

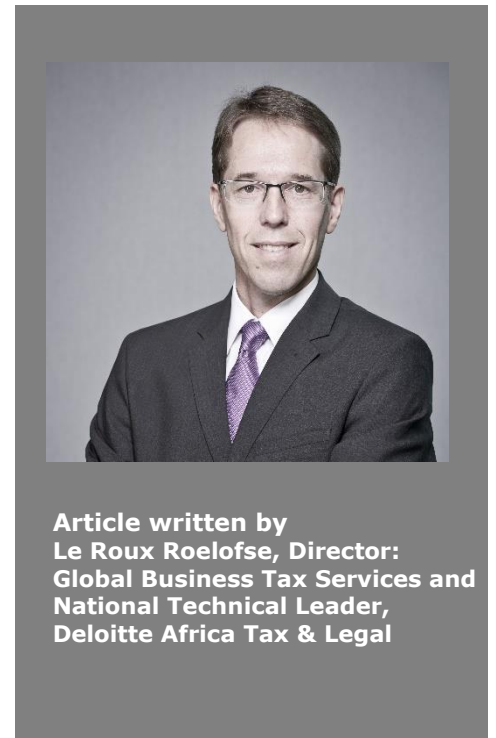


Is a reduction in the corporate income tax rate on the cards?

We predict that the headline Corporate Income Tax (CIT) rate of 28% may well be reduced by one or perhaps two percentage points. Our prediction is informed by the following factors:

- South Africa's CIT rate is uncompetitive when measured against some of our major trading partners. In its 2018 Budget Review, National Treasury noted by way of example that the United States has reduced its rate from 35% to 21%, the United Kingdom from 30% to 19%, the Netherlands from 26% to 21% (currently 25%) and China's rate is 25%. According to National Treasury, *"at 28% South Africa is becoming an outlier, providing an incentive for companies to shift profits abroad and pay lower taxes elsewhere"*.
- According to *Tax Statistics 2019*, published by National Treasury and the South African Revenue Service (SARS), CIT's contribution to the total tax take has declined from 26.7% in 2008/09 to 16.6% in 2018/19, and the CIT-to-GDP ratio has reduced from 6.9% to 4.4% during this period. This decline is attributed to *"sluggish economic growth, structural challenges in some sectors of the economy, low confidence levels and political uncertainty"*. It is clear that companies are struggling to remain profitable and that the declining CIT collections are not attributable to too low CIT rates.
- A decrease in the tax buoyancy in the past four years from 1.4 in 2014/15 to 1.2 in 2018/19 (*page 8 and 9 of Tax Statistics 2019*) indicates lower compliance levels in a difficult economic environment. The tax buoyancy ratio is a measure of the change in tax revenue to the change in the tax base or GDP. A buoyancy ratio of 1 means that tax revenues keep up with economic growth.

We are of the view that a reduction in the headline CIT rate could well be a net positive for South Africa. It would make South Africa's CIT rate more competitive in relation to the country's main trading partners, provide a cash injection to struggling corporate taxpayers, and increase the tax buoyancy ratio. The Minister of Finance may therefore just be tempted to lower the CIT rate.



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