**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**QUESTION NUMBER:** **1246 [NW1437E]**

**1246. Mr E M Buthelezi (IFP) to ask the Minister of Finance:**

(1) Whether he intends to revise the corporate taxation regime to boost post COVID-19 recovery; if not, what is the position in this regard; if so,

(2) whether he has plans to incentivise investment in local production through tax incentives; if not, what is the position in this regard; if so, (a) what are the relevant details of such plans and (b) how does he intend to mitigate the negative impact of high corporate tax? NW1437E

**REPLY**:

1. As Minister of Finance, I generally only make tax announcements on Budget Day, but given the exceptional circumstances after the first Covid-19 lockdown, I made some tax announcements on 29 March and 23 April 2020 to provide tax relief to businesses and individuals during the 2021/21 financial year. Two of these measures applied to corporations, namely delaying the base-broadening measures I had announced in the previous Budget and deferrals for provisional tax payments. These measures have now run their course. The corporate tax regime already contains automatic stabilisers as a tax on profits, and as companies’ profitability recovers so will revenue from corporate income tax. Companies that face financial distress can utilise the existing tax administrative measures to apply for hardship relief. To aid the medium-term recovery, I announced in the 2021 Budget speech the overall intention to restructure the corporate income tax system in a revenue neutral manner, through a combination of a tax rate reduction and base broadening measures. These measures are expected to enhance efficiency, transparency and fairness in the corporate tax system. The design of the corporate income tax system can influence taxpayer behaviour, which impacts the economy. A corporate income tax regime characterised by a broad base (fewer tax incentives and exemptions) and a lower rate is simpler with less loopholes and requires less onerous anti-avoidance legislation. By revising the corporate tax base in this manner, we can afford my proposed one percentage point reduction in the corporate income tax rate from 28 per cent to 27 per cent from April 2022 without a loss of revenue. 27 per cent is still higher than the current global average of around 23 per cent, but South Africa is working with more than 100 other countries on a multilateral solution for a global minimum tax rate of at least 15 per cent. A lower corporate tax rate is expected to make our tax system more attractive to investments: this can boost the post COVID-19 recovery; reduce the incentive for multinational firms to shift their profits to low-tax countries; and reaffirm our commitment to support business in working towards inclusive growth. The announced reduction from 28 to 27 per cent will be done in a revenue neutral manner by broadening the base through reducing the number of tax incentives and implementing the measures that were delayed last year, namely restricting the use of excessive interest deductions and limiting the setoff of accumulated assessed losses against taxable income. The combination of a rate reduction and base broadening measures aims to ensure affordability so that no social spending is affected as a result of these proposals.
2. No, as the tax system is a very blunt tool to achieve non-revenue related objectives, and introducing additional further tax incentives will also work against our objective to broaden our tax base and lower the tax rate for all businesses, and to do so in a revenue neutral manner. Tax incentives narrow the tax base, requiring a higher tax rate to raise a given level of revenue. The provision of tax incentives often undermines the principles of a good tax system, which should be simple, efficient, equitable and easy to administer. Tax incentives provide certain taxpayers/industries with preferential treatment compared to what is generally available to all, creating opportunities for vested interests and lobby groups. The 2021 Budget Review stated that “Government is reducing the number of tax incentives, expenditure deductions and assessed loss offsets…”. National Treasury has already commenced a process to review existing corporate tax incentives with a view to repeal those that are redundant and include sunset dates where there are none. Studies conducted by international organizations, such as the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD) and the World Bank confirm that investors also value other factors above tax incentives when making investment decisions. These include political and policy certainty, infrastructure, access to markets, access to skilled labour, etc. Reducing the corporate income tax rate and broadening the base is a better means of benefiting all businesses. In turn, employees and consumers can also benefit from higher wages and lower prices.