

Finance Minister Nhlanhla Nene to seek a broader tax base



Bloomberg Finance Minister Nhlanhla Nene (right) during a Bloomberg Television interview in London yesterday. He said South Africa's government would postpone some of its spending programmes to help curb the budget deficit as economic growth slows. Photo: Bloomberg

By Wiseman Khuzwayo and Bloomberg

Economists were bemused by an assertion by Finance Minister Nhlanhla Nene that South Africa needed to broaden its tax base in order to curb the budget deficit, as reported by Bloomberg yesterday.

They said the tax base had shrunk due to weak economic growth.

Nene is to deliver his first medium-term budget policy statement as finance minister next Wednesday. In it, he is expected to revise the fiscal deficit, inflation, gross domestic product (GDP) and net debt projections. The fiscal deficit projection given for 2014/15 is now expected to be closer to 5 percent of GDP.

Nene said South Africa had not reviewed its tax policy for 18 years, which was why his predecessor, Pravin Gordhan, had

appointed the Davis Tax Commission to look into reforms. He said that next week he would deliver a package to address new challenges, which might involve postponing some expenditure.

The International Monetary Fund last week revised South Africa's growth forecast for 2014 to 1.4 percent from 2.8 percent.

The target by the SA Revenue Service (Sars) for the 2013/14 fiscal year was R899 billion, and it exceeded this by R700 million. In July, Nene said tax revenue was expected to grow 1.4 percent to almost R1 trillion in 2014/15.

While revenue was expected to increase, the economy was underperforming, he said.

Christie Viljoen, senior economist at NKC Private Economists, said the National Treasury could not afford to make any big adjustments to the Budget. He said VAT could be increased to 15 percent from 14 percent but there had not been a public discussion.

"If there is a change, it will be a big surprise," said Viljoen.

Dennis Dykes, the chief economist at Nedbank, said perhaps Sars was planning to clamp down on tax avoidance and evasion across the board. He said there were many firms in the informal sector that were not paying tax when they should. "I would target waste in government expenditure. There is a lot of inefficiencies."

Dykes said increasing VAT would be tricky politically as unions would be opposed to it and it was an inefficient form of tax collection.

On raising corporate tax, he said the danger would be its impact on investments.

Luke Doig, senior economist at Credit Guarantee Insurance

Corporation, said the personal income tax and corporate tax bases were narrow. "It all comes down to affordability. I would look at the government expenditure side, where the outlook is not good on salaries."

Nene said: "We no longer have that much fiscal space. Therefore we need to apply much stricter fiscal rules."

While the government would continue to borrow, debt had to be contained at sustainable levels, Nene said at a conference in London. "We are still below 50 percent. That is our target; we do not want debt to reach that level."

Public service unions want a 15 percent wage settlement, while Nene has said anything above inflation plus 1 percent would be at the expense of jobs.

"The medium-term budget policy statement that we are tabling needs to come up with a better fiscal package that addresses that challenge" of curbing spending, he said.

The government last month approved a package to support Eskom, which has a R225 billion funding gap. The plan would include the disposal of "non-strategic assets", it said.

Details would be announced in the mid-term budget and would consider Eskom's financial sustainability, Nene said.