

## About ACCA

---

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 131,500 members and 362,000 students throughout their careers, providing services through a network of 80 offices and centres.

Our global infrastructure means that exams and support are delivered – and reputation and influence developed – at a local level, directly benefiting stakeholders wherever they are based, or plan to move to, in pursuit of new career opportunities.

Our focus is on professional values, ethics, and governance, and we deliver value-added services through our global accountancy partnerships, working closely with multinational and small entities to promote global standards and support.

We use our expertise and experience to work with governments, donor agencies and professional bodies to develop the global accountancy profession and to advance the public interest.

Our reputation is grounded in over 100 years of providing world-class accounting and finance qualifications. We champion opportunity, diversity and integrity, and our long traditions are

## ACCA (South Africa)

---

Submission to the Portfolio Committee on Finance: Hearings on the Fiscal Framework and Revenue Proposals

For attention:

Mr TA Mufamadi, MP

Chairperson: Standing Committee on Finance

P.O. Box 15 Cape Town 8000 RSA

Tel: 27 (21) 403 3759 Fax: 27 (21) 403 8204

Email: [bviljoen@parliament.gov.za](mailto:bviljoen@parliament.gov.za)

[www.parliament.gov.za](http://www.parliament.gov.za)

For further information related to the submission please contact:

Nicolaas van Wyk

Technical Support Executive

ACCA (South Africa)

1st Floor

18 Hurlingham Road

Illovo

2196

Tel: +27 (0)11 459 1900

Fax: +27 (0)11 268 6374

e-mail: [nvanwyk@acca.org.za](mailto:nvanwyk@acca.org.za)

## Summary

**We recognise the difficult balancing act that is required with formulating a budget to address job creation, long term sustainable growth, poverty reduction and improvements in service delivery, in a global economy still suffering from the effects of the economic crises.**

**We therefore support the notion that the budget proposals should be financed via improved tax compliance, closing loopholes, improved tax administration, and improved public sector efficiencies rather than increasing personal income and corporate tax.**

**We conclude by suggesting a relook at broader policy issues so as to promote co-ordination between tax authorities in different jurisdictions.**

## Table of content

1	Monetary and fiscal policy .....	2
2	Broadening the tax base .....	3
3	Promote youth employment .....	4
4	Tax Administration .....	4
5	International tax issues .....	4
6	Conclusion .....	6

## 1 Monetary and fiscal policy

We support the position taken that the Central Bank should protect the value of the currency. Economic decision making is greatly improved in an environment with a low and stable inflation rate. This will increase our competitiveness and the living standard of workers and the poor.

It is therefore important to remember that a free market economy is driven by supply and demand and thus operates via a pricing mechanism. Any distortion in this mechanism may lead to incorrect decision making by economic participants. An incorrect monetary policy could lead to a situation where uncompetitive industries are subsidised and entrepreneurial activity stifled.

In 1932 F.A. Hayek, a Nobel Prize laureate, made this insightful comment: “To combat the depression by a forced credit expansion is to attempt to cure the evil by the very means which brought it about; because we are suffering from a misdirection of production, we want to create further misdirection – a procedure that can only lead to a much more severe crisis as soon as the credit expansion comes to an end.... It is probably to this experiment, together with the attempts to prevent liquidation once the crisis had come, that we owe the exceptional severity and duration of the depression”.

According to recent reports<sup>1</sup> National Treasury has indicated that “public sector will need to borrow a whopping R1.1 trillion in the four fiscal years to 2012/13...Current plans to reduce the size of the budget deficit and therefore borrowing requirement hinge on a gradual but consistent recovery in economic growth (and therefore tax revenue) as well as a moderation in growth in expenditure. This will include smaller increases in

---

<sup>1</sup> [www.deloitte.com](http://www.deloitte.com), Published Wednesday, February 17, 2010

[http://www.deloitte.com/view/en\\_ZA/za/services/taxservices/theannualbudget/article/b02facd4afcd6210VgnVCM100000ba42f00aRCRD.htm](http://www.deloitte.com/view/en_ZA/za/services/taxservices/theannualbudget/article/b02facd4afcd6210VgnVCM100000ba42f00aRCRD.htm)

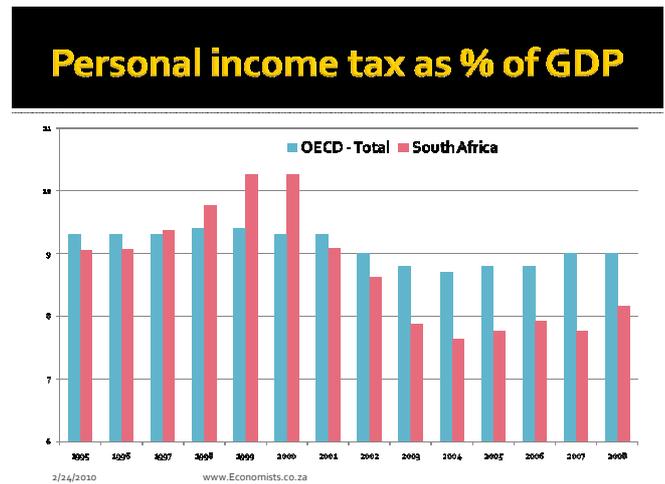
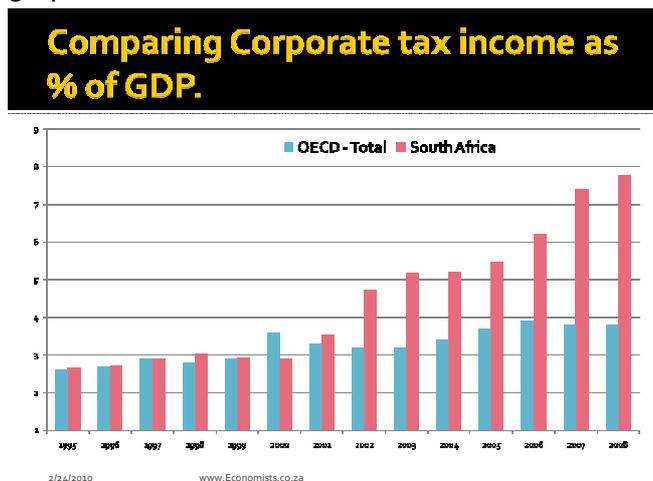
public sector salaries and lower growth in government employment, cost savings and reprioritisation of other expenditure. If expected growth does not materialise, or government fails to rein in spending sufficiently, we could face higher taxes in future”.

It is therefore of the utmost importance that government stay the course of conservative and disciplined monetary and fiscal policy.

## 2 Broadening the tax base

We are supportive of the notion that government spending should be financed via a broadening of the tax base rather than increases in personal and corporate taxes.

This approach is supported by the following graphs<sup>2</sup>



It is therefore clear that in comparison to the OECD, South Africa has little room to manoeuvre on personal and corporate tax and will have to rely on broadening the tax base to ensure increased revenue.

We therefore agree with the statement by the Minister of Finance Pravin Gordhan that although revenue collections are tight, and the government requires more tax revenue, the country’s economic state, especially where it affects individuals, must be taken into account.

However although a R6.5 billion relief was announced to individual taxpayers in the 2010/11 tax year it is estimated that inflation will lift the combined tax bill of individuals by R22.6 billion<sup>3</sup>. This fact further underscores the need for a stable monetary policy so as to avoid any additional costs for the tax payer in the form of inflation.

We have noted the significant proposed increase in the fuel levy and are concerned that this may lead to higher transport costs with an adverse effect on food prices and may be seen as further reducing the free cash flow of individual tax payers.

<sup>3</sup>Azar Jammine, the chief economist at Econometrix

<http://www.busrep.co.za/index.php?fSectionId=552&fArticleId=5361901>,

<sup>2</sup> www.Economists.co.za

We therefore urge, and support the call for, improving the efficiency of the public sector. We believe that savings so generated could reduce the overall tax burden imposed by personal income tax.

### **3 Promote youth employment**

According to the Minister of Finance “Labour market data confirm that employers are reluctant to hire inexperienced work-seekers, while school-leavers lack basic workplace competencies. Furthermore, our bargaining arrangements push up entry level wages, pricing out inexperienced work-seekers.

The budget speech therefore proposed a subsidy to employers that will lower the cost of hiring young people without work experience.

We support any effort that will assist with the long term sustainable job creation. According to a recent article by Eustace Davie<sup>4</sup> “The task of rapidly reducing unemployment in SA is vitally important. People are suffering. Communities are unravelling. Violence, a symptom of deep-seated unhappiness, is escalating. Government has got to act before the situation gets seriously out of hand. Has the time not come to restore dignity to the unemployed? To give them the power to decide for themselves whether or not to work at jobs others might not regard as “decent” or to continue living with misery and starvation? It’s their lives – they should be the ones who decide how to live them”.

The Minister of Finance is a proponent of the fact that we “we must do things differently. We cannot do the same old things and expect different results”<sup>5</sup>.

---

<sup>4</sup> The freemarket foundation  
<http://www.freemarketfoundation.com/showArticle.asp?ArticleType=AOTW>

<sup>5</sup> Minister of Finance, Budget speech 2010

We therefore support the call that “that every person who has been unemployed for six months or more be given, on request, an exemption certificate that exempts them from the labour laws for a period of two years on condition that there is a written contract, stipulating the fundamental terms of employment agreed to between employee and employer”<sup>6</sup>.

### **4 Tax Administration**

We support the imposition of a Voluntary Disclosure Programme but would request that this programme be made available immediately and not be postponed to November 2010.

SARS has recently issued a draft Tax Administration Bill for public comment. Although this bill will simplify tax administration for SARS and the tax payer it does provide significant additional powers to SARS.

Given these new powers we would request a consideration be given to the establishment of a Tax Ombudsman that would be an independent and impartial body providing an additional dispute resolution mechanism between SARS and the tax payer.

### **5 International tax issues**

In a recent paper issued by the ACCA called Competition or Co-ordination: Reassessing Tax in a Global Environment<sup>7</sup> it is stated that tax policies around the world could have inadvertently fuelled the global financial crisis by encouraging companies to use debt rather than equity financing.

---

<sup>6</sup> The freemarket foundation  
<http://www.freemarketfoundation.com/showArticle.asp?ArticleType=AOTW>

<sup>7</sup> ACCA  
<http://www.accaglobal.com/databases/pressandpolicy/unitedkingdom/3255181>

G20 leaders have proposed improved co-ordination between national authorities as a key aspect of restoring confidence in global financial regulation. We believe that there is a need for similar action in the field of taxation. Distortions and inconsistencies in tax systems need to be ironed out. Global co-ordination is vital to make sure that tax is fair and transparent.

The policy paper is attached as appendix 1 to this submission and offers clear recommendations to tackle global tax issues:

1. Governments should address national tax rules which distort behaviour, and reward one financing route over another. It has been argued by the International Monetary Fund that that the global financial crisis has been exacerbated (though not caused) by tax policies which fuelled the credit boom that preceded the economic downturn. The IMF proposes<sup>8</sup> that governments should consider changing the rules that have encouraged companies to seek finance using debt rather than equity, and allowed individuals to take out larger mortgages. Tax distortions are artificially incentivising certain kinds of economic behaviours over others. It illustrates why tax neutrality should be such a fundamental aspect of any good tax system. The IMF points out that 'securitisation and other devices can amplify the economic costs of those tax distortions (for example by reducing the costs of subprime financing) and their use to secure favourable tax treatment contributes to opaque financial instruments'. This cannot be in society's interest;
2. Tax havens should provide freely information to governments about nationals who use those jurisdictions, but large nations should not focus attention on

- tax havens as a distraction from the need to sort out their own policy issues;
3. Governments should address substantive issues of tax law that cause distortions, rather than relying on headline corporate tax rates and 'holidays' to attract FDI. By keeping the system as simple and homogeneous as possible, the certainty which business needs will be provided;
4. To increase certainty for businesses the Organisation for Economic Co-operation and Development (OECD) and national revenue authorities should re-examine their policies on transfer pricing;
5. Governments must take a holistic view of the place of green taxes in their tax systems. These taxes do have a role to play, but too much reliance should not be placed on them. Global co-ordination is needed to maximise the impact of environmental taxation.
6. Consideration should be given to independent tax committees playing a key role in the creation of tax policies. All the above issues concern critical areas of taxation. But many countries suffer from over-complex tax systems. So should the way in which tax law is created itself be changed? In a research paper issued by ACCA in March 2009, the idea of an independent tax policy setting vehicle was examined. The proposal was that there should be a body of experts, separate from government – which would be tasked and empowered to formulate and propose tax policy. In addition, it would also have the express remit to seek to simplify tax systems which globally are far too complex. Using this model, governments would set the overall economic framework of the tax environment. It would need to define the public policy objectives (eg environmental, social welfare) in terms of public finance demands and fiscal targets that taxation measures were designed to achieve.

---

<sup>8</sup> 'Debt Bias and Other Distortions: Crisis-related Issues in Tax Policy' . IMF staff paper, June 2009

A tax policy committee (TPC) would work on adjusting the tax system as appropriate with a view to making it more effective, simple and transparent over the medium and long term.

## **6 Conclusion**

The Minister of Finance in his budget speech stated that “Our people want government, business, labour and social organisations to work together to create a better economic future”.

We support this stance and hope that our submission will be seen as part of a collaborative effort to ensure that the lives of all South Africans are improved.