

Relief should be prioritised, but where will the funds come from?

Following a year of pandemic and lockdowns, South African employees and companies are looking ahead to the annual Budget Speech on 24 February with a sense of foreboding.



Yolandi Esterhuizen, registered tax practitioner & director: product compliance, Sage Africa & Middle East

In the wake of the crisis, many jobs have disappeared, countless businesses have shut down, and billions of rand in tax revenue from sources such as VAT, PAYE, and excise duties have been lost. This at a time when government faces the challenge of sourcing more money to fund a mass vaccination programme.

With near-record levels of unemployment, and limited fiscal room, finance minister, Tito Mboweni faces a difficult task in balancing the need to raise more tax revenue against the reality that most businesses and consumers don't have more to give.

Here are a few points I am eager for the minister to address in the Budget Speech.

Unemployment

Based on numbers from the third quarter of 2020, South Africa's unemployment rate is currently at 30.8%. This is the single largest economic and humanitarian crisis the country faces. Government has committed R100bn to create jobs through public and social employment under the economic reconstruction and recovery plan. Based on a report in December, we are also seeing good progress in the Presidential Employment Stimulus and other programmes. I'm expecting more news in the budget.

Tax increases

A growing fiscal deficit and new funding requirements, such as the vaccine programme, mean government will most likely need to increase taxes somewhere. With PAYE receipts under pressure due to rising unemployment, it is likely to look at sources such as sin taxes and fuel levies. It would not be surprising to see a solidarity wealth tax implemented soon. A recent study indicated that such a measure could raise up to R160bn for the fiscus. However, a wealth tax might be complex and expensive to administer.

Corporate tax rates

In February last year, the government indicated it was planning to broaden the corporate income tax base through measures such as restricting net interest expense deductions and limiting the use of assessed losses carried forward. It would then use the boost in funding to reduce the corporate tax rate.

In the Supplementary Budget Review, Treasury confirmed the postponement of measures to broaden the corporate income tax base until at least 1 January 2022. It would be good for the minister to give an update on these plans. Many businesses would welcome a lower corporate tax rate in these difficult times, and it would be a pity if they needed to wait much longer for relief.

Working from home tax deductions

Many employees have yet to return to the office and are likely to continue working from home for most of the upcoming tax year. To claim a portion of your rent and certain other expenses as a work-from-home tax deduction, you need a dedicated area in your house used exclusively for work. This seems unfair to the many people who work in their lounge or bedroom because they are not privileged enough to live on a big property. I would welcome the relaxation of these rules, even if only as a temporary measure during the pandemic.

Temporary Employer-Employee Relief Scheme (Ters)

Following the second wave of coronavirus infections and tougher lockdown restrictions, the finance minister is under pressure to offer more relief to businesses and employees to tide them over during this difficult time. Many businesses, especially in the tourism and hospitality sector, will not survive much longer without help from the government. As such, it's reassuring that the president's State of the Nation Address mentioned a Ters extension to 15 March for sectors that are unable to operate.

The conditions and the sectors to be included will be announced after consultation with social partners at Nedlac. I wonder what type of relief, if any, will be provided to businesses that cannot operate to full capacity and that are also struggling to keep their heads above water. I hope the minister will announce further relief measures to help them, too.

ABOUT THE AUTHOR

[[<https://www.sage.com/en-za/blog/author/yolandiesterhuizen/> Yolandi Esterhuizen]] is a registered tax practitioner & director: product compliance, Sage Africa & Middle East