South Africa Supplementary Budget Tax Overview 2020

Tax Overview:

The Minister of Finance, Tito Mboweni, delivered the supplementary budget speech today as a result of the significant effects that the current COVID-19 pandemic has had on our economy. Whilst there were no tax increases announced, it is very clear that if no action is taken to increase revenue and cut expenditure, the effect on the economy will be devastating.

South Africas largest tax bases, namely personal income tax, corporate tax and value-added tax are under tremendous pressure due to a slowdown in economic activity, influenced by the lockdown regulations. This has resulted in revenue collections for the first two months of the fiscal year falling short of budget by R35 billion. Further, the projected shortfall in tax revenues is expected to be R300 billion for the 2020/2021 fiscal year.

The Minister noted several concerns pertaining to the current state of the economy such as the high levels of Government debt which are expected to reach an alarming high of 81.8% of total GDP in the current year coupled with high unemployment levels which have risen to 30.1% from January to March 2020.

Even though the Minister announced several measures to reduce expenditure, such as the cutting of spending and review of the public sector wage bill, these measures alone will not be sufficient. Treasury recognises that there also needs to be a focus on increased tax revenues. To this effect, Treasury has indicated that specific attention will be given to improved tax collection and tax administration.

The South African Revenue Services will be focussing on measures to broaden the tax base, a few of these include:

1. **Transfer Pricing and International Taxes**: particularly aggressive tax planning using transfer pricing.
2. **VAT Refunds and Import Valuations**: Here the drive will be to eliminate syndicated fraud related to VAT refunds and import valuations.
3. **Use of third-party data**: SARS will rely on third party data to find non-compliant taxpayers.
4. **Debt collection**: The aim here will be to improve the collection of outstanding debts and taxpayer compliance.

It was encouraging to note from the Ministers speech that amendments to the COVID-19 Loan Guarantee Scheme are in the pipeline. To date, the scheme has only distributed R7 billion to 4,800 qualifying small businesses*, which is less than 10% of the available amount. The relaxed terms and conditions and wider qualification criteria should go a long way to help struggling businesses access funding.

What the supplementary budget means for you, our client:

1. It is clear from the above that we can expect strict enforcement from SARS in their quest to improve tax collection.

> More transfer pricing audits can be expected and the importance of taxpayers having updated transfer pricing documentation is paramount.

> Taxpayers with outstanding tax returns are encouraged to file promptly.

> In cases where information has not been properly declared or has been declared inaccurately to SARS, the use of the voluntary disclosure programme is encouraged before detection by SARS using third party channels.

2. Funding via the COVID-19 Loan Guarantee Scheme may be more easily accessible. We will communicate the detail of the relaxation measures via our various platforms once it is announced.