earmarked.

RECOMMENDATIONS

E. Declaration of drought as a national disaster

38. The 2016 Budget speech has made provision for various reliefs for farmers for drought relief which is welcomed.

39. However with the worst drought in 100 years the impact of the money's provided for seems insufficient to reduce the damaged caused, placing more pressure on the sector an inevitably employment in the sector.

40. Furthermore, much of the proposed relief is focused on small farmers whereas a dire need is also present with commercial farmers who themselves find themselves on financial shaky ground.

41. Another point of consideration is that prior to its reduction, the Contingency reserve fund was at R40 billion though much of this funding remained unspent in emergency situations such as regional droughts and flooding.

42. South Africa cannot this time around afford not to spend the emergency funds or delay its application which could be disastrous to the agriculture sector with estimates of the lowest harvest in decades and 13 million livestock having succumbed to the drought.

43. Submission: To prevent inordinate delays in making funding available and to provide for additional emergency drought relief, it is submitted that the Minister should declare the drought a national disaster and that National Treasury together with the farming community start taking stock of the most pressing needs for both small and commercial farmers.

F. Use of UIF surplus as debt settlement

44. The Minister has noted that earmarked taxes do create fiscal immobility and the UIF surplus was given as example in contrast to the road accident funds massive shortfalls.

45. Should earmarked taxes be utilised as a matter of policy or short term need we are of the view that RAF set off or increased UIF benefits should not be the focus.

46. In our view there are more pressing short term concerns and where we do agree with the Minister is that having something akin to a savings account with massive credit card debt is non-sensical.

47. Submission: As a token of our efforts to substantially reduce our sovereign debt, making us less vulnerable to the whim of the markets and providing the Minister more medium term planning space, we would recommend that the UIF surplus is utilised, it should be for debt settlement.