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INCOME BASE

Wealth tax no replacement for economic growth to solve fiscal deficit

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Despite the recent tax "windfall" due to better-than-expected collections, primarily off the back of the commodities boom, the reality is that without economic growth, SA's structural fiscal deficit will remain a challenge. Growing unemployment coupled with emigration means the country's income tax base is shrinking.

According to studies by both the University of Cape Town and Oxford University's Centre for the Study of African Economics, the number of individuals in SA's middle- to upper-income band has fallen over the past few years.

Personal income tax payers are the largest contributors to total tax revenue, with those earning more than R1m a year paying 40.2% of all personal income tax. There will thus be long-term consequences if their numbers are depleted.

The number of taxpayers earning taxable income of R750,000 a year has declined by about 9,000 people in the last two years. As economist and Wits Business School professor Jannie Rossouw pointed out recently, this group of taxpayers should have grown, if for no other reason than the effects of inflation.

SA has a high corporate tax rate, which compares unfavourably with neighbours such as Botswana and even against the global tax rate average. And in addition to the high personal income tax rate, 15% VAT is paid on most items, a 68% tax is paid on fuel, there are high municipal tax rates, punitive capital gains tax and what essentially amounts to a double tax on basic services such as water, refuse removal, sewerage services, health care and education.

Of particular concern is that of those emigrating. Most are high earners and employers. According to the FNB Estate Agents Survey based on the fourth quarter of 2020, a fifth of homes valued at R2.6m or more that were put on the market by the end of last year were due to plans to emigrate.

SA's successful entrepreneurs are in demand worldwide. According to AfrAsia Bank's 2021 World Wealth report, more than 4,000 high net-worth individuals have emigrated from SA in the past decade.

The National Treasury has acknowledged that tax increases in recent years have generated less revenue than expected. While the idea of a wealth tax is periodically put on the table, the reality is that should it be enacted it will simply encourage more people to move their tax residency abroad.

The Treasury indicated in its 2020 medium-term budget policy statement that a general tax hike is likely to do more harm than good given that it appears SA has already reached the peak of the Laffer Curve. We are in effect at the point on the curve where additional taxes simply discourage the taxed activities, such as work and investment, enough to actually reduce total tax revenue.

In February, former finance minister Tito Mboweni announced the creation of a high net-worth tax unit within the SA Revenue Service to target the wealthy and expand revenue collection. However, even improved tax collection is little use in the absence of meaningful economic growth. If the Treasury's projections of 2.2% growth in 2022 and just 1.8% the following year are correct, SA is in real trouble. At that growth rate we certainly won't be able to reduce unemployment or avoid a further deterioration in the debt situation.

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Though tax collections have been better than expected, these are still lower than prepandemic levels and improved tax collections have not been broad-based across industries. The risk is that these circumstances may in effect be masking the state of tax collections through the highly concentrated collection of tax from high-income earners.

When the tailwind subsides, the actual state of affairs will become more apparent. That much of the "windfall" has been allocated to recurrent expenditure items such as grants and public servant remuneration rather than growth-enhancing initiatives with a multiplier effect, could have significant fiscal ramifications.

In addition to coping with a high tax rate, it is becoming increasingly difficult to do business in SA due to onerous regulation, the high cost of labour and energy and the persistent threat of power outages. While it is almost impossible to quantify the real cost of load-shedding to the economy, a research report by PwC predicts that ongoing power cuts will cost the economy about 350,000 jobs.

The Council for Scientific & Industrial Research has previously calculated that load-shedding results in the loss of R700m per stage per day in lost economic output. Certainly, an unreliable supply of energy is a big deterrent to investors and inhibits economic growth.

● *Duvenage is MD of NFB Wealth Management.*

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