



**Presentation to the Standing Committee on
Finance and the Select Committee on Finance**
Fiscal Framework and Revenue Proposals

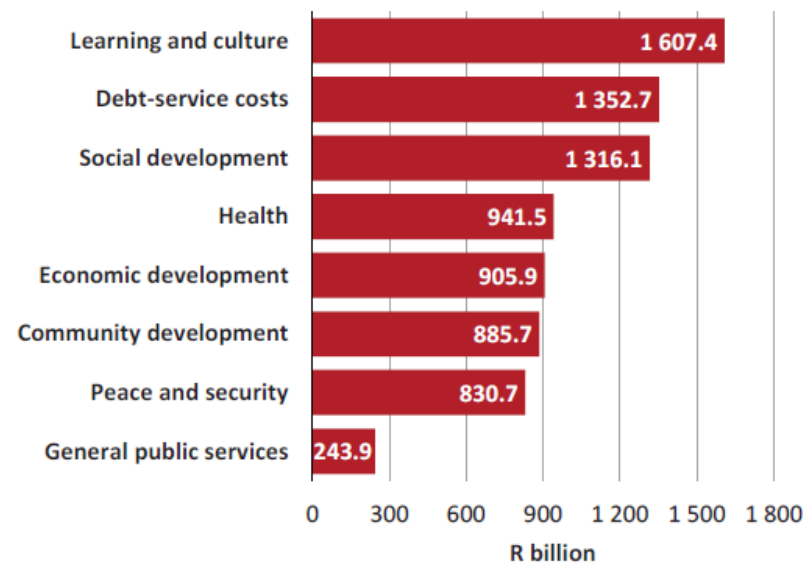
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YOUR KEY TO THE TAX COMMUNITY

The Tax Hike is an Expenditure Problem – Not a VAT Problem

Figure 5.2 Total consolidated government expenditure, 2025/26 – 2027/28



Debt-service costs consume 22 cents out of every rand of revenue and **are growing faster than GDP**

Table 3.5 Consolidated fiscal framework

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
R billion/percentage of GDP	Outcome			Revised estimate	Medium-term estimates		
Revenue	1 754.8 27.7%	1 900.8 28.1%	1 948.0 27.5%	2 029.2 27.1%	2 221.9 27.8%	2 377.4 27.9%	2 520.6 27.8%
Expenditure	2 047.3 32.4%	2 145.4 31.7%	2 259.5 31.8%	2 404.0 32.1%	2 592.3 32.4%	2 703.0 31.8%	2 834.9 31.3%
Non-interest expenditure	1 771.3 28.0%	1 829.7 27.1%	1 896.0 26.7%	2 006.1 26.8%	2 158.9 27.0%	2 244.6 26.4%	2 346.2 25.9%
Budget balance	-292.6 -4.6%	-244.6 -3.6%	-311.6 -4.4%	-374.7 -5.0%	-370.4 -4.6%	-325.6 -3.8%	-314.2 -3.5%

Source: National Treasury



Government **expenditure** is consistently **surging ahead of revenue**

The VAT hits the middle and lower income taxpayers – Not just the poor

Commendable that the basket of zero rated goods is expanding.



Despite the zero-rated goods, there's no proof that the poor are truly benefiting—real efforts are needed to ensure the benefits actually reach them.

TAKE NOTE!!!

Middle-income households (R10,000–R30,000/month) face significant strain as they spend 20%-30% of their income on VATable goods.

The VAT hike cuts into discretionary spending, diminishing their quality of life.



The VAT hits the middle and lower income taxpayers – Not just the poor

Example Calculation:

- Average Salary of a South African Parliamentarian earns approximately R1.2 million per year – this is considered below average when compared to US/ UK earning capacity.
- Let's assume a parliamentarian spends **R300,000** annually on goods and services subject to VAT.

Current VAT Rate: 15%	New VAT Rate (from May 1, 2025): 15.5%
$R300,000 \times 0.15 = R45,000$	$R300,000 \times 0.155 = R46,500$

- Increase in VAT Paid: $R46,500 - R45,000 = R1,500$

International Comparison

Average VAT Paid Internationally: For a similar income level in a high-tax European country, let's assume the VAT rate is 20%.

- $R300,000 \times 0.20 = R60,000$

This example shows that while the VAT increase in South Africa will result in higher costs for middle-income earners, it is still lower compared to the VAT paid in many high-tax European countries. **However, the impact on disposable income is more significant in South Africa due to lower average earnings.**

Income Tax Brackets Left Frozen: Inflation Erodes Purchasing Power

The personal income **tax tables** need to be reviewed annually to ensure that **inflation** does not automatically push personal income taxpayers into **higher tax brackets**.

About turn decision to adjust PIT tables for inflation is concerning

2024/25		2025/26	
Taxable income (R)	Rates of tax	Taxable income (R)	Rates of tax
R0 - R237 100	18% of each R1	R0 - R237 100	18% of each R1
R237 101 - R370 500	R42 678 + 26% of the amount above R237 100	R237 101 - R370 500	R42 678 + 26% of the amount above R237 100
R370 501 - R512 800	R77 362 + 31% of the amount above R370 500	R370 501 - R512 800	R77 362 + 31% of the amount above R370 500
R512 801 - R673 000	R121 475 + 36% of the amount above R512 800	R512 801 - R673 000	R121 475 + 36% of the amount above R512 800
R673 001 - R857 900	R179 147 + 39% of the amount above R673 000	R673 001 - R857 900	R179 147 + 39% of the amount above R673 000
R857 901 - R1 817 000	R251 258 + 41% of the amount above R857 900	R857 901 - R1 817 000	R251 258 + 41% of the amount above R857 900
R1 817 001 and above	R644 489 + 45% of the amount above R1 817 000	R1 817 001 and above	R644 489 + 45% of the amount above R1 817 000
Rebates		Rebates	
Primary	R17 235	Primary	R17 235
Secondary	R9 444	Secondary	R9 444
Tertiary	R3 145	Tertiary	R3 145
Tax threshold		Tax threshold	
Below age 65	R95 750	Below age 65	R95 750
Age 65 and over	R148 217	Age 65 and over	R148 217
Age 75 and over	R165 689	Age 75 and over	R165 689

Source: National Treasury



No inflationary increases for personal income tax brackets, rebates and medical credits. Which will result in a cumulative R19 bn in collections.



Unchanged Tax Thresholds: Pressuring Already Strained South African Households

Over the past few years, inflation in South Africa has been hovering around 5-7%, increasing the cost of goods and services.

However, several tax thresholds, some listed below, have not been adjusted to keep pace with the rising cost of living and inflation.



Capital Gain Tax rates have not been adjusted since 2018



Excise duty rates have not been adjusted for inflation since 2018



First R1.25 million of foreign employment income earned by a tax resident will qualify for exemption. This tax threshold has not changed since 2020.



The R350,000 tax-deductible contribution threshold has not changed since 2016.



The first R550,000 of a retrenchment package is tax-free, provided you haven't used this tax-free amount for any previous retrenchments. This threshold has not changed since 2023

The unchanged thresholds disproportionately affect lower- and middle-income groups, exacerbating economic inequality in South Africa leading to **worsened inequality**. As people feel financially squeezed, consumer spending decreases, leading to slower economic growth. The lack of tax threshold adjustments can lead to growing **dissatisfaction with the government and the tax system in general**.

Section 7(4) of the VAT Act: Implications and Considerations

Scheduled increase in the VAT rate is set to start on 1 May 2025

Any changes to the VAT rate typically require parliamentary approval to ensure transparency and accountability

The current political landscape, with no clear majority party complicates the decision-making process.



Implementing an increase in the VAT without a clear plan is highly risky. **We therefore recommend that this be delayed until surety of affirmative vote is ascertained.**

If there is no affirmative vote or if the vote is delayed, the implementation of the VAT increase may need to be postponed until a majority decision is reached. What happens then?

Without a decisive vote, there is a risk that the VAT increase could be reversed or further delayed, leading to uncertainty for businesses and consumers.

We cannot be compared with High Taxed Europeans

- ✓ South Africa's average monthly income is around USD 540 per capita, much lower than the USD 3,000+ in many European countries. **This income disparity means South Africans have less disposable income, making high tax rates more burdensome.**
- ✓ South Africa's economy is projected to grow at a modest 1.6% in 2025, lower than many European economies. South Africa also contends with high unemployment and energy supply issues. In contrast, **European countries have more stable and diversified economies, allowing them to sustain higher tax rates without significantly impacting their citizens' quality of life**
- ✓ **South Africa's tax burden is already substantial**, with personal income tax rates up to 45% for the highest earners. Despite this, the country struggles with public service and infrastructure challenges, unlike European countries, which often have more efficient tax systems and better service delivery.



This makes it difficult to justify further tax increases in South Africa without first addressing these systemic issues.

We support funding of SARS

We are supportive of the fact that the budget also allocates funds for capacity building and training programs for SARS employees. The additional funding will enable SARS to hire more employees, enhancing its capacity to manage tax collection and compliance effectively.



The funding will support the modernisation of SARS's systems through advanced technologies like artificial intelligence and data analytics, which will help detect and prevent tax evasion, streamline tax administration, and improve overall efficiency. Additionally, investment in digital platforms will enhance taxpayer services, making it easier for individuals and businesses to comply with tax regulations and file returns online.

Enhanced Collaboration is needed: Modernising and integrating **systems across various other government departments, agencies and even municipalities** is essential to contributing to overall efficiency and synergy. This will lead to better coordination and collaboration between SARS and other government entities – helping SARS to identify where the gaps lie.



Taxpayer rights – SARS needs to meet a burden of allegation before they can charge taxpayers

Currently, some SARS officials has been known to take **aggressive action against taxpayers** by issuing assessments and initiating enforcement measures, sometimes without fully establishing sufficient evidence or meeting a clear burden of proof



Practices include:

- ✓ SARS may initiate audits or investigations on taxpayers without always providing clear justifications or adequate evidence for why those individuals or businesses are targeted.
- ✓ SARS may resort to aggressive collection methods, including garnishing wages or assets, sometimes without first meeting the appropriate burden of proof to show that taxes are genuinely owed.
- ✓ This is an unfortunate by product of excessive targets in tough economic times and can lead to disputes and frustrations for taxpayers, as they may face charges without clear, sufficient evidence or formal procedures.

Solution:

- ✓ SARS must provide some level of **prima facie** evidence that there is some level of wrongdoing **before** charging taxpayers, ensuring accountability in their actions.
- ✓ **Taxpayers are entitled to protection from arbitrary or baseless charges by SARS, promoting fairness in the system.**
- ✓ SARS must meet a clear threshold of proof to justify any charges, preventing unjust taxation practices

We need to impose a withholding tax/ special reporting on tenderpreneurs

- ✓ Imposing a **withholding tax/ special reporting** on tender amounts awarded to “tenderpreneurs” ensures that taxes are collected at the source, **reducing opportunities for tax evasion and ensuring compliance.**
- ✓ A withholding tax **streamlines the process** of tax collection from businesses involved in government tenders, increasing overall tax revenue and reducing the administrative burden.
- ✓ By withholding taxes upfront, this will ensure that all players in the tendering process **contribute fairly to the economy, discouraging fraudulent practices**, promoting integrity in government contracts and ensuring fair market competition.
- ✓ Perform regular updates/ amendments to the Preferential Procurement Policy framework



Infrastructure Investment: The Key to Unlocking South Africa's Economic Potential

We welcome the significant public-sector infrastructure investment that is pegged to be **R1.03 trillion** over the medium-term expenditure framework period. This will enhance South Africa's infrastructure and will support economic growth and development

State-owned companies are projected to be the largest contributors to capital investment, with an estimated spending of **R410.9 billion** over the next three years. This is a positive development that will drive focus on critical infrastructure projects, including energy, transportation, and water supply



The increased focus on private-sector participation in infrastructure projects through public-private partnerships (PPPs) is the right way to go and displays growing confidence in the country's economic potential and the effectiveness of blended finance initiatives.

The government plans to publish a consultation paper on unlocking institutional funding for infrastructure, proposing investment vehicles with a flow-through tax regime. We welcome the further consultations that will take place in 2025. We believe that this will smooth out multiple layers of taxation and ensure no additional tax for PPPs. We think this is a positive and welcomed move.

Customs and Excise Crackdown: Strengthening Trade and Preventing Evasion



- ✓ We applaud **enhanced enforcement measures** that SARS is implementing to combat customs and excise evasion. This includes the use of advanced technology such as AI and machine learning to detect and prevent illegal activities and increased compliance
- ✓ **Proposal to introduce body-worn cameras** that is aimed to promote transparency and accountability, is strongly believe that this initiative will build trust and ensure that enforcement actions are conducted fairly and transparently
- ✓ The introduction of the amendment to the Customs and Excise Act of the **new voluntary disclosure program** is supported and to go a long way to fostering a culture of compliance
- ✓ **VAT disputes on the importation of goods:** VAT disputes on imported goods are addressed under both the VAT Act and Customs Act. This unified dispute resolution framework is supported for better handling of interrelated Customs and VAT issue



Thank you