**4. REPORT OF THE STANDING COMMITTEE ON FINANCE ON THE 2016 FISCAL FRAMEWORK AND REVENUE PROPOSALS, DATED 08 MARCH 2016**

## Introduction

The Minister of Finance tabled the 2016 National Budget before Parliament on 24 February in terms of the Money Bills Amendment Procedure and Related Matters Act (‘Money Bills Act’) and subsequently engaged with the Standing and Select Committees on Finance on 25 February 2016.

The Finance Committees then received inputs from the Parliamentary Budget Office (PBO) and the Financial and Fiscal Commission (FFC) and at public hearings took submissions from the Congress of South African Trade Unions (COSATU), Federation of Unions of South Africa (FEDUSA), the South African Institute of Tax Practitioners (SAIT), the South African Institute of Chartered Accountants (SAICA), PricewaterhouseCoopers (PwC) and Professor J. Rossouw.

On the 4 March the Committees received a presentation from National Treasury addressing the specific requirements of section 8(3) of the Money Bills Act for approving the fiscal framework, and responding to selected issues raised by Members, the PBO, FFC and stakeholders who took part in the public hearings.

## Input from institutions advising Parliament

### Parliamentary Budget Office

### The PBO provided a brief background to fiscal policy since 1994, gave an overview of the proposed fiscal framework, discussed the major revenue proposals, summarised the proposed allocation of expenditure across functional groups and economic classification, and discussed selected risks.

### South Africa’s debt-to-GDP ratio has increased since the 2008 financial and economic crisis due to its countercyclical policy. Since 2014 government has emphasised the need for fiscal consolidation to prevent further rapid increases in debt levels. This ratio is, however, expected to increase more than planned in the 2015 Budget – primarily due to lower-than-expected economic growth. However, increased borrowing requirements and costs from a weaker exchange rate have also played a role. In relation to credit rating the PBO noted that increases in the market risk premium for the country’s foreign debt indicates a possible downgrade to sub-investment grade in the future. Planned contingency reserves have also declined since the 2015 Budget. The percentage of expenditure on capital assets will decline over the MTEF while debt service costs are expected to increase.

The PBO noted that the two main sources of additional revenue proposed in the 2016 Budget are the fuel levy and additional personal income tax through ‘fiscal drag’ (below-inflation adjustments in tax brackets). The PBO noted that taxpayers already in the highest tax bracket will be mostly unaffected by fiscal drag. The fuel levy has some similar characteristics to VAT, since it is a consumption-based, rather than earnings- or wealth-based, tax. Research from Data First at the University of Cape Town on transport costs suggests that fuel levy increases may have a disproportionate effect on poorer workers who commute using minibus taxes.

 The PBO discussed three specific risks based on detailed work done for committees: uncertain economic growth, social grant expenditure, and the financial status of state-owned enterprises (SOEs). The PBO used National Treasury’s historical forecast performance to estimate how uncertain the growth forecasts in the 2016 Budget are. This indicates that for 2016/17 there is a 90% chance that growth will be between -1% and 3.4%, compared to Treasury’s forecast of 1.2%. The PBO has completed a report on social grants, which finds that grant expenditure is sustainable over the long term. However, current low growth rates are a threat to sustainability. The 2016 Budget proposes below-inflation increases in grant values while largely maintaining beneficiary numbers. Finally, the PBO provided an update on financial support to SOEs (in the form of equity injections and debt guarantees). It also noted that Treasury’s new reporting framework has led to a significant increase in recognised contingent liabilities, due to recognition of the risks posed by Public Private Partnerships and tariff guarantees by Eskom to Independent Power Producers. Recognition of these risks is consistent with issues raised in the PBO’s report on SOE financing.

The PBO concluded with the following issues for consideration:

* What is the expected impact of a higher fuel levy?
* What is NT’s basis for determining an appropriate contingency reserve?
* To what extent are the proposed measures to reduce the compensation of employees (as a share of total spending) feasible and desirable?
* What are the contingency plans, including protection of the social safety net, for lower growth scenarios?
* Given the upward revision of contingent liability estimates, what is being done to ensure that the risks of future off-budget financing is properly recognised and managed?

### Financial and Fiscal Commission

The FFC acknowledged that the 2016 Fiscal Framework has been crafted in very difficult circumstances characterised by downward economic growth forecasts. The Commission welcomes the intention to enhance fiscal consolidation through a downward revision of budget deficits over the next three years to levels below what had been planned.

The Commission is of the view that continued credible commitment to fiscal consolidation, within the framework of the fiscal guidelines is necessary to ease the frequency of sovereign debt downgrades as Government demonstrates its ability to control spending pressures. Such commitment should be geared to ensuring that the policy remains credible. It is critical that such a perspective is shared by the executive and legislature.

 Current economic growth estimates fall short of the required growth rate to fulfil National Development Plan (NDP) expectations and compares unfavourably with other developing economies.

South Africa should focus on reigniting growth through improving education expenditure outcomes, increasing skills bases, maintaining strong growth on social safety net spending and increasing public infrastructure productivity.

The FFC recommended that Government should continue to moderate growth in expenditure on the public sector wage bill; improve effectiveness of public finances through greater and more rigorous oversight to ensure elimination of fruitless, wasteful, and unauthorised expenditure, and corrupt practices in managing public finances and explicitly consider economic growth as an important factor for fiscal consolidation in SA.

## Input from stakeholders

### Congress of South African Trade Unions

COSATU holds that government’s NDP is not achieving the targets of economic growth and creating 100 000 new jobs per annum. The projected inflation rate of 7 per cent would be a crisis for workers. However, COSATU appreciates that the country needs to avoid a sovereign downgrade and is less critical of the budget than it would otherwise be.

COSATU supports increases in revenue through excise duties, capital gains taxes, transfer duties and environmental levies. While the decision not to increase Value Added Tax (VAT) is welcome, COSATU is against possible future increases given that VAT is regressive and is likely to impose a burden on poor people. COSATU is concerned that the proposed sugar tax may ultimately lead to retrenchment of farm workers on sugar plantations.

COSATU submits that government should consider the following proposals to increase revenue, stimulate the economy to create jobs and meet developmental objectives:

* A progressive tax system with an introduction of a tax category for the super-rich.
* Introduction of a solidarity tax that would cap the growth of earnings of the top 10% and accelerate the earnings of the bottom 10%.
* Introduction of tax on both domestically produced and imported luxury items, but a higher tax on luxury items which are imported.
* Increase in the dividends tax to encourage re-investment, job-creation and to reduce the financialisation of company assets.
* Imposition of a land tax to aid the process of land redistribution.
* Zero-rating of medicines, water, domestic electricity and public education.
* Introduction of export taxes on strategic minerals, metals and other resources to support downstream industries and to promote value-addition.
* Introduction of investment tax credits to encourage local procurement of machinery and equipment.
* Introduction of tax on firms that are resistant to closing the wage gap.
* Taxation of firms that pay below the statutory minimum wage and the distribution of such tax proceeds back to affected workers

COSATU appreciates the objectives of the Jobs Fund but believes it could have done better. It opposes the Employment Tax Incentive as it displaces older workers and mainly benefits labour brokers, while the Expanded Public Works Programme (EPWP) replaces decent municipal jobs with temporary minimum wage work. COSATU supports the merging of South African Airways (SAA) and SA Express, but proposes that Mango should also be part of the merger. COSATU supports the establishment of the Brazil, Russia, India, China, South Africa (BRICS) bank, but raised concerns regarding the contributions required. It does not agree with the Southern African Customs Union (SACU) revenue sharing arrangement.

COSATU expressed concern regarding management of State-Owned Enterprises and called for the urgent tabling of the Shareholder Management Bill. COSATU remains deeply concerned that government is pushing ahead with expanding nuclear energy as it is costly and unaffordable.

COSATU expressed concern about criticisms of the public sector wage bill given unnecessary increases in allocations to certain government departments. COSATU will not accept the privatisation of access to public roads, particularly through e-tolls; Eskom’s continuous tariff increases; and the decrease in funding to the Post Office.

COSATU also provided detailed comments on expenditure allocations to various departments.

### Federation of Unions of South Africa (FEDUSA)

FEDUSA welcomes the following:

* NEDLAC Agreement for an inclusive process for Government, Labour, Business and Community to work together to implement the NDP.
* The reprioritisation of R31.8 billion over the medium term period to support higher education; contributions to the New Development Bank (NDB) and a larger contingency reserve;
* Marginal personal income tax relief and rebates that will enable government to raise an additional R7.6 billion;
* Increasing transfer duties, excise duties, tyre levy, review of employment tax incentive and the sugar tax; and
* Reforms of State Owned Entities (SOEs) proposed in the budget, specifically the merging of SAA and SA Express;
* Urgent introduction of a new legislative framework to regulate SOEs

The Federation is deeply concerned with the proposed block on administrative and managerial vacancies starting in April 2016, as a number of vacancies have been left unfilled for a number of years, especially within the Department of Health, where critical personnel are required to render specialised services. FEDUSA submits that the appointment approval process proposed by National Treasury must be finalised in consultation with the public sector unions.

FEDUSA remains deeply concerned that debt service costs, amounting to 10.1 per cent of the total budgetary allocation continues to eat away at resources that could have been allocated to key service delivery programmes. Without action to narrow the deficit, public debt will continue to grow beyond the medium term.

The Federation is of the view that, in addressing electricity constraints, the social partners should focus more on sectors that are less energy intensive such as tourism; the ocean economy; agriculture and agro-processing. Furthermore, FEDUSA proposes that government should address structural rigidities that prevent new businesses from emerging such as electricity and skills shortages; high broadband costs and low levels of competition.

FEDUSA would like to see SOEs generate sufficient return to contribute strategically to development without draining national resources. FEDUSA foresees a further risk if unqualified and inexperienced executives are appointed.

### Professor Jannie Rossouw

Professor Jannie Rossouw, on behalf of three independent researchers, submitted that South Africa can move from a fiscal cliff to a fiscal plateau if populist choices are avoided and that trends in the 2016 Budget provide tentative hope of this.

On the other hand, Prof Rossouw believes that civil service remuneration as a percentage of expenditure is unaffordable as it has increased an average of 13.1 per cent per annum since 2008. Professor Rossouw stated that average civil service remuneration for emerging markets is 20 per cent of government expenditure and for South Africa it is 42 per cent.

Professor Rossouw expressed concern over the differing inflation forecasts of the National Treasury and the South African Reserve Bank, and argued for a lower inflation target.

Professor Rossouw emphasized the need for government to set an example and purchase “proudly South African” manufactured vehicles.

He argued that the SACU subsidy agreement should be re-negotiated as South Africa’s own needs dictate that we can no longer afford this assistance to Botswana, Lesotho, Namibia and Swaziland. He recommended a reduction in the number of cabinet ministers and deputy ministers, along with other expenditure cuts. He expressed support for use of fiscal drag to increase revenue, but argued against VAT increases since these are regressive and impact heavily on the poor.

### South African Institute of Tax

The SAIT submitted that they support the Voluntary Disclosure Programme (offshore amnesty) but that the timing should be extended beyond the 6 months proposed. The Institute questioned whether earmarked taxes worked. The Institute reported that they had opposed the concession to the unions in term of annuitisation.

On the closure of trust schemes, SAIT submits that if the proposal is to proceed, the initial transfer to the trust in exchange for the interest-free loan should be treated as a Donations Tax event. The proposed inclusion of trust assets into the Estate will be complex, and unfair if it is applied retroactively to pre-existing schemes.

On Share Incentives Schemes, the Institute applauded the National Treasury’s decision to remedy the current challenges associated with share schemes. Section 8C shares should treat buybacks (as well as self-liquidating dividends) as ordinary salary revenue. The submission also calls for the removal of double tax (share schemes should be taxed solely as ordinary salary revenue without any additional capital gains tax on the same gain).

SAIT submits that on Research and Development (R&D), the proposed guidelines appear more restrictive in terms of outcomes and processes. It is proposed that the prior 11B be restored so that taxpayers receive normal deductions if they do not pursue a particular incentive. Cash incentives may be more effective than tax deductions because many businesses will not make profits for some time.

SAIT supports the proposal to provide mining companies with deductions for community expenditure, and it is proposed that this should be extended to other industries such as farming. Environmental rehabilitation during the life of a mine should also be deductible. SAIT further states that cross-border legislation should not make South African companies uncompetitive. The policy around the taxing of local services by foreign entities must be revisited. The withdrawal of cross-border withholding is welcome but the special advanced reporting rules cause an excessive compliance burden.

SAIT suggested that there may be ways to improve the tax system for small businesses. It further proposes, on taxpayer administrative response times, that the 30 day period be extended for certain complex matters.

### South African Institute of Chartered Accounts

SAICA expressed concern regarding challenges on the public consultation process for taxation-related Bills and amendments. SAICA emphasised that National Treasury should ensure that at all times, public consultation takes place in an open and transparent forum to avoid questions on the veracity of the process later.

SAICA further submitted concerns regarding the SARS model and operations. The submission emphasised the importance of a confident and efficient revenue service that is able to collect the funds needed by government. It noted that the Minister of Finance has requested that he be given time to attend to the current uncertainties, but that once the necessary dialogue is concluded an action plan will be needed to address the concerns in the interest of the country.

In principle, SAICA supports few, but effective, tax incentives. It raised concerns about the declining tax expenditure on many other incentives, which in their opinion illustrates how tax administration and policy changes can be counterproductive. SAICA submitted that the team appointed by the Minister to investigate the R&D incentive should also look at all underperforming tax incentives.

The submission raised the question of whether there has been a shift in policy toward indirect taxes without earmarking. SAICA requested clarity on how previously earmarked taxes will remain effective if earmarking is removed. While recognising that there have been problems with some earmarked taxes, SAICA is of the view that the Minister should reconsider policy to further limit or discontinue earmarked taxes since in some instances these have many more benefits than shortcomings. Examples are behavioural taxes such as the carbon tax and the tyre levy. SAICA argued that the situation with the Road Accident Fund had more to do with a failure to prevent accidents than the appropriateness of the funding model.

The organisation further recommends that the Minister should declare the drought a national disaster and that National Treasury together with the farming community begin taking stock of the most pressing needs for both small and commercial farmers. This will prevent inordinate delays in making funds available and to provide for additional emergency drought relief.

Despite its previous statements about earmarking, SAICA proposes the use of the Unemployment Insurance Fund (UIF) surplus to reduce the country’s sovereign debt.

### Price Waterhouse Coopers

The PwC raised concern with the high budget deficit that continues be around the levels it was at in 2010/11.

PwC noted that revenue collection in November and December was particularly poor, and raised concern that Treasury’s revenue forecasts for 2015/16 may be overestimates (R4bn below 2015 MTBPS target, versus PWC’s forecast of a R12bn shortfall).

PwC believes that the constant increases in the tax burden are unsustainable and need to level off after 2018/19. PwC suggested that South Africa’s tax-to-GDP ratio is significantly higher than the world and African averages, as well as most middle income countries.

PwC is of the view that there is a need for structural reform of the country’s tax mix to reduce reliance on volatile corporate taxes and increase reliance on more stable consumption (indirect) taxes. This would see the tax system become more conducive to sustainable investment-led economic growth. Progressivity could be maintained through corresponding expenditure reforms.

PwC expressed disappointment at progress on the SACU Agreement. The submission states that the revenue sharing formula at SACU is weighted heavily against South Africa. A more equitable sharing of the customs revenue would see South Africa entitled to at least 80% of the pool. It is argued that the South African taxpayer is no longer in a position to afford to subsidise the Botswana, Lesotho, Namibia and Swaziland (BLNS) countries to the extent that it is currently doing.

PwC welcomes the tax relief to lower income earners and the fact that they have been cushioned to some extent from tax increases. They also support the Special Voluntary Disclosure Programme, although they note that the relief provided is quite generous. The submission also welcomes the decision not to increase tax rates on companies.

PwC says the increase in the Capital Gains Tax (CGT) inclusion rates will act as a disincentive towards saving. The decision to increase fuel taxes is welcome. The introduction of sugar taxes are ‘cautiously’ supported by PwC, subject to a number of concerns being addressed.

## National Treasury response

The NT attempted to respond to key issues raised by stakeholders in the public hearings. The NT acknowledged that economic growth could not be reliably forecast and as a result there are measures in place to allow government to intervene in public finances when economic growth is lower than expected. The measures that would be considered for the current period include further reduction of expenditure ceilings and additional revenue-raising proposals.

NT explained that various factors continue to adversely affect debt levels and the cost of servicing debt, including depreciation of the local currency. As part of its debt management, the Treasury has been swapping debt due for repayment with longer maturity debt. Treasury indicated that government does not have a specific policy related to the level of contingency reserves and this is determined based on the current risk environment.

The NT defended its revenue proposals in the context of the current economic climate. In particular NT argued that increasing personal income tax (PIT) is challenging as South Africa has a relatively high tax revenue to GDP ratio (expected to breach 30% by 2018/19). Government should rather strive to improve GDP growth. The fuel levy is expected to have minimal net effect because the fuel price is falling. It is also expected to have a less negative effect on growth than VAT.

Treasury acknowledged that earmarked taxes like UIF are ‘simply not good’. NT is expecting to improve revenue collection from the introduction of the VDP. The government has improved its approach in dealing with base erosion and profit shifting (BEPS) and related activities, and the NT will provide Parliament with a summary of its improved approach.

NT argued that government spending has not breached its expenditure ceiling since it was introduced in 2012. The current spending ceiling will be adhered to and a further reduction of the ceiling by R 25 billion is proposed over the medium term. Government is determined to reprioritise spending to meet further spending demands.

Government acknowledged that debt servicing costs are growing rapidly, and further recognised limitations in terms of controlling expenses. Depreciation of the local currency and the increasing budget deficit are major contributing factors towards debt servicing costs.

The NT cited underspending trends in various programs and grants as key drivers behind government reprioritising capital expending to meet other government priorities (current expenditures) in the budget. However government intends to maintain the current capital expenditure to GDP ratio by improving state owned companies’ ability to spend infrastructure capital.

## Committees’ observations and deliberations

### The majority in the Committees recognises the extremely difficult economic conditions in which the budget had to be shaped, with a particular focus on avoiding a sovereign downgrade, and believe that the budget is a remarkable attempt at finding the right balances between competing needs and interests. A major message of the Minister’s Budget Speech, was that “We are resilient, we are committed, we are resourceful. We know how to turn adversity into opportunity”. The Committees see this as a challenge for all sectors of society to play their role in ensuring economic growth, job-creation and development in the country. The Minister constantly stressed the need for the working together of government, business, labour and communities. “By working together we can increase growth, broaden participation and inspire confidence in our economy and society”, said the Minister. The Committees welcome this stress on our potential as a country and the government’s commitment to work cooperatively with all relevant partners. As part of this, the Committees commit to be more effective in their oversight and other roles.

### The Committees welcome the decision to place the Budget more firmly in the context of the National Development Plan.

### The Committees welcome the ambitious targets NT has set for the reduction of deficits, debt to GDP ratios and containment of unnecessary expenditure. However, NT will have to do much to achieve these targets and secure the cooperation of other departments and public entities to do so as well.

### The Committees remain concerned about the persistent downward revision of economic growth forecasts and the consequent risks to the economic and fiscal outlooks.

### The Committees welcome NT’s greater emphasis on the domestic constraints to economic growth and job-creation, while recognising the global constraints.

### While recognising the financial imperatives for Barclays decision to reduce its shareholding in ABSA, the Committees express concern about the implications of this in the long term for the financial sector and the ordinary consumer of financial products and services.

### The Committees note that the country may be losing potential tax revenue if cross border controls are not tightened and systems are not improved.

### The Committees welcome the increases in the tertiary education budget but would like to see better outcomes.

5.9 The Committees, once again, note the onerous deadlines to process their Fiscal Framework Report to Parliament, and, once again, mandate the Committee Chairpersons to discuss this with the programming committees of Parliament. The quality of the Report is compromised because of the haste in which it has to be finalised. The need for more and more effective technical support for the Committees in processing the Budget is once again raised.

## Committees’ recommendations

### As noted in 5,3 above, the Committees welcome the ambitious targets NT has set for the reduction of deficits, debt to GDP ratios and curtailment of unnecessary expenditure. The Committees require NT to report on progress on these targets in its quarterly reports to the Committees. While recognising that NT needs the full cooperation of all three spheres of government and public entities, the Committees require that NT provide detailed briefings on the reduction of unnecessary expenditure in the public sphere.

### The Committees note the increasing recognition by government that the South African growth model needs to move away from reliance on cheap labour, cheap electricity and commodity exports. The Committees believe that government needs to more effectively address the structural constraints to economic growth that it has increasingly identified in recent years.

### NT needs to intensify its assistance to national and provincial departments to align their Annual Performance Plans to their budgets and effectively monitor the implementation of these Plans.

### NT needs to engage with the DPME on the need to strengthen the alignment between budgets and spending outcomes, since some departments spend their budget allocations but their performance is well below planned performance targets. There should also be a focus on identifying performance on administration programmes as distinct from service delivery programmes.

### National Treasury, working together with national departments, provinces and municipalities, need to conduct a comprehensive spending review, which should include the composition of spending, the efficiency of spending and future spending priorities on major projects such as National Health Insurance. The review should ensure that the burden of spending cuts falls on consumption expenditure rather than investment expenditure, and does not fall disproportionally on provinces and municipalities. Aspects of this review should be included in the processing of the next MTBPS.

### The Committees accept that budgets for infrastructure development are not spent or not spent productively for a variety of reasons, including lack of capacity. But given the crucial importance of infrastructure development, the Committees are concerned that spending on infrastructure as a percentage of the GDP declines over the MTEF period. The Committees are concerned particularly about the decline in municipal infrastructure allocations. The Committees note further that the NDP goal is that 10% of the GDP should be allocated to infrastructure. The Committees believe that NT should work with other Departments and relevant stakeholders to improve the capacity of the state to deliver infrastructure. The Committees require NT to within 6 months provide a detailed briefing on budgetary allocations for infrastructure and progress on its effective spending.

### The Committees require NT to brief them in detail within 6 months on the exact proposals on the freezing of posts.

### The Committees believe that there is more scope for re-prioritization. The Committees want NT to provide them with a detailed breakdown of re-prioritization of expenditure and on progress on this in its Quarterly Reports to the Committees. The Committees also want NT to report on progress on ensuring “value-for-money” spending by government departments.

### NT, together with other relevant Departments, needs to ensure that the Provincial Growth and Development Strategies are consistent with the NDP and take into account the goals set out in the 2016 Budget.

### As raised in previous reports, the Committees believe that while it is not the responsibly of NT alone, but government as a whole, the budget should focus in more detail on proposals on how exactly economic growth will be stimulated. At the public hearings, the link between economic growth and fiscal consolidation came up several times. The FFC also raised this. The Committees want NT to respond to issues related to this by the time of the next MTBPS.

### While welcoming the budgetary allocation to dealing with the drought, the Committees require NT to constantly monitor developments and allocate increased resources within the budgetary constraints should it be necessary.

### The current social security system is absolutely necessary, but as government also acknowledges, unsustainable. The Committees urge government to pay increasing attention to this.

### The Committees recognise the over-indebted of a significant number of South Africans, but believe that NT needs to do more to encourage a culture of saving, in part precisely because of people’s vulnerability to increasing debt.

### The Committees support government’s approach of securing greater cooperation between government, business, labour and the public to ensure greater economic growth, job-creation and development. The Committees believe that government needs to consider a new social accord among the relevant partners to achieve these goals that takes into account the failures of previous accords and draws the necessary lessons from them to ensure that a new accord is effective.

### The Committees welcome progress on the establishment of the Office of the Chief Procurement Officerand require a briefing on its work from the NT and the Chief Procurement Officer within 6 months.

### The Committees recommend that much swifter and more decisive action be taken against civil servants responsible for wasteful expenditure and for failure to perform.

### While recognising the difficulties, the Committees believe that NT needs to work more closely with the relevant departments and do more to improve the financial and commercial viability of the key SOEs. The Committees welcome the proposal to consider a minority equity partner for SAA and the merger of SAA and SA Express but believe that these should be merely part of an overall strategy to make the state-owned airlines financially viable. The Committees are interested to know what the prospects of merging Mango with SAA are. The Committees want to see a new SAA Board or SAA-SA Express Board appointed reasonably soon. The Committees want to see effective progress on the rationalisation of SOEs in general and significant improvements in their performance reasonably soon. The Committees repeat their previous recommendation that the new legislation on SOEs be finalised expeditiously.

### The Committees recognise that the Department of Social Development is primarily responsible for the Social Security Reform Paper but NT is assisting with its finalisation. The Minister indicated in his Budget Speech that it will be finalised probably by June this year. While recognising the complexities, the Committees note that it is about 10 years since a decision was taken to produce the Paper, and urges that the June deadline be adhered to.

### The Committees believe that NT, SARS and the relevant stakeholders need to work more effectively together to tighten cross border controls and improve tax revenue collection system efficiencies.

### The Committees, working with other relevant parliamentary committees, have been paying increasing attention to the need to combat Base Erosion and Profit Shifting (BEPS) more effectively, and welcome the Minister’s commitment to intensify the campaign on this. NT and SARS need to brief the Committees on this within the next 3 months.

### The Committees acknowledge South Africa’s responsibilities to its neighbouring countries, but, in view of the huge stresses on the South African economy, believe there is a need for greater progress on the review of the SACU revenue sharing formula to seek to incrementally benefit South Africa without unduly disadvantaging our neighbours. The Committees recognise the review of the formula is also related to a variety of issues, including around the tax regimes of the different countries, diplomatic considerations and broader structural concerns. The Committees want a briefing on progress on the relevant issues related to the SACU revenue-sharing formula when the next MTBPS is considered.

### While supporting a sugar tax, the Committees want National Treasury to brief them on the implementation and implications of the tax when the tax Bills related to the Budget are processed in Parliament. The Committees want NT to also respond to trade unions’ concerns about possible job losses.

### The Committees fully support the VDP but, having heard what stakeholders in the public hearings said, propose that NT considers expanding the period to beyond the 6 months allocated.

### The Committees note that the PBO argues that taxpayers already in the highest tax bracket will be mostly unaffected by fiscal drag. The Committees would like NT to brief them on the effect of fiscal drag on different strata of taxpayers when the tax bills linked to the budget are processed.

###  The Committees note that the PBO holds that the fuel levy has some similar characteristics to VAT, since it is a consumption-based, rather than earnings- or wealth-based, tax. The PBO referred to research from Data First at the University of Cape Town on transport costs, which suggests that fuel levy increases may place a disproportionate burden on poorer workers who commute using minibus taxes. The Committees want NT to respond to the effect of the fuel tax on different strata of taxpayers when the tax bills related to the Budget are processed.

### As raised in previous reports, the Committees believe that there is a need for far more progress on R&D incentives. They note SAICA’s proposal that the team appointed by the Minister to investigate the R&D incentive should also look at all underperforming tax incentives. The Committees require NT to consider this.

### The Committees note COSATU’s proposal of a tax on both domestically produced and imported luxury items, with a higher tax on luxury items which are imported. COSATU also proposes an increase in the dividends tax to encourage re-investment, job-creation and reduce the financialisation of company assets. The Committees want NT to respond to these proposals within the next 6 months.

### While recognising the budgetary constraints, the Committees believe that the budget and other support for broadband needs to be increased, given the potential to improve economic growth through expanded and speedy broadband services.

### While recognising the budgetary constraints, the Committees believe more money should be allocated for the small business sector.

### The Committees want to be briefed on the review of the Employment Tax Incentive and the challenges related to the Jobs Fund that were raised in the consideration of the budget.

The Democratic Alliance (DA) reserves its position on this report.

Report to be considered