Press Release

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IRR
South African Institute of Race Relations
The power of ideas

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Will 'Ramaphosa effect' save SA from taxing itself into prosperity?

Will 'Ramaphosa effect' save SA from taxing itself into prosperity?, the January edition of *Fast Facts* from the Centre for Risk Analysis at the IRR, provides a comprehensive picture of taxpayers and tax revenues collected.

"Tax revenues collected in the fiscal year 2016/17 amounted to 26% of GDP, or R1.1 trillion, levels last recorded in the mid-2000s when economic growth was 2 to 3 times the current rate.

"Personal income tax continues to increase its share in the composition of national tax revenue. Corporate tax and value added tax contributions to total revenue have been declining, while personal income tax has risen from a share of 36.3% in 2015/6 to an estimated 38% for the fiscal year 2017/8.

"While the number of registered corporate taxpayers has increased, assessed corporate taxpayers have declined considerably from 714 422 assessed companies in March 2016 to 507 958 in March 2017."

Economist and chief operations officer of the IRR, Gwen Ngwenya, notes: "In a low-growth environment, and as tax collection efforts have weakened, South Africa has leaned heavily on tax increases to plug the fiscal hole."

The report says most local growth forecasts, including those from Treasury and the Reserve Bank, place figures between 1% and 1.5%, with those on the bullish end, such as Goldman Sachs, forecasting as high as 2.3% up from 0.8% growth in 2017.

In the light of increased capital flows, Rand strengthening and an upwardly revised economic growth rate following Cyril Ramaphosa's election has ANC leader, Ngwenya cautions: "The challenge will be to rein in exuberance, and not to allow improved sentiment to lead to consolidation complacency and an over-estimation of the extent to which improved sentiment will broaden the tax base through job creation, or lead to higher private sector wage increases or bonuses."

Ngwenya adds that the various tax policy changes which Treasury has periodically announced as being under consideration – including cutting medical aid tax credits, removing the zero-rating policy on fuel and potentially other goods, increasing VAT, or increasing personal taxes further – would continue the trend of consumers having to bear "an increasing contribution to government revenue".

Ends.