DRAFT RESPONSE DOCUMENT

2018 DRAFT RATES AND MONETARY AMOUNTS AND AMENDMENT OF REVENUE LAWS BILL (RATES BILL)

Non-VAT issues

Standing Committee on Finance

Presenters: National Treasury | 13 September 2018

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Consultation process

- The 2018 Draft Rates Bill contains tax proposals that were announced in the 2018 Annual National Budget such as increase in the VAT rate from 14 per cent to 15 per cent, monetary adjustments to the personal income tax tables, customs and excise duties and other tax instruments as well as consequential amendments to the 2018 Draft Regulations Prescribing Electronic Services.
- The 2018 Draft Rates Bill together with 2018 Draft Regulations Prescribing Electronic Services were first released for public comment on the same day as the Budget (21 February 2018).
- The National Treasury and SARS briefed the Standing Committee on Finance (SCoF) on the Draft Rates Bill on 25 April 2018. Public comments to the SCoF were presented at hearings that were held on 25 April 2018. National Treasury also received 11 written submissions specifically related to the Draft Rates Bill.
- Following the report of the SCoF and the Select Committee on Finance (compiled after public hearings) and the statement issued by the Cabinet on 28 February 2018, the Minister of Finance, through the Davis Tax Committee, appointed an independent panel of experts (the Panel) on 25 April 2018 to consider and review the list of zero rated food items.
- With regard to 2018 Draft Regulations Prescribing Electronic Services, National Treasury and SARS received nine written comments from a range of stakeholders including non–resident taxpayers. On 25 May 2018, National Treasury and SARS held workshops with stakeholders to discuss their comments on the 2018 Draft Regulations Prescribing Electronic Services.
- This presentation responds to comments on the Draft Rates Bill that are not related to the increase in the VAT rate. It also includes comments on the Draft Rates Bill related to consequential amendments to the 2018 Draft Regulations Prescribing Electronic Services.

Personal income taxes

Comment:

- The tax burden on individuals is very high in South Africa. Ordinary workers who earn R305 000 and above face abnormally high tax levels, especially after including fuel levies and other indirect taxes. Propose a standard tax rate on personal incomes of 30% for all persons who earn up to R1 million, with an additional 25% on incomes above that level.

Response:

- Page 49 of the 2018 Budget Review provides a distributional breakdown of expected personal income tax payments for the 2018/19 fiscal year. The table shows South Africa's personal income tax system is highly progressive, with over 25 per cent of personal income taxes being collected from around 110 000 individuals who earn over R1.5 million. In contrast, around 10.8 million individuals earn less than R250 000 and contribute 8.6 per cent of personal income tax revenue. Moving to a flat tax of 30 per cent across much of the distribution would lessen the progressivity, and unless there is a high tax free threshold this would most likely lower tax revenues.

Comment:

- South Africa is highly dependent on personal income taxes, especially from those in the higher brackets. Instead of raising personal income taxes and indirect taxes, the main contributor to reducing the deficit should be improvement in the efficiency of government expenditure. No additional personal income tax increases should be considered after the increases in the past decade.

Response:

- The 2018 Budget Review alluded to the fact that the tax burden on individuals has been increasing years, and this was one of the reasons behind the increase in the VAT rate. Government is committed to improving efficiencies, but no commitment can be made to not increase taxes in future.

Estate duty rates

Comment:

- The high costs of living and high costs of land and accommodation make it difficult for ordinary South Africans to save for retirement. Estate duty should be reduced to allow ordinary citizens to acquire property without the burden of estate duties. No estate duty should be payable where 50% or more goes to a spouse or other natural person.

Response:

- The estate duty abatement of R3.5 million, alongside a R2 million capital gains tax exclusion on the disposal of a primary residence (which can occur on passing), should mitigate the impact of estate duty for lower income households. Additionally, transfers to a spouse upon death are not subject to estate duty, however the DTC report on Estate Duty does suggest that this should be reviewed.

Comment:

- The higher estate duty rate of 25% will incentivize capital flight from South Africa. The implementation is also dependent on the administrative capacity of the Masters Office and SARS, which is lacking. Measures should be put in place to ensure the Estate Duty is not avoided. Consideration should also be given to a wealth tax to contribute to the fiscus and address injustices of the past, this may be simpler than Estate Duty.

Response:

- The higher rate of estate duty should have a minimal impact on administration as the exact same administrative process applies, but the only difference is a change in the calculation of tax to be paid. A number of measures have been introduced in recent years to reduce avoidance, such as through retirement annuity funds or interest free loans to trusts. The DTC report on wealth taxes is currently being reviewed by government, however it is unlikely that a wealth tax would be simpler than estate duty.

Excise duties on tobacco and alcohol

Comment:

- Since 2010, increases in tobacco taxation have become less effective in decreasing tobacco consumption since the pass-through is lower. A 6 to 10 per cent increase is not likely to have a large effect on tobacco consumption, as the excise duty and VAT remain at around 50 per cent of the price. Evidence suggests that a greater deterrent to tobacco consumption would be an increase in the taxes to around 70 per cent of the retail selling price of tobacco. A similar argument applies for alcohol.

Response:

- NT is not necessarily opposed to increasing the excise incidence on tobacco but this has to be done in as a gradual process complimented with enforcement to ensure that the increases do not fuel illicit trade in tobacco products

Comment:

- Additional revenues from excise duties on tobacco and alcohol should be channeled towards health promotion and preventative efforts to reduce the high burden of disease caused by harmful substances.

Response:

- It is considered poor public finance policy to ring-fence revenues for specific purposes, however funds are made available through the normal budgetary process to the National Department of Health for health promotion.

Retirement lump sum taxes and land use taxes

Comment:

- There should not be a progressive rate of tax on lump sum payments, as it impoverishes workers. Propose instead a 20% standard rate on lump sums up to R1.5 million, and an additional 15% on amounts above that level.

Response:

- There are two tax tables on lump sums from retirement funds, the withdrawal lump sum tax table (applied to amounts taken out before retirement) has a higher tax effective tax rate to try and discourage withdrawals before retirement. The lump sum tax table on retirement has a much lower tax rate, and the tax free portion was increases substantially from R315 000 to R500 000 from 1 March 2014 to lower the impact of tax for lower income retirees.

Comment:

- The Constitution requires that the taxing power not be used in economically destructive ways. Income taxes and value-added taxes create large deadweight losses by reducing entrepreneurial activity and the incentive to work. These harmful taxes should gradually be replaced with a land-use tax, which are not harmful as they do not distort economic activity.

Response:

- National Treasury recognises the potential improvements in efficiency from land taxes (and property), as highlighted in the OECD report “Taxation and Economic Growth”. Land is an immobile form of capital, which can increase in value due to public expenditures to improve nearby infrastructure. National Treasury has been holding and attending workshops to explore this topic. There are important practical and inter-governmental arrangements that need to be explored further. The instrument can potentially improve the efficiency of the tax system, but is unlikely to be a sufficient source of revenue to substitute all other tax instruments.

2018 Draft Regulations Prescribing E-services

Implementation date for the proposed Draft Regulations Prescribing E-services

Comment:

- The implementation date for the Draft Regulations of 1 October 2018 proposed in the 2018 Draft Rates Bill is too soon. Businesses require time to adjust their systems for purposes of implementation of the proposed Draft Regulations prescribing E-Services.

Response:

- It is proposed that changes be made in the 2018 Draft Rates Bill and the implementation date for the proposed Draft Regulations prescribing E-Services be moved to the 01 April 2019 to allow sufficient time to businesses to make the required adjustments.

Registration threshold for E-services

Comment:

- In view of the proposed broadening of the definition of electronic services, it is expected that a substantial number of foreign suppliers will be required to register for VAT in South Africa, especially given the current R50 000 VAT registration threshold for electronic services. The industry proposes that the current VAT registration threshold for electronic services be increased from R50, 000 to R1 million, which would then align it to the domestic compulsory VAT registration threshold.

***Response*:**

- It is proposed that changes be made in the 2018 Draft Rates Bill so that the registration threshold for the purposes of electronic services be aligned with the registration threshold for domestic supplies and be increased from R50 000 to R1 million.

Carbon Tax Bill 2018 Update

- The Draft Response Document on the 2017 Draft Carbon Tax Bill was presented at the public hearings held by the Joint Standing Committee on Finance and the Portfolio Committee on Environmental Affairs on 7 June 2018.
- The bill has been revised to take into account stakeholder comments including written comments submitted (~59) and comments made during the public hearings and bilateral consultations.
- The bill is ready to be tabled. The implementation date may need to be moved, but not too late given our NDC commitments. The Minister can update the date of implementation when introducing the bill or at next MTBPS or Budget.
- As requested by the SCoF, government, business and labour have established a task team in NEDLAC to develop Jobs Mitigation and Creation Plans.
  - An initial progress report on the work of the task team was submitted to the SCOF on 14 August 2018.
  - Initial proposals for the plans will be presented by the constituencies to the task team on 9 October 2018.

Proposed changes to the bill

- Agreement has been reached between DEA and NT on a full alignment between the carbon tax and carbon budget, which will require amendments

- Arising from comments and to alleviate any further concerns, adjustments to the draft bill will be made to:
  - The deduction of petrol and diesel related emissions
  - Taxation of domestic aviation and revision of allowances
  - Waste related emissions

VAT-driven legislative amendments including mitigation measures, and tabling of Bills

- VAT change from 14% to 15% dealt with in clause 9 s7 of VAT Act and consequential amendments to replace 14% by 15%
- Outstanding issue relates to zero-rated items, which will be dealt with by amending Schedule 2 Part B of VAT Act
  - Response Doc on Independent Panel Report and comments received will be presented at hearing in week of 8 October or soon after
  - Bill to be tabled on or before MTBPS, after response doc hearing
- Other mitigation measures on expenditure side will be dealt with in future appropriation bills, as announced in coming MTBPS or Budget

- Bills to be tabled at, or before the MTBPS, include the:
  - The Rates and Monetary Amounts and Amendments of Revenue Laws Bill
  - The Taxation Laws Amendment Bill (TLAB)
  - The Tax Administration Laws Amendment Bill (TALAB)
  - The Carbon Tax Bill