The South African Institute of Tax Practitioners

14 February 2009

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Acting-Chairperson: Portfolio Committee on Finance
Parliament
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Dear Sir

CALL FOR COMMENT: 2009 BUDGET

Thank you for the invitation to participate in the 2009 Budget Hearings.

Our comments are set out hereunder.

1 INTRODUCTION

We congratulate the Minister for a pragmatic and well-balanced budget that will instil confidence in the face of the economic challenges facing our country and the wider global community.

2 GENERAL COMMENTS

Expenditure

While we welcome the budget overall and especially the extra 18% expenditure on infrastructure there are a few major items that Government need to take account of.

The overall efficiency in government spending is very poor when looking at expenditure outcomes. Furthermore, the delivery in government programs is sometimes questionable. Below we list some examples:

Example 1: Expenditure on education

Education expenditure as a percentage of GDP is well above the world average and has remained this way for quite a numbers of years. This is the biggest single expenditure item on the South African Budget. The problem is not the amount of money spent but the outcomes of our education system. In all international tests of South African learners, such as Progress in International Reading Literacy Study (PIRLS) and Trends in International Mathematics and Science Study (TIMMS), South African learners come last. African countries who spend much less than South Africa, such as Botswana and Ghana, come ahead of South African learners. Moreover when comparing the results of high school finishers across 19 emerging market economies South Africa comes second last. When comparing the entry into tertiary education South Africa comes last among all emerging countries and developed countries. This happens despite South Africa spending well over the average on Education. Out of 40 countries that took part in the latest study

in reading and literature South Africa came last while the average age of the South African Students was 1,9 years older than the average age of the international student. To put this into perspective, see chart 1 to 3 attached as annexure A.

This leads to the fact that the South African labour force is poorly educated when compared to other emerging markets. South Africa has less than a third of the tertiary educated workforce than the emerging market average (see chart 4 attached as annexure A).

While developing countries generally have few people working as a percentage of the population it is becoming clear that South Africa is at the lower end of the spectrum (see chart 5 attached as annexure A). This leads to a high tax burden of the working population (see chart 6 attached as annexure A). When taking overall taxes as a ratio of the population employed, one can see that economically active South African have one of the highest burdens in the world. This situation is not supportive of attracting international talent to South Africa which currently experiences a severe skills shortage.

Example 2: Health care

The basic delivery of health care is also not delivering as much as it should. According to statistics of the World health organization (WHO), Kenya for example, has double the number of healthcare workers as percentage of population as South Africa. These is statistics are aggravated by the fact that Kenya only spends two thirds as much on healthcare as South Africa. Much the same applies when looking at some other African countries. For example, Mauritius and Swaziland gets more efficiency in government spending, compared to healthcare workers as a percentage of the population. While being one of the highest spenders on health, the South African life expectancy has dropped to only 44 years according to the WHO. HIV/AIDS is certainly also playing a large role here but our government health spend is higher in absolute than almost all African countries. n relative GDP terms South Africa is certainly also not a laggard in Emerging Market country terms.

Again the message is clear South Africans do not get as good a delivery on healthcare as many other African countries and other emerging market countries. South African taxes as a percentage of GDP are fairly high for a emerging market country and it is clear that one of the main ways to address this problem is that delivery of government services will have to improve.

Revenue

In the first MTBPS in 1997 there was a statement that total tax to GDP will not go over 25% of GDP. This was repeated a few times in other budgets. However, the total tax revenue in South Africa is still expected to be over 25% of GDP, if the local government taxes are included. This has been the case since 2002/3 and is budgeted to be the case to 2011/12, therefore a full 10 years outside this 25% barrier. A further contributing factor is electricity and water rates, as it can be used as a form of tax as the rates are used to subsidise poor households. This will bring the effective tax to GDP ratio closer to 30%.

Tax burden

Currently 25% of individual taxpayers pay 75% of all Personal income tax. This is massive in anybody's terms and needs. Only 0,25% of companies in South Africa pay 55% of corporate taxes, while less than 5% of all companies pay 91% of all company tax. This is a huge burden by any standards and needs to be addressed in future.

3 SPECIFIC COMMENTS

Small business corporations

As a key area in the economy and the sector that makes the greatest proportional contribution to job-creation, it is disappointing that the budget continued virtually no additional tax relief for small businesses. Tax incentives for small business (apart from the new turnover tax regime for micro

businesses) are essentially contained in the special tax tables and tax allowances applicable to "small business corporations". The practical problem with this package is that the scope of the definition of a "small business corporation" is very narrow. As a starting point, it only grants relief to incorporated businesses, which automatically excludes sole traders and partnerships. This creates a situation where incorporated businesses are favoured over their unincorporated counterparts, which is undesirable and also possibly unconstitutional. We suggest that equal tax relief should be granted to all forms of small business enterprises.

Furthermore, the scope of the definition of "small business corporations" is limited in that the shareholders of companies and close corporations, which must all be individuals, are prohibited from holding any other shares apart from certain permitted investments such as shares in listed companies, interests in body corporates, sectional title companies and co-operatives. The rationale for this limitation is that the relief is intended for small, simple companies. There are however, many legitimate small businesses, one or more of whose shareholder/s has an interest in a dormant property-holding company. In spite of the fact that the property-holding company will never trade, the mere fact that the individual has an interest in the property company and also in a separate trading prevents the trading company from accessing the small business corporation concessions. The amendments proposed in the 2009 Budget go a small way towards correcting this anomaly in providing that an interest of a shareholder in a shelf company will not preclude a trading company from being classified as a "small business corporation". However, the commentary states that this relief will only apply if the company has "never been more than a shell". We suggest that the integrity of the small business corporation relief would not be compromised if shareholders were also permitted to hold shares in dormant property-holding companies.

Another aspect that should be addressed in the definition of a "small business corporation" is the complexity that arises where a shareholder is married in community of property as, in those circumstances, the restrictions that have been outlined above also extend to any interest held by the spouse of a shareholder.

VAT registration

We welcome the increase in the VAT threshold to R1 million from 1 March 2009 (following the announcement in the 2008 Budget Speech) as this will enable very small businesses to deregister as vendors, thereby saving the related VAT compliance costs.

We are however, concerned about the problems that many small businesses encounter in trying to register as vendors, either because they have to register to comply with the VAT legislation, or where they elect to register for valid business reasons.

Whilst we understand the need for SARS to manage their risks related to VAT refunds, we suggest that their risk lies not so much in the registration of vendors, but rather in the actual payout of refunds.

As it is compulsory for persons to register as vendors in certain circumstances, the process of meeting this legal obligation should be made reasonably easy. In this regard, we suggest that there should not be additional verification measures introduced in the form of finger-prints, etc when a person is attempting to merely comply with the legislation by registering as a vendor.

Furthermore, the need for the proposed amendment to increase the minimum turnover required for voluntary registrations (from R20 000 to R50 000) is questioned. Small, start-up businesses that require a VAT registration number in order to secure business, such as government contracts, should be allowed to obtain this registration. This approach will assist businesses with getting on with business, by removing unnecessary administrative obstacles.

Excise duty on alcoholic beverages

"Sin taxes" on various products are routinely increased every year. For example, the duty on Malt Beer was increased this year by 4,03c per litre or 7c per can. We note, however that the duty on Traditional Beer and Traditional Beer has not increased for more than five years. It would be useful for the difference in treatment between these and other alcoholic beverages to be explained.

Tax submission deadlines

It was announced in the Budget Speech that the deadline for submission of the 2009 individual tax returns is 18 September 2009 for manual filers and 20 November 2009 for electronic filing. By way of comparison, the deadlines for submission of the 2008 tax returns were 5 December 2008 for manual filers and 5 February 2009 for electronic filing, although it should be noted that these dates were later due to a change in the system for the submission employers' reconciliations.

Whilst a deadline of some 6 to 9 months after year-end seems reasonable, the ability of practitioners to meet these deadlines depends on a number of factors that are beyond their control, such as the issuing of the forms by SARS and the effective operations of the SARS call centre and efiling system. The date on which the tax returns are issued by SARS is critical to the overall success of the filing season programme. Logically, the earlier the returns are issued, the more time practitioners have to get through their workload, with the result that the chance of all returns being submitted on time is increased. The final deadline date is therefore intrinsically connected to the date the tax returns are issued by SARS and, therefore both of these dates should be specifically stated upfront as part of the filing season programme. We suggest that the date for issue of the tax returns should be no more than 14 to 28 days after the deadline for submission of the employers (30 April 2008). Delaying this date puts undue pressure on the practitioners as they are unable to proceed with the preparation of the tax returns until the forms are issued by SARS. If the date of issue is delayed by SARS, the final submission date should be extended accordingly.

Increase in interest and taxable dividend exemption

The increase in the interest and taxable dividend exemption from R19 000 to R21 000 (10,5% increase) for persons under the age of 65 and from R27 500 to R30 000 (9,1% increase) is welcomed, but in our view these increases are not sufficient to encourage individuals to save. The Reserve Bank has announced that the level of saving by households in 2006/7 was negative and this is expected to have deteriorated further in 2009.

Please do not hesitate to contact us if you have any queries in this regard.

Yours sincerely

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Chief Executive

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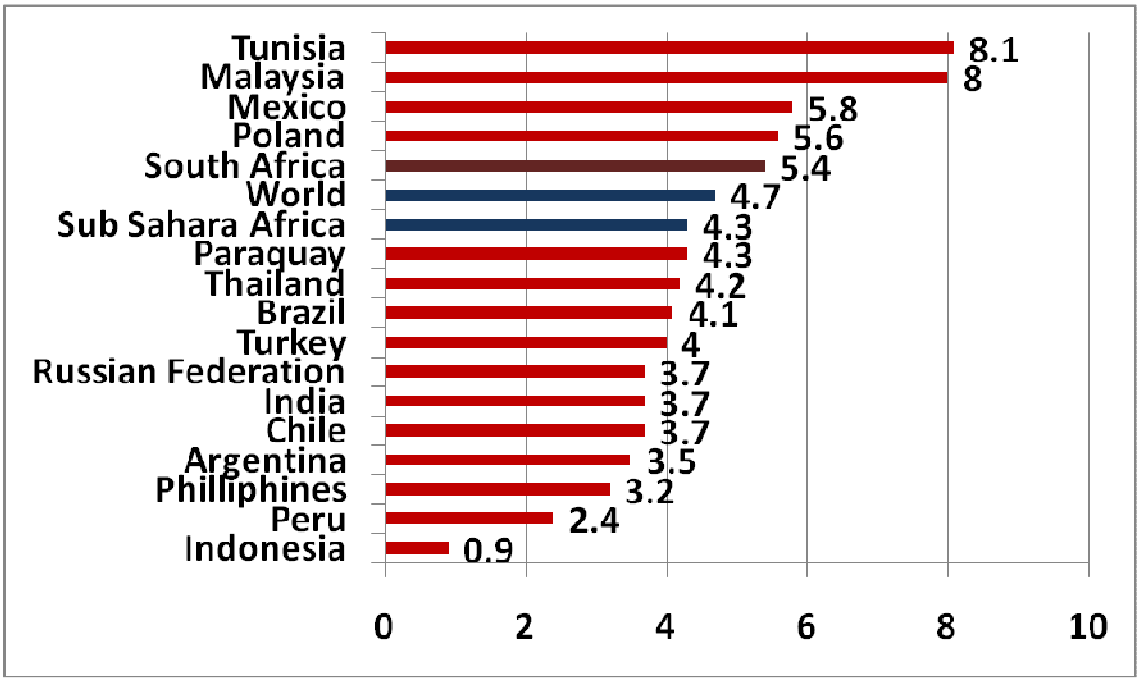
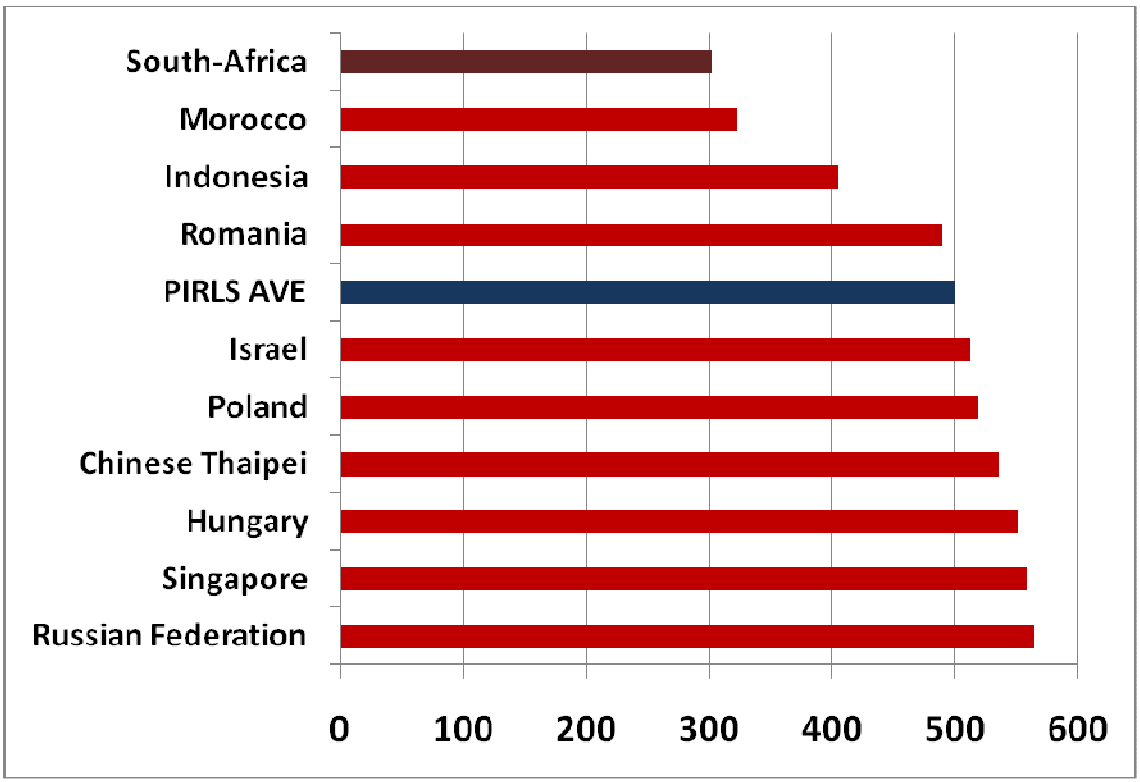
SUPPORTING STATISTICS AND CHARTS

Chart 1: Spending on Education as a percentage of GDP.



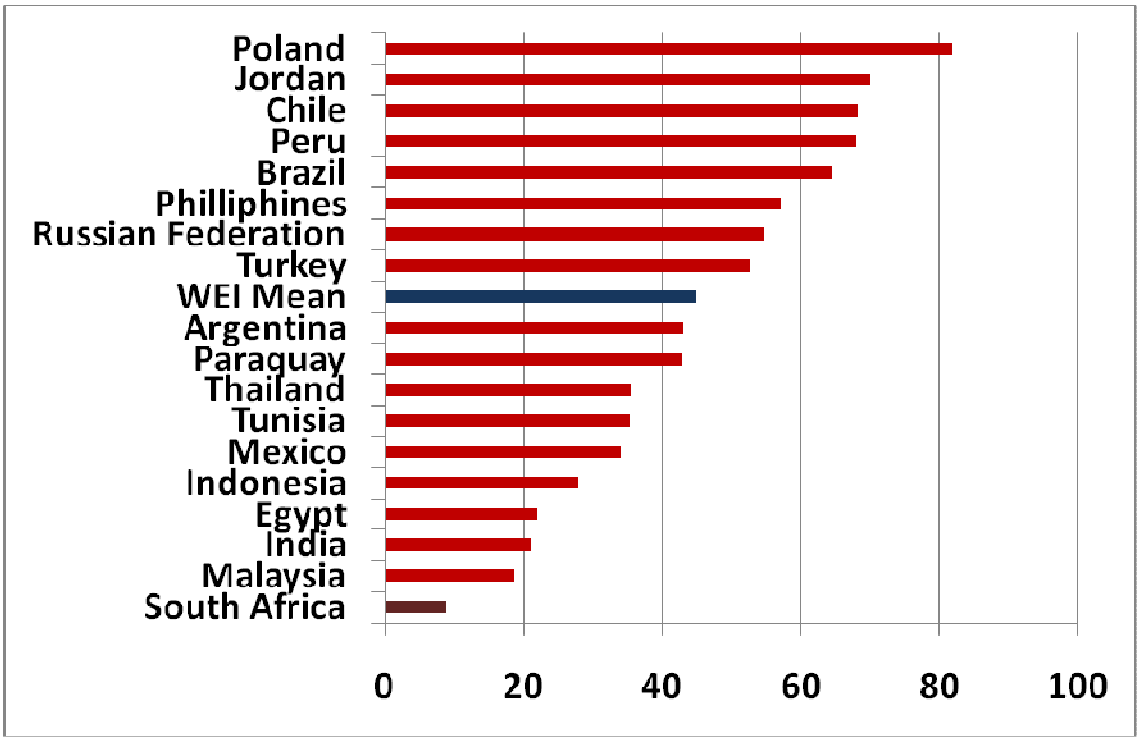
Source: UN

Chart 2: PIRLS test in 2006 selected countries.



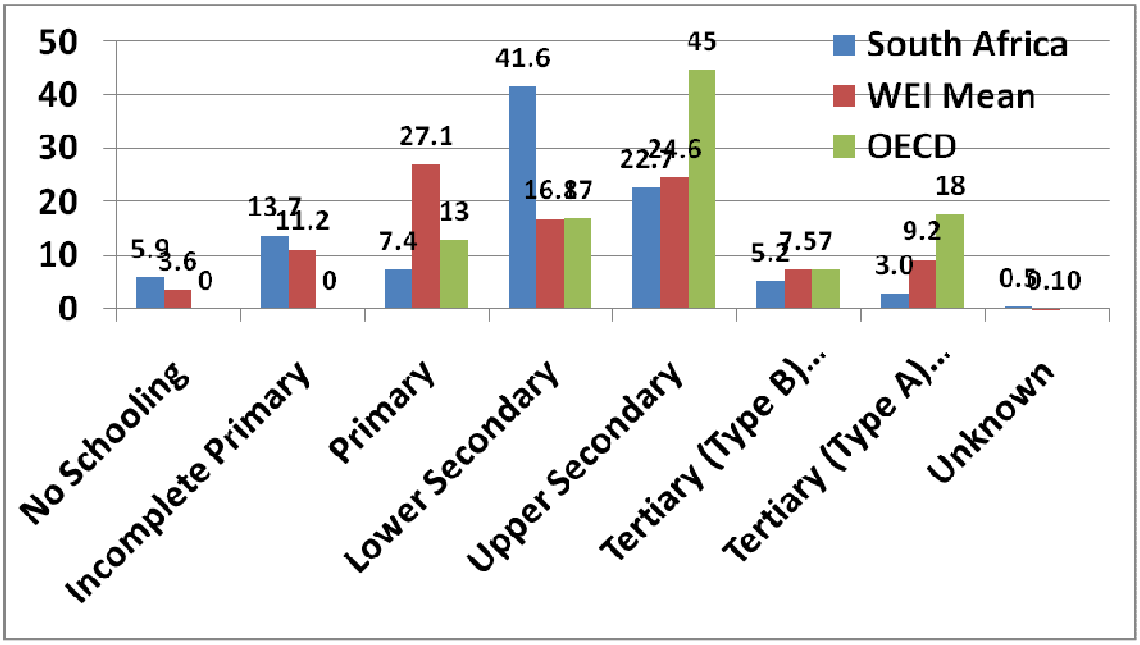
Source: PIRLS

Chart 3: University exemption ratio's of selected emerging markets.



Source: UNESCO

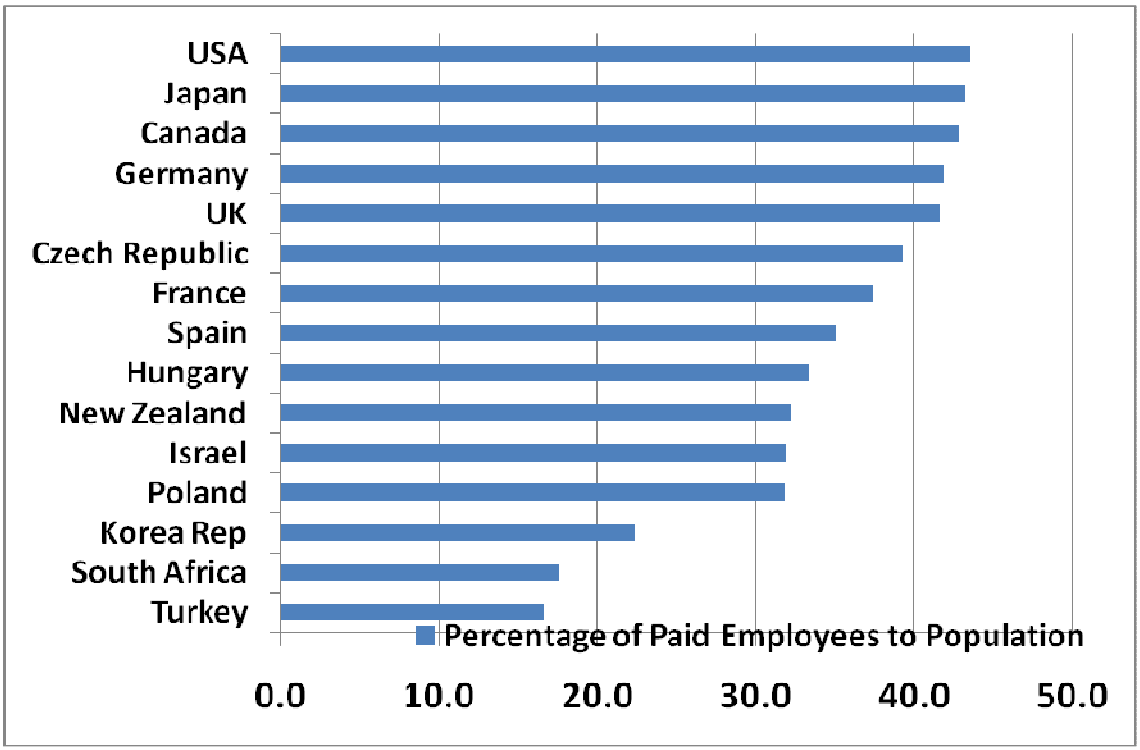
Chart 4: Education of the workforce compared.



Source: Labour Force Surveys and UNESCO

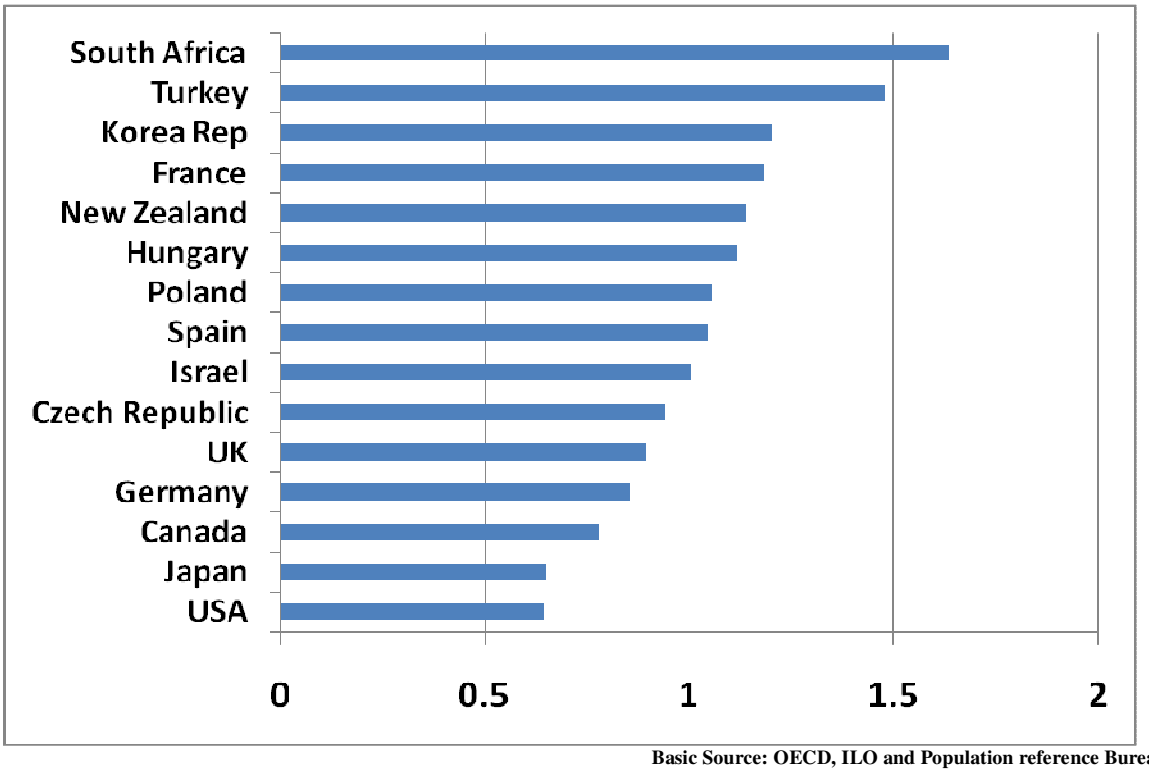
WEI (World Education Indicators for emerging markets)

Chart 5: Population in paid employment as percentage of total population.



Source: ILO and Population Reference Bureau.

Chart 6: The ratio of taxes to GDP and paid employees to population.



Basic Source: OECD, ILO and Population reference Bureau.

Chart 7: Tax burden – rate of tax revenue to GDP.

Collecting taxes like a rich country – 2007 rate of tax revenue to GDP

Mexico	18.1	Greece	35.9
Korea	24.4	Germany	36.0
Japan	25.8	OECD average	36.3
United States	26.4	Iceland	38.1
Ireland	28.4	Hungary	38.3
South Africa (ex local +provincial)	28.4	Netherlands	39.2
Switzerland	30.3	Czech Republic	39.3
South Africa (All government)	30.5	EU average	40.6
Australia	31.5	Luxembourg	41.8
Poland	32.6	Italy	42.6
Slovak Republic	33.1	Norway	43.5
Canada	33.9	France	44.0
Portugal	33.9	Austria	44.0
New Zealand	34.9	Finland	45.9
Spain	35.6	Belgium	46.4
United Kingdom	35.8	Denmark	48.9

Source: Ecomomists.co.za