Organised Labour Submission:

Government Budget Planning Dialogue:

Tax Proposals & Trade Offs

Nedlac
02/07/2021

NACTU

AN INJURY TO ONE IS AN INJURY TO ALL

COSATU

FEDUSA

Intro

- This tax package will contribute to revenue but also assist in reducing inequality, promoting redistribution, enhancing tax efficiency & equity
- Objective to raise revenue, plug tax loopholes for businesses & the rich & increase taxes upon the wealthy
- This can be done without sacrificing tax revenue or future investment
- Space for tax reform
  - Tax-to-GDP ratio only 26.3% now, should be increased to around 30%

SARS

Appreciates steps by SARS to rebuild its capacity and to tackle tax evasion

- High Net Worth Individual unit
- New posts advertised
- Improved work on customs fraud, including specialised units

Corruption & wasteful expenditure

- State corruption & wasteful expenditure pose a threat to the objectives of our recommendations
- Question then: Why give the state more money?
  - Taken to its extreme it says that under state corruption the way to deal with it would be to get ride of the state
- Capacitate rather than decapitate
  - Corruption must be dealt with through institutional change. And that requires state revenue to remain buoyant and a strong and able state

Transparency

- Increased transparency from the State, e.g. trade stats, company wage gaps, incentives, & tenders
- But not enough tax info provided at a suitably disaggregated level to enhance tax accountability
  - Davis Tax Committee experienced same
- Publish more information on individual companies', sectors' & ultra rich's effective tax rates
- Business should publish what they pay
  - Current annual reports are opaque (paid vs deferred) & intended to confuse
- Can be done without violating confidentiality requirements or being detrimental to competitiveness concerns by business

VAT

- CIT specifically but also PIT should shoulder a larger proportion of total revenue collected due to VAT's regressive nature and its adverse effect on income distribution
- Restore VAT to 14%
- Add additional zero-rated items to make more progressive
  - Welcomes recent exemption of flour & sanitary pads
  - Add, for instance, medicines, water, domestic electricity & public education
- Consider whether excise duties is better option for luxury items than higher VAT rate
- Expand list of luxury items for excise duties (type of wealth tax)

CIT & PIT

- Recent increase in PIT for high earners with new tax category for the rich – in line with call made to DTC by Labour
- CIT
  - Greatly concerned about reduction in CIT – 28% to 27%
  - 27% is low both by international and historical standards
  - Space to increase to 30% or 32% without spooking investors
  - Will generate about R20 billion plus in revenues
- Share of CIT in tax revenue has not recovered post-Global Economic Crisis, contrary to PIT (now less than 16%, down from 27% pre-GEC)
- This shows massive corporate tax avoidance and evasion through BEPS
- So our members, the working class and other tax payers must fill the gap
- Since ‘94, company tax has been cut several times; not resulted in significant benefits to the economy as a whole

Financial Transactions Tax

- Taxes on financial transactions to limit short-term capital flows and to encourage productive investment
- Increase Securities Transfer Tax of 0.25% & expand to currency trades
- It has revenue potential, would help deal with excessive volatility, including in currency, aiding longer-term planning

Wealth taxes

- Worldwide wealth has become increasingly concentrated as it passes down from one generation to another
  - In SA, large share passes between generations within white households and its acquisition has roots in the accumulation of wealth under apartheid
- In the wake of recent leaks (Pro Publica / Paradise Papers) the rich
  - goes to great extents to avoid taxes
  - uses legal ways to engineer away their income or transactions, and with it their income or transaction tax liability
  - is not contributing what they are required to
- A strong package of wealth taxes could be used as a growth-enhancing strategy, to raise revenue & make the tax system more efficient & fairer

Wealth taxes

- Relative to international norms, SA tax system shows room to increase the role of property / wealth taxes in government revenues
- Estate Duty
  - Currently 20% (down from 25% in 2001; done then without consideration for impact on progressive tax system; only considered practical questions)
  - Needs to increase to at least 25% (DTC also) and 30% plus for richer estates
  - Space for this considering estate duties in other countries
  - Reduce primary abatement
- Net Wealth Tax
  - Temporary (& unexpected) : 2% to 5%
  - Permanent (& expected): 0.5% to 2.5%

Property tax

- Property taxation has the ability to address spatial inequalities & is progressive in its design
  - But current municipal tax system can reinforce spatial inequalities
- Levy a progressive national property tax / rates (over & above municipal rates) to allow for redistribution and also capture some of the value accrued to property owners through public investment

Other

- BEPS
  - SA step up efforts on tax havens & IFFs & automatic exchange of tax info
- CGT
  - Increase to generate further revenue
- Land tax
  - Has potential economic, land use, administrative and social justice benefits & can aid land redistribution
- Solidarity tax
  - To cap the growth of earnings of top 10% & accelerate earnings of bottom 10%
- Share buybacks & tax avoidance
  - Measure & then ban / radically restructure
- Global minimum corporate tax rate of 15%
  - Way too low & places burden on workers & small businesses