Ten tips for reporters on understanding tax and the Budget

By Reg Rumney

There are three certainties: death, taxes and the impenetrability of much writing about tax. Tax stories tend to be complex, abstract, written by experts and concerned with finer points of tax management.

However, the presentation of any statutory Budget, and especially the National one, is always a good time for journalists to look at tax, and an opportunity to produce interesting and important stories. After all, tax is the biggest and most important source of government revenue, and often a source of personal dissatisfaction and resentment, not to say resistance. Tax rises and new taxes hit individuals where it hurts most.

Because the Medium-Term Budget Policy Statement reveals government spending plans for three years ahead, and is unveiled some months before the Finance Minister gets up in Parliament to give his or her Budget speech, the spending side of the Budget holds few surprises.

Most of what is brand new in the Budget relates to revenue, specifically tax. Government gives comprehensive information on tax both in the Budget Review, and recently in a separate publication, as well as on the SARS website.

So what are the most important things to remember?

1. Tax is a political as well as a technical issue. Income tax takes money from the richer members of the population according to how rich they are and spends this money for the common good, in the process benefiting the poor. It is "progressive," meaning that the more you earn, the higher the proportion of your earnings you pay in tax. Those who represent the poor, or say they represent the poor, want tax to be more progressive: the wealthier members of the society would

tend to want tax to be less progressive. The "class" dimension of tax always makes for a good story. Inheritance tax is a big political issue in a country of inherited wealth and poverty, though it brings in little for the fiscus. Willingness to pay tax probably depends on a number of things, including levels of income equality, perceptions that tax money is being well spent and truly benefiting taxpayers, and the actual level of tax being demanded. In any case, the political nature of tax makes it unlikely that everyone will be happy about changes in tax.

2. It seems logical that if tax is low, the taxpayer will be less tempted to evade and avoid (see the next point for explanation) tax. Whether this is so or not, the South African government has lowered tax rates since 1994 and at the same time brought more people into the tax net and increased tax revenue. The result has been for many years an underestimation of the amount of tax that would be raised in any year. Resistance to higher taxes would be a serious problem for South Africa. The number of actual taxpayers as a percentage of the population remains low. According to the SA Revenue Service, there were around 5-million registered taxpayers in 2008, and another 4-million or so taxpayers who earned less than R65,000 and so did not have to register for tax. That makes 9-million taxpayers out of around 48-million people, not the 5-million figure that sometimes gets bandied about. In 2005 the top 5 percent of taxpayers (those earning more than R300 000 a year) accounted for close to 45% of income tax. A relatively small number of taxpayers do shoulder a heavy burden, but this is what progressive income tax is all about.

3. The taxing of "perks" used to get a lot of coverage. Tax *avoidance* is legitimate; while *evasion* is illegitimate. Avoidance means planning your tax affairs in such a way as to lessen your overall tax burden. Perks used to be part of this. Taxpayers could structure their pay so that part of it was in untaxed perks, such as cars bought by the company for the exclusive use of employees or subsidies for home loans. Perks have been progressively taxed out of existence, making for more equitable income tax treatment of citizens. Remnants remain, but each year are targeted by the SA Revenue Service. Stories on the decline of perks and loopholes can make for rich journalistic fare.

4. Tax has important economic effects. Cutting taxes stimulates the economy by leaving money in the pockets of the populace (or businesses) so that they can spend more. Raising taxes

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could cool down an overheated economy (or further slow an already slowing economy – as would happen in SA if taxes were raised now to pay for various social expenditures). Less tax may mean more borrowing, which may have to be paid back by higher taxes in future. Governments in the distant past have raised taxes during downturns to try to balance the Budget, making matters worse. The implications of tax levels for medium- and long-term debt can make a good story.

5. The top or marginal tax rate in South Africa for individuals is 40%, which is far from the highest rate in the world. And while much attention is given to this "marginal rate", this only kicks in above a certain level. For example, if you earn R600 000 a year, your marginal rate may be 40%, but it kicks in at R552 001. You pay only R160 730 on the R552 000 you have earned, plus 40% of the amount you earn above R552 000, minus a primary rebate of R10 260. This means that despite being in the top tax rate of 40%, you only pay around 28% tax on average. How many people this affects and how is interesting for the public.

6. Important in analysing Budgets is the concept of "fiscal drag". This is simply the phenomenon of not adjusting for inflation. It is tantamount to a hidden increase in tax. In times of high inflation, salary increases also more quickly push people into higher tax brackets. Government has in recent years given more tax relief to the poor than to the more affluent. In the 2010/11 fiscal year, for instance, the tax relief for individuals earning R400 000 is 2.5%. But to keep pace with inflation one would need an increase of around 7%. Tax relief in this fiscal year is overwhelmingly for low income taxpayers. Stories need to do the math.

7. Different rates of income tax are paid by people and businesses. Businesses pay tax on profits rather than income, and it is one standard rate. That general tax rate for companies at 28% is considerably lower than the marginal tax rate of 40%, though most people pay an average tax rate well below 40%. Whether the company tax rate should be higher has not been the subject of much in-depth news media coverage recently. Likewise, whether the VAT rate (see below) should be changed has also not been a burning debate Perhaps it should receive more attention. Certainly any hint of a change would be a major story. The underlying argument for lower corporate tax rates seem to be that South Africa has to compete with other countries. Since nearby Lesotho, for

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example, has a zero tax rate for certain qualifying export companies, you can see how this would be a consideration. The stats show that personal income tax as a percentage of all tax has dropped, while the contribution from company income tax has risen significantly since 1994. The trend needs identifying and signalling via ongoing journalism.

8. VAT – the abbreviation for Value Added Tax – is regarded as a very efficient form of tax, in that it is easy to administer and hard to escape. There is one rate and it is levied on at every state of buying and selling most goods and services. Compared to income tax it is simple. It is, however, “regressive”. The poor pay the same rate as the rich. Hence the country’s labour federation, the Congress of South African Trade Unions (Cosatu), would lobby intensely against an increase in the VAT rate, which has not risen from its level of 14% for some time now. VAT rates vary quite a lot around the world. A VAT rate of around 20% is not uncommon in Europe; yet Australia has a General Sales Tax of only 10%. Reduced rates and zero rating for some goods make comparisons between countries difficult. As VAT affects everyone, this constitutes a topic of widespread interest.

9. Government gets almost equal amounts, around one third of the total of income tax, from three distinct sources: individuals, companies and VAT. A much smaller amount derives from the fuel levy and other indirect taxes. While who pays how much is interesting, the overall rate of tax of a country is the most important figure of all. This figure is calculated as the total tax take as a percentage of the Gross Domestic Product. This has risen steadily since the 2002/03 tax year, when it was around 25%, to around 29% in the 2007/08 fiscal year. However, this figure includes provincial and municipal tax, which is around 5% of the total. The lion’s share of the total tax take is national. National tax, excluding provincial and municipal tax, has been as high as 27% of GDP in 2006/07 and 2007/08, but it fell unexpectedly in 2009/10 to around 24% because of lower tax revenue, and is forecast to stay below 25% for the next three years. OECD figures show tax is much higher as a percentage of GDP in developed countries, almost 50% in Denmark, for instance, but tax plays a lesser role developing countries. Mexico in 2007 had a figure of 20%, and Turkey around 24%. Breaking down the tax burden between national, provincial and local is an important service that news media can provide audiences.

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10. Beware of government "spin" on tax. Where the State gives with one hand, it can take with another. After all, the money has to come from somewhere. So income tax relief can be offset by higher taxes on petrol. Indeed, in the 2010/11 Budget, a drop in income tax of R6.75-billion was almost entirely made up by increases in indirect taxes such as the fuel levy, “sin taxes”, and a new C02 emissions tax. Over the years, government has also shifted some financing "off-Budget" and directly onto citizens. An example of this is toll roads. There would probably be resistance from the union movement to more off-Budget financing, but it would be wise to watch out for an increase in user charges for free or subsidised State services, such as education.

Some further ideas for Budget and tax stories:

1. Away from the predictable snapshot story of increased taxes on cigarettes or the portion of the Budget allocated to education, etc, prepare a multi-year comparison – in advance of the release, and then update it when the figures come out. In this way, get the story of the trend – and be sure to use a spreadsheet to accurately calculate the percentage of change.

2. Offset taxes against spending: for instance, how do increased levies on smoking and drinking compare to the increase in health care Budget – is there an envisaged dividend from discouraging people from becoming a medical burden on the state?

3. What could a very different Budget have looked like (eg. one by a hypothetical Democratic Alliance government), and what is thrown into relief in the current one?

4. Plan ahead for info-graphics that will be more interesting than pie-charts without being any less effective in conveying information.

5. As always, look for what is not mentioned in the Budget, for example, no further easing of transfer taxes on residential property, or no measures to relieve fiscal drag.

Sources: National Treasury, SA Revenue Services, and the OECD.

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