FRIDAY, 18 FEBRUARY 2022

irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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‘Hopeful Budget’ may strike right notes, but tax clarity and economic reforms are needed

This year’s Budget speech, set to be delivered on 23 February by Finance Minister Enoch Godongwana, is likely to strike an optimistic chord thanks to a number of recent tailwinds responsible for positive economic uptick. However, questions remain on how government is to respond to taxes for individuals and corporates. This is the view of Thalia Petousis, fund manager, and Komil Gordhan, tax manager at Allan Gray.

Windfalls for the country’s coffers

“Despite the economy facing serious problems like stagnation with low growth and high unemployment, there has been strong revenue collection, particularly owing to robust corporate income tax collection in December, which may reduce the 2022 budget deficit by approximately R80bn from previous projections, to closer to R300bn, which is about 5% of GDP,” explains Petousis. Gordhan says that these positive developments overshoot the Medium-Term Budget Policy predictions from 2021, which provide Minister Enoch Godongwana with a little breathing room. “The South African economic recovery has been quicker than expected, with output expected to return to pre-pandemic levels by 2022. This is a year earlier than expected previously,” says Gordhan.

For Petousis, the one caveat to this statement is that the faster pace is chiefly due to price increases in key commodities, like platinum, that South African miners export, as opposed to greater efficiency at SA ports, rails, and in local electricity generation – which is what is sorely needed to achieve stable economic growth. The economic recovery is also highly uneven, with the tourism and leisure industry, as well as the household and consumer, in a very feeble state. That said, the continued reforms that President Cyril Ramaphosa announced at SONA around the liberalisation of the electricity industry and private sector partnerships in catalytic rail projects are positive if they are to be executed properly and with some haste.

“For now, strong commodity prices should continue to lead to revenue overruns sufficient to fund the additional expenditure that government will spend on an extension of the social relief distress grants,” Petousis notes. She adds that this year has also kicked off with some sizeable inflows from foreigners into the local bond market. “This is bullish for SA bonds in the short-to-medium term and implies that there might be scope for National Treasury to reduce the size of their weekly bond and Treasury bill issuances,” says Petousis. Gordhan says that given the recent positive economic developments, together with better-than-expected revenue collection, the Finance Minister may just have some good news for parliament and taxpayers this year. “However, challenges in reducing government debt remain ahead of us, due to notable difficulties in tackling public sector wages, Eskom's weak operational and financial state, and low GDP growth potential.”

Managing the budget deficit, with or without tax rates?

Gordhan says that it is unlikely that the large budget deficit will be solved by tax hikes. “Godongwana noted in his medium-term budget in November 2021 that stabilising the debt burden is an essential target for fiscal sustainability. It was also acknowledged that tax increases over the recent past have had an adverse effect on economic growth rather than spending reductions. Therefore, any further tax increases are not desirable, regardless of the debt burden, as they will have a negative impact on the economic recovery reform.” She says that neither corporates nor individuals are likely to carry the tax burden this year. “Instead, the focus is anticipated to be on broadening the tax base whilst lowering tax rates, a journey that is already underway – with the proposed reduction of the corporate income tax rate from 28% to 27% in 2021.

This is being accompanied by expanding the application of interest deduction limitation rules and the limitation on the use of assessed losses to aid in widening the tax base for corporate taxpayers.” She also says that raising taxes on individuals will have a negative impact on the economy, especially as taxpayers are in desperate need of tax relief to help cope with rising food and fuel costs, rising interest rates, and to cushion the blow from the COVID-19 pandemic. “National Treasury has also recognised that both personal income tax as a percentage of GDP, as well as the country’s marginal tax rate, are higher than other comparable countries.”

The good news, Petousis says, is that while a deficit closer to R300bn will still be a large amount for the domestic savings pool and local banks to fund, it is more manageable than that of the previous financial year. “We expect that the Budget will reflect the intention by government to revive the economy through providing continued tax relief, added focus on accelerating reforms in the country and no major tax increases as South Africans begin to emerge from the pandemic and its negative impact. We should not be despondent if a conservative approach, without tax breaks, achieves the aim of stimulating the country’s economic recovery,” concludes Gordhan.

FA News | 16 February 2022

Another side to the BIG issue: what's the plan when SA cannot afford any more tax?

When it comes to funding the basic income grant, Consult CEO Hannes van den Berg cautions against putting further financial pressure on tax-paying citizens and the private sector.

The basic income grant is the BIG issue on the table this year, as Finance Minister Enoch Godongwana prepares his inaugural Budget Speech. At the State of the Nation (SONA) address earlier this month, President Cyril Ramaphosa bought government a bit of time in making a more permanent decision on the grant, opting instead to extend the Social Relief of Distress (SRD) Grant for a further year. Promised the President in his SONA address, "*During this time, we will engage in broad consultations and detailed technical work to identify the best options to replace this grant. Any future support must pass the test of affordability, and must not come at the expense of basic services or at the risk of unsustainable spending.*"

Sound sentiments, but then what is the plan to fund the BIG? Hannes van den Berg, Chief Executive Officer (CEO) at Consult, believes that there are limited options at government's disposal, and the most likely of the proposed funding mechanisms is also that which is expected to cost the private sector and tax-paying citizens: tax hikes. Says Van den Berg, "The budget deficit remains at an all-time high. There is some additional revenue in the current commodity cycle and weaker rand, but these are cyclical, and cannot be incorporated into a longer-term forecast with any degree of certainty. This means there are likely to be tax increases on the table."

Van den Berg warns that while there has been some recovery in tax collection, it is still sluggish, and that a Value-Added Tax (VAT) hike, personal income tax increase or the implementation of a so-called 'wealth tax' would only add more pressure to a diminishing tax payer base. "A small portion of the population already pay an inordinately high amount of tax, and the risk is that we will begin to lose this source of revenue should we see further increases — either through tax avoidance or the immigration of highly-skilled individuals." Most corporates can also ill-afford increasing taxes.

"This year's SONA has been widely hailed as the most pro-business speech to date. While the Congress of South African Trade Unions (COSATU) believes that a viable option to fund the BIG could be through adjusting the corporate tax from 27% to 30%, the reality is that we need to grant these companies the leeway they need to create jobs and bolster our economic recovery, which the President acknowledged in his speech," he adds. Momentum's own economists have listed the country's high level of poverty and the government's plan to introduce new grants among the main risks to the country's fiscus in 2022. While it noted that tackling inequality was necessary, it said that this would become increasingly challenging considering that South Africa already spends 3.3% of its Gross Domestic Product (GDP) on social expenditure. There is no disputing that the social need remains dire. According to a panel appointed by the Department of Social Development, the International Labor Organization (ILO) and the United Nations-backed Joint Sustainable Development Goals Fund, 20% of households fall below the food poverty line — equivalent to a monthly value of R595. The SRD Grant did the important job of supporting the unemployed during the pandemic, lifting millions of people above this food poverty line.

"It offered a welcome bit of relief for those who found themselves unemployed and under extreme financial pressure — however, it is far from enough to successfully pull people out of poverty, and it is not a sustainable model in the long term," Van den Berg says. Concerns have also been raised by invested parties that the BIG may create a sense of dependency on the state, while another contingent argues that a functioning social grant sees little negative effects in developed countries. Van den Berg says that in South Africa, there are deep-rooted systematic issues that need to be addressed in order for a grant to do the job for which it's intended; that is, to act as a lifeline for those facing extraordinary circumstances, allowing them to get back on their feet.

So, what should the plan be? Van den Berg believes that government's plan of enabling businesses to thrive is a good one, and should be the primary focus. "The President was right in saying that it is private sector which creates the majority of jobs, and so we desperately need to free up businesses, allowing them the runway they need to recover and to grow. We need to relook labour legislation, so that businesses are not discouraged from employing more staff. Consider how much red tape is needed to start a business, or the onerous process that an informal trader must complete to gain a trading licence. We need to relook our framework so that it will enable, rather than curtail. "We must create the jobs that give people meaning, and empower people to be self rather than state reliant."

FA News | 16 February 2022

The tax burden on annuitants: spread, not lightened

Annuitants will soon find that PAYE is withheld on the annuities they receive at the fixed PAYE rate – unless they opt out. The latest move by the South African Revenue Service (Sars) – to require the withholding of pay-as-you-earn (PAYE) tax from annuity payments at an "effective tax rate" as required in directives issued to payers of annuities – may help some annuitants to plan their finances but disadvantage others. Sars issued IRP3e tax directives in terms of Paragraph 2(2B) of the Fourth Schedule to the Income Tax Act to all payers of annuities in early February 2022 (to licensed insurers and retirement funds, collectively 'administrators'). The directives required the administrators to withhold PAYE on the annuities paid at the "Effective Tax Rate" or "Fixed PAYE Rate" prescribed by Sars on the annuitants.

From March 1 or April 1 this year, annuitants will find that PAYE will be withheld on the annuities they receive at the fixed PAYE rate – unless they opt out.

How Sars calculates the fixed PAYE rate

Sars has calculated this rate as follows:

A = Remuneration (as defined in the Fourth Schedule) from all sources as disclosed in EMP501 reconciliations submitted by employers/administrators

B = Normal tax on A prior to rebates and tax credits

C = Primary, secondary and tertiary rebates

D = Medical tax credit (as per source code 4116)

E = B-C-D

F = Fixed PAYE rate = E/A*100

Sars will also update the fixed PAYE rates based on the new tax tables when they are circulated in the Budget Review 2022/2023. The fixed PAYE rate is applied to the gross value of the annuity paid. Where an individual receives more than one annuity from the same administrator under the same PAYE employer number, the fixed PAYE rate must be applied to each annuity. If the annuitant is entitled to a deduction or to an additional medical expense tax credit, the administrator, on request, can take both amounts into account in determining the lower PAYE rate to be withheld.

Taxpayers can also request that their administrators use the PAYE rates in terms of the normal PAYE deduction tables under the Fourth Schedule or deduct PAYE at a higher rate. The risk of using the former (which is lower than the fixed PAYE rate) is that a taxpayer may have significant income tax liability on assessment. Importantly, a hardship directive for the annuitant to pay the income tax due only on assessment or a directive issued in terms of a double tax agreement would supersede the fixed PAYE rate.

Consequences for annuitants

The directive to use the fixed PAYE rate will affect annuitants, particularly those who receive more than one stream of annuity from multiple administrators. PAYE on remuneration will now take into account all annuity streams and it is likely to push the annuitant into a higher marginal tax bracket. (It is also possible that Sars may take the tax rate in the latest assessment into account in determining the fixed PAYE rate; this rate would have taken other non-annuity sources of income into account such as interest, rental, or capital gains.)

If there are taxpayers who have, through their own or their tax practitioners' calculations, ascertained that the fixed PAYE rate used against their annuity payments is too high and could result in a significant refund on assessment in addition to the cash flow constraints, they should request their administrators to withhold PAYE at a more accurate rate. Any shortfall in PAYE withheld against the annuities can still be accounted for through the usual first, second and third provisional tax payments.

Moneyweb | 16 February 2022

Beneficiaries to get pension fund payouts after employer defaults

CAPE TOWN - In a case that illustrates the devastation of employers' failure to keep up to date with their pension fund contributions, two complainants – a daughter and a son – have failed in their respective bids to get risk benefits to be paid when their parents passed away. The deceased were members of the funds by virtue of their employment with the Maluti-A-Phofung Municipality in the Free State. One employee, a woman, passed away on January 1, 2018. The other, a man, passed away on September 14, 2018. Their daughter and son, respectively, complained to the Pension Funds Adjudicator (PFA), Muvhango Lukhaimane, that the deceased's risk benefits had not been paid to their beneficiaries.

Responding to Lukhaimane, the funds submitted that the employees commenced participation on September 1, 2012 and September 14, 2018 respectively. A transfer from the Maluti-A-Phofung Retirement Pension Fund to the Sanlam Umbrella Pension Fund had been approved.
"The funds stated that due to the employer's failure to timeously pay all contributions owing to the funds in terms of section 13A of the Act, the funds followed due processes and terminated the employer's participation on February 27, 2018 with effect from October 1, 2017," the office of the PFA said.

Despite the employer at a later stage paying the arrears contributions, “as the risk benefits terminated on October 1, 2017 the special rules applicable to the employer had to be amended to remove these risk benefits”. The funds submitted that in terms of the special rules and general rules of the funds, the only benefit payable to the beneficiaries as a result of the deceased’s deaths consisted of the deceased members’ share in the funds. The deceased’s net benefits were distributed to their beneficiaries. In her ruling, Lukhaimane said: “At the dates of the deaths of the deceased, the reinsured group risk benefits under the funds were no longer in force, as the cover terminated on October 1, 2017.

“Therefore, although the employer confirmed that it is liable for any risk benefits due to members and beneficiaries for the period October 2017 to August 2019, it cannot be held liable for a fund benefit that was no longer provided for in the rules, and the special rules applicable to it.” She advised the beneficiaries to claim directly from the municipality, “if indeed it undertook to continue providing the benefits outside of the rules”. Attempts to reach the municipality for comment were unsuccessful.

Cape Times| 17 February 2022

INTERNATIONAL NEWS

UK university pension fund sets ‘staging post’ emissions goals

Largest private scheme by assets plans to invest £500mn in new decarbonisation strategy

The UK universities’ pension scheme has set new interim targets for reductions in carbon pollution to spur progress towards achieving a goal of net zero greenhouse gas emissions across its portfolio by 2050. The £82bn Universities Superannuation Scheme, the UK’s largest private pension fund by assets, will measure the carbon intensity — emissions as a percentage of its assets under management — of its portfolio relative to a 2019 benchmark to assess progress towards net zero. “The targets are a statement of intent and give us important staging posts against which to measure our progress,” said Bill Galvin, USS group chief executive.

However, it will not target reductions in absolute emissions as its future assets are expected to grow, a decision criticised by Ethics for USS, a coalition of academics that campaigns for the pension fund to take urgent action in response to climate risks. “USS should be targeting cuts in absolute carbon emissions,” said Paul Kinnersley, emeritus professor at Cardiff University and a member of Ethics for USS. The threat of catastrophic climate change has led a growing number of governments, companies and pension funds to sign up to net zero by 2050 but activists are demanding that institutions establish short-term targets to accelerate the fight against global warming. USS said last month that it would achieve an immediate cut of 30 per cent in carbon emissions on a $5bn portfolio of developed market equities by shifting it to a new climate transition benchmark which has been developed in partnership with Solactive, an index provider.

The passive portfolio, which will be managed by Legal & General Investment Management, will overweight companies that can demonstrate they are on the path to reducing greenhouse gas emissions while also eliminating companies that do not meet the UN Global Compact's sustainable development goals. "We hope these announcements will give confidence to our members and other stakeholders of the seriousness with which we are treating decarbonisation," said Galvin. USS has also added to the holdings in its renewable energy strategy where assets have grown to about £1.6bn, after it spent about £200mn last year to acquire a 50 per cent stake in Bruc Energy, a developer of solar photovoltaic farms that is also expanding into wind power developments.

Ethics for USS said that USS should stop funding new oil or gas projects by refusing to buy any new bonds issued by fossil fuel companies. "We hope that this next step is taken shortly," said Kinnersley. Simon Pilcher, head of USS's investment management arm, said the fund's fixed-income teams would be expected to "take a share of the burden" of achieving the carbon reduction targets. "We will need to work closely with industry peers, regulators, governments and many others to achieve net zero," he said.

Financial Times| 17 February 2022

UK regains second place in global pension rankings

Comes after the UK fell behind Japan last year after a difficult 2020

The UK has bounced back from a difficult 2020 to regain its position as the second largest global pensions market for 2021, according to WTW's Thinking Ahead Institute (TAI). The investment research group's Global Pension Assets Study - published today (16 February) - has placed the value of the UK's pension market at $3.9trn (£2.9trn), comprised of 81% defined benefit (DB) assets and 19% defined contribution (DC). The UK slipped behind Japan in 2020 but is now the second largest behind the $56trn US market. The three markets together account for 75% of all pension assets in the world.

This year's study analyses and compares the 22 largest pensions markets (P22) across 2021. Among the seven-largest (P7) - which also includes Australia, Canada, Japan, the Netherlands, Switzerland and the US - the UK was found to hold the equal smallest allocation to equities (21%). Almost two-thirds (62%) of pension assets in the UK are allocated to bonds, with 2% in cash and 7% in a mixture of other assets. The TAI noted that the top ten pension funds in the UK represent 16.2% of total assets. Among them, 12.5% are private pension funds and 3.7% are public.

Challenges for leaders

P22 pension funds now hold over $56trn of assets following year-on-year growth of 6.9% in 2021, up from $52.9trn in 2020. This figure has also doubled in the last decade and DC pensions also now account for 54% of assets in the largest markets. TAI co-head Marisa Hall warned the near doubling in pension asset values over the last decade could bring both challenges and opportunities.

"High valuations imply financial security but also pose difficult questions about future allocations - and will encourage many pension schemes to continue looking beyond the traditional asset classes, in order to maintain returns," she said. "Investing for sustained growth is going to become an even more nuanced question in future decades. Doubling assets again in the next ten years will need global pension schemes to confront the unsustainability of the global carbon economy and look with renewed imagination at the fundamentals of sources of return."

DB/DC split

Within the P7, only the Dutch and Japanese markets have a lower percentage of DC assets than the UK. Australia continues to have the highest split in favour of DC - 87% versus 13% DB - followed by the US with a 65%:35% divide. The TAI said the "most successful global pensions market can be found in Australia" where asset growth is around 11.3% per annum. This was compared to 7.7% growth in the UK during 2020 and 8.5% in the US.

"The critical features in [Australia's] success have been government-mandated contributions, a competitive institutional model, and the dominance of DC," the TAI said. Hall said the P7 and the rest of the P22 were set to face "a host of challenges" in the future but said there would also be fresh investment opportunities as schemes "navigate a new vista beyond today's economic, financial and institutional fork in the road".

Pressures from Covid-19 and inflation will join supply chain issues and economic uncertainty as major themes in these challenges. Decarbonisation and a renewed focus on social responsibilities could also be major themes. Hall explained: "Pensions professionals face structural shifts too, with DC funds seemingly the future in most global pensions markets, regulatory pressure and a growing demand from end-savers for easy access to information and openness about investment decisions."

The 'P22'

	Country	Total pension assets (USD billion)
	US	32,011
	UK	3,858
	Japan	3,683
	Canada	3,420
	Australia	2,777
	Netherlands	2,149
	Switzerland	1,271
	South Korea	1,004
	Germany	542
	China	365
	Finland	293
	Malaysia	278

	Country	Total pension assets (USD billion)
	Mexico	266
	Italy	242
	South Africa	223
	Hong Kong	221
	Chile	207
	Brazil	200
	Ireland	195
	India	171
	France	154
	Spain	44

Source: Thinking Ahead Institute

Professional Pensions | 16 February 2022

OUT OF INTEREST NEWS

Retirement: The best investment money can buy!

The investment growth at a rate better than inflation, combined with the added tax benefits, make retirement funds the best investment you will ever make. Investments are critical to the lifestyles and well-being of most of us, but we often find ourselves lost and confused. One of the reasons for this is that the financial services industry has sown confusion with a vast array of investment products that are frequently sold indiscriminately.
Imagine an investment:

- Where the contributions to the investment are tax-deductible* and on retirement, you can withdraw the first R500 000 tax-free*;
- Where no tax is paid on the growth obtained on the underlying funds in the investment;
- Where the investment does not form part of your estate and no estate duty tax is payable (savings of least 20%) and no executor's fees (3.5% plus VAT) is levied on the investment or the growth on the investment; and
- Where the investment and investment returns are protected from your creditors.

*Best of all is that all of this is guaranteed! **

**Subject to Income Tax Act*

This investment is an investment in retirement funds. These investments in pension funds, provident funds and retirement annuities are, once you strip away the marketing clutter, the best investment your money can buy! From March 1 2016, the total contributions to retirement funds (pension, provident and retirement annuity) are tax-deductible to a maximum of 27.5% of the greater of remuneration or taxable income, capped at an annual limit of R350 000. The taxable income used in these calculations excludes lump sums. Any excess not utilised in calculating the deductible amount may be carried forward to the following tax year.

This means that for every R1 you invest for your retirement, Sars will allow as a deduction an amount equal to your current marginal tax rate, which is between 18% and 45%. This is best explained by an example: If your marginal tax rate is 30%, you will receive 30c as a deduction from Sars for every R1 you invest for yourself in your retirement fund. That means you only pay 70c for every R1 invested for your retirement. This is an effective return on investment of 42.85% (30/70 = 42.85%) guaranteed. This means that the higher your marginal tax rate is, the bigger your guaranteed return will be.

The table below shows the investment return obtained by the tax benefit at contribution.

Marginal Tax rate	Guaranteed Investment Return
18%	21.95%
26%	35.13%
31%	44.92%
36%	56.25%
39%	63.93%
41%	69.49%
45%	81.81%

Remember that your retirement fund (pension, provident and retirement annuity) is the "vehicle" used to obtain the tax benefit. You can benefit even more when you choose an appropriate "engine" that will provide the investment returns. A well-diversified balanced portfolio will, over the long term, provide inflation-beating returns. Thus, growth at a rate better than inflation, combined with the added tax benefits, makes this possibly the best investment you will ever make. Yes, even better than paying money into a house bond or settling debt.

R500 000 tax free

A very important factor to consider is that at retirement, which per current tax legislation is 55 and older, you will qualify to receive the first R500 000 of your retirement fund contributions *tax-free (assuming you have not utilised this benefit previously).* So, during your pre-retirement years, your contributions were tax-deductible but at retirement, you receive R500 000 tax-free. The tax saving on this R500 000 tax-free portion is thus a permanent saving.

Lower income tax rate after retirement

Most people earn and pay tax at their highest rate immediately prior to retirement. Most people will earn less taxable income after retirement than when they received a monthly salary. The lower monthly taxable pension income combined with the larger tax rebates after 65 and 75, will result in you paying a lower average tax rate after retirement. Thus, while you contribute towards retirement you save tax at a higher tax rate, and when you retire you pay tax at a lower tax rate. In effect, this difference is an added guaranteed return on tax savings after retirement you get by using a retirement savings vehicle (pension, provident and retirement annuity). This is besides the other advantages already mentioned (no estate duty tax, no executors' fees, protection against creditors etc.).

To explain this, I will use a simple practical example. If you earn R50 000 per month your average tax rate, after rebates, is 23.79%. When you retire at age 65 you get the first R500 000 tax-free. That is a guaranteed return on investment on the first R500 000 of 23.79%. If you have saved enough for retirement and are able to receive a 70% replacement ratio (70% of your last salary) your average tax rate reduces to 17.07% resulting in a permanent tax saving of at least 5.28% (tax saved when contributing at 23.79% versus tax paid on income during retirement at 17.07%) and it gets even better for money withdrawn from your pension after age 75, being a permanent saving of 5.97%.

Even if your investment growth ends up being zero for the full term, which is unlikely, then the tax benefit alone makes it a “no brainer”. To get the most benefit, you must use the full tax-deductible contribution to your retirement funds. This will also assist in providing you with an income at retirement. This practice is often referred to as “paying yourself first”. It is never too late to start investing in your own retirement fund. February 28 marks the deadline for “topping up” your retirement funds for this tax year. Don’t miss out on this opportunity!
“The greatest risk in investments is your own behaviour” – Warren Buffet.

Moneyweb | 11 February 2022

Minister Godongwana will require the grit and wisdom to make tough decisions

Mazars experts provide predictions on the upcoming 2022 Budget Speech and share their specialist opinion on the country’s most pressing issues

As we head towards the 2022 Budget Speech, set to take place on 23 February, Minister of Finance, Enoch Godongwana has a mammoth task ahead of him – one that will require the grit and wisdom to make difficult decisions. This is the opinion of Mike Teuchert, National Head of Taxation at Mazars South Africa, who commented that Godongwana has “inherited the South African predicament of a high debt to GDP ratio and a deficit that has been largely funded by borrowing”. He continues to say, “We’ve come to an inflection point as a country, against the backdrop of a critical public sector wage agreement, juxtaposed by the ongoing consequences of COVID19, which dealt South Africa a crippling blow. Within this context, the Minister will need to find room to maneuver and take the drastic action that the country needs.”

Teuchert's comment formed part of a tax forecast virtual roundtable discussion, entitled 'From viral dis-ease to sustainable growth,' hosted by Mazars South Africa ahead of the upcoming 2022 Budget Speech. The event was facilitated by Taxation Manager, Tusani Mnyandu, and along with Teuchert, the panel included a team of internal Mazars specialists; namely Bernard Sacks, Tax Partner and Althea Soobyah, Director of Tax Consulting. According to the Medium-Term Budget Policy Statement Speech, Treasury is expected to record a budget deficit of 7.8% of GDP heading into 2022, with a gradual lowering of this prediction to 4.9% in 2024/25. Tax revenue has exceeded expectations in the short term and is estimated to reach R1.5 trillion – an upward revision of R120.3 billion.

Cautioning against undue optimism with regards to tax revenue exceeding targets

Soobyah advised that "while the country has succeeded in increasing our fiscal position, we still need to consider factors like how we can expand the tax net". She argues that it may be inaccurate to attribute the surplus in revenue to an expansion of the tax net. Rather, it has its origins in an increase in compliance ratios, with SARS having put all its weight behind improving tax administration and collections. Currently, SARS has the capability to process 93% of its assessment in under 5 minutes – an impressive feat considering the imminent challenge the institution faces in the form of a significant skills shortage.

Tax predictions

By way of predictions, Sacks advised that the road to a healthier and sustainable fiscus and economy should not be paved with increases in personal taxes or the current VAT rate, although both these eventualities remain on the horizon of public discourse around which steps the Minister will take to bolster the economy. Sacks expects that as an alternative to a general VAT increase, a special VAT rate may be applied to a number of products that currently have a zero rating. Doing so, however, will impact an already high inflation rate both in South Africa and worldwide, and so in his opinion, the Minister will need to tread lightly around this issue.

The plausibility of new areas of taxation – like cryptocurrency and vaping

While these are viabilities that need to be considered, Soobyah says there is an important lesson to be learnt from the implementation of the sugar tax. "Companies who previously had a heavy reliance on sugar simply moved on to using other sources of sweetener that were outside of the tax net. Many were probably able to circumvent the ripple effect of this tax in that way. Whether the introduction of this tax led to the procurement of the revenue that we had hoped for, remains to be seen". Soobyah continues, "with regards to emerging industries like cryptocurrencies, much guidance is needed to navigate the grey areas and we are yet to see government take decisive action in this regard."

The Basic Income Grant - weakening of fiscal policy or positive spin-off for civil society?

In commenting on this issue, Sacks pointed to the SDR Grant – an initiative put in place to alleviate some of the hardship brought on by the pandemic. With COVID19 tapering off and the relevance of the SDR Grant waning, will the Basic Income Grant take its place? And more importantly, are we in a financial position to offer such a grant? These were some of the questions posed by Sacks, who argued that the grant system should be based on the principle of “quid pro quo.”

Teuchert agreed, arguing in conclusion, that the ultimate question the government needs to ask itself is whether an income grant will solve the unemployment crisis. “There has to be a mechanism that allows the government to incorporate unemployed individuals into the real economy, which involves creating jobs and instilling a sense of pride in South African people who can work and earn a living. This is of course, is part of a bigger debate.”

FA News | 11 February 2022

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