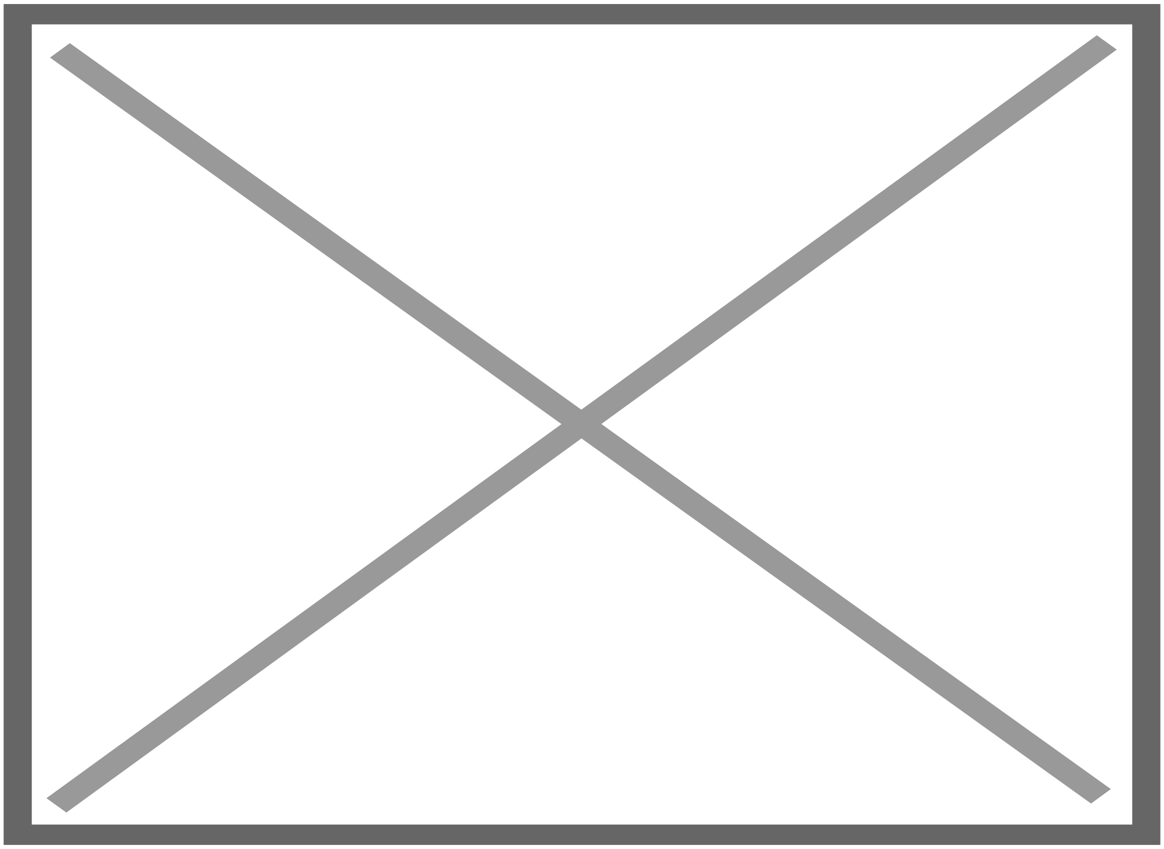
The South African Institute of Taxation: A brief tax perspective

Briefings



28 March 2022

The South African Institute of Taxation tell us about South Africa's tax policy and the work of their Institute.

> 'In line with international trends, the work of the South African Tax Practitioner has become ever more complex. Tax policy is changing and enforcement is intense. Political emphasis on tax morality has meant that South African tax practitioners are facing a greater scrutiny from revenue authorities and the public in general.'

Keith Engel, CEO, South African Institute of Taxation (SAIT)

South Africa has historically faced a difficult paradigm. The country is one of the most uneven in terms of wealth and income. A small proportion of the citizens are being requested to carry a higher share of the tax burden. Government challenges and international events have put pressure on tax, leading to loss of jobs and static growth. The government is reluctant to increase taxes despite pressure for revenue. Time will tell whether growth, fiscal restraint or the bigger government will prevail.

Revenue outlook and collection: Revenue collection from the struggling economy was severely impacted by the Covid-19 pandemic. However, the 2021/22 collection period saw an improvement, with corporate income tax receipts from the mining sector accounting for most of the change. Despite the pandemic, personal income tax collections and VAT performed above expectations. The net result was to avoid the need for immediate tax increases.

Tax policy and reforms: In the 2021 Budget Review, the intention was to reduce the number of tax incentives, expenditure deductions and assessed loss offsets, intending to lower the corporate income tax rate over the medium term.

The government proposed to lower the corporate income tax rate from 28% to 27%. The reduction was funded by restricting assessed losses and strengthening base protection measures to curb excessive interest deductions from eroding the tax base. This was a win for profitable companies but had an adverse effect for companies struggling from the pandemic.

The government proposed to reduce tax incentives for individuals and companies. In the 2022 Budget Review, expiring incentives that have not widened social or economic benefits were renewed. The research and development incentive is possibly heading for renewal. The industrial incentive for capital projects has /run out of funding and may steadily pass into the sunset. Job incentives have continued support but are largely ineffective because of the high risk of accidental non-compliance.

Revenue authority: Rebuilding the South African Revenue Service (SARS) post 'state capture era' proceeds apace, with investment in staff and modernisation of its information and communications technology. The challenge is to expand the tax base to cover the non-compliant. Tax evasion will require criminal prosecution for cash businesses and those involved in corruption.

South African tax practitioners: Professionals engaged in tax must be registered with SARS as tax practitioners. Professional body registration is a core requirement. SAIT is the leading body, but accounting and legal bodies also contribute.

Keith Engel, CEO of SAIT, explained the Institute's position: 'Our goal at SAIT is to act as the regulator of tax professionals and to be a respected arbiter of the tax system. Our goal is that of long-term sustainability. An oppressive system will stunt economic activity and chase many into the informal sector. A weak system will lead to revenue shortfalls, followed by heavy taxes falling on the compliant few.

'We believe our collaboration with the CIOT, due to be launched later this month, will be of great assistance. This collaboration will help to uplift the South African tax profession and increase SAIT's ability to be a respected arbiter.'

Image