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Tax in South Africa

Budget 2016/17 Driving progress

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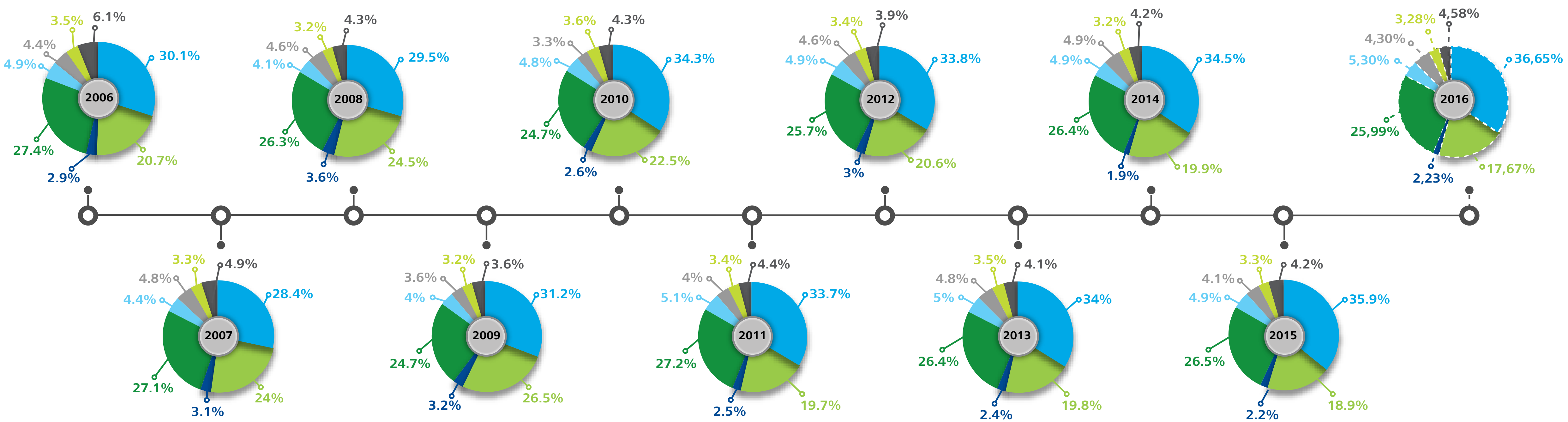
Sources of tax revenue



● Personal Income Tax (PIT) ● Corporate Income Tax (CIT) ● Secondary Tax on Companies/Dividends Tax (STC/DT)* ● Value Added Tax (VAT) ● Fuel Levy ● Customs ● Excise ● Other - - - Forecast

Davis Tax Committee views:

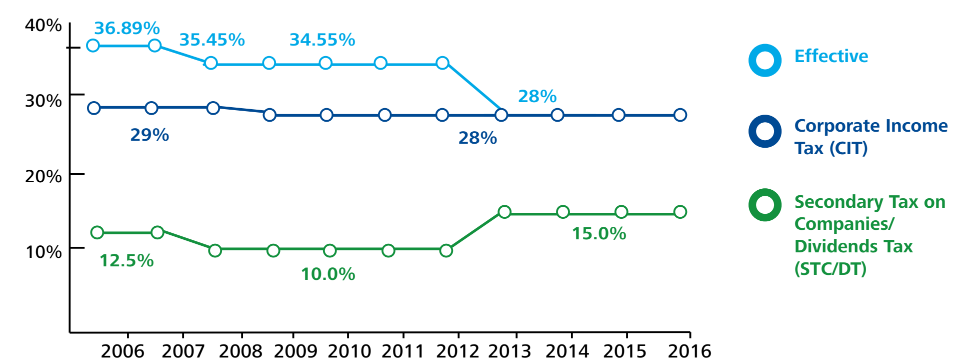
- An appropriate mix is sought between taxes on consumption, income and wealth.
- The National Treasury has modelled a number of simulations. An increase in PIT would need to be 6 percentage points and the increase in CIT would need to be 5 percentage points in order to realise the same revenue as a 3 percentage point increase in VAT. While there would be a negative impact on GDP and employment – particularly in the short-run – the impact of a VAT increase on these two variables would be less severe than that of a rise in PIT or CIT. An increase in VAT would be less distortionary than an increase in PIT or CIT but would counter the overall progressivity of the tax system and be somewhat inflationary in the short run. Increases in PIT could enhance progressivity but may encourage tax avoidance behaviours, reduce labour supply, prompt the flight of those who are skilled and undermine incentives for entrepreneurship.

Income tax rates for individuals

The maximum marginal tax rate for individuals has been stable for quite some time but seems to be on an upward trajectory. Danger of rates being set too high – acts as a disincentive for economic activity, savings and investment.

Corporate income tax rates

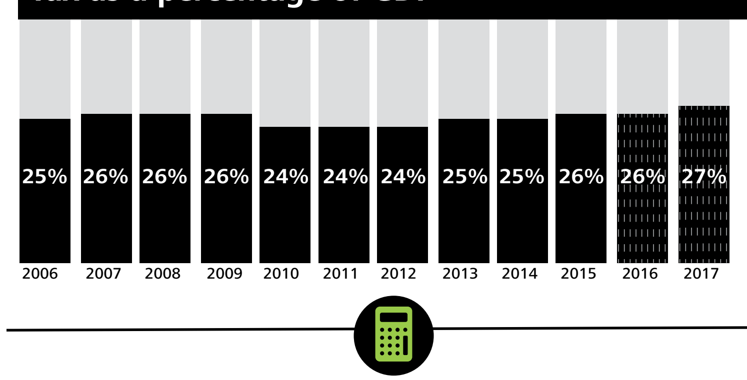
The Corporate tax rate has been dropping and is fairly competitive relative to South Africa's peers.



Value-added tax rates

The VAT rate is low by global standards and an upward trend is likely. The risk of higher taxes is an adverse impact on inflation and possible inhibitor to growth.

Tax as a percentage of GDP



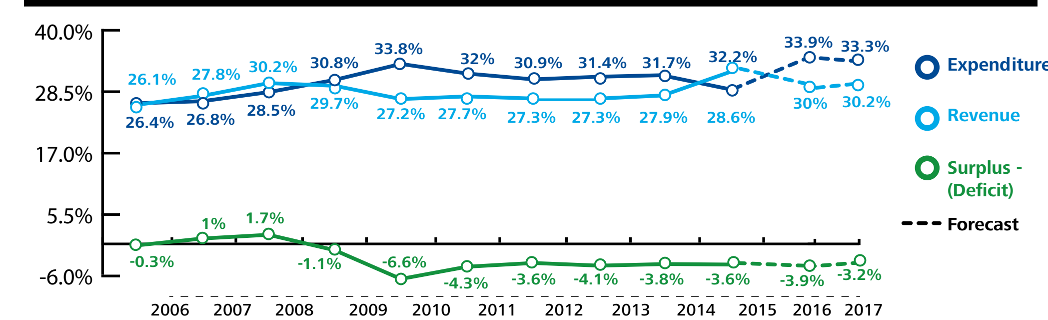
According to the Davis Tax Committee:

- The total tax to GDP ratio should be reasonable and appropriate to finance the country's development needs.
- Government investment priorities should be financed from increased tax revenues generated as a result of stronger economic growth, improved tax compliance, expenditure reprioritisation, elimination of inefficiency and corruption, and increased effectiveness of public spending.

The South African tax-to-GDP ratio is higher than many developing countries but is lower than the OECD average of around 35%.

www.treasury.gov.za | www.taxcom.org.za

Budget surplus/deficit - percentage of GDP



Government is under increasing pressure to manage the budget deficit – will be challenging with economic headwinds.