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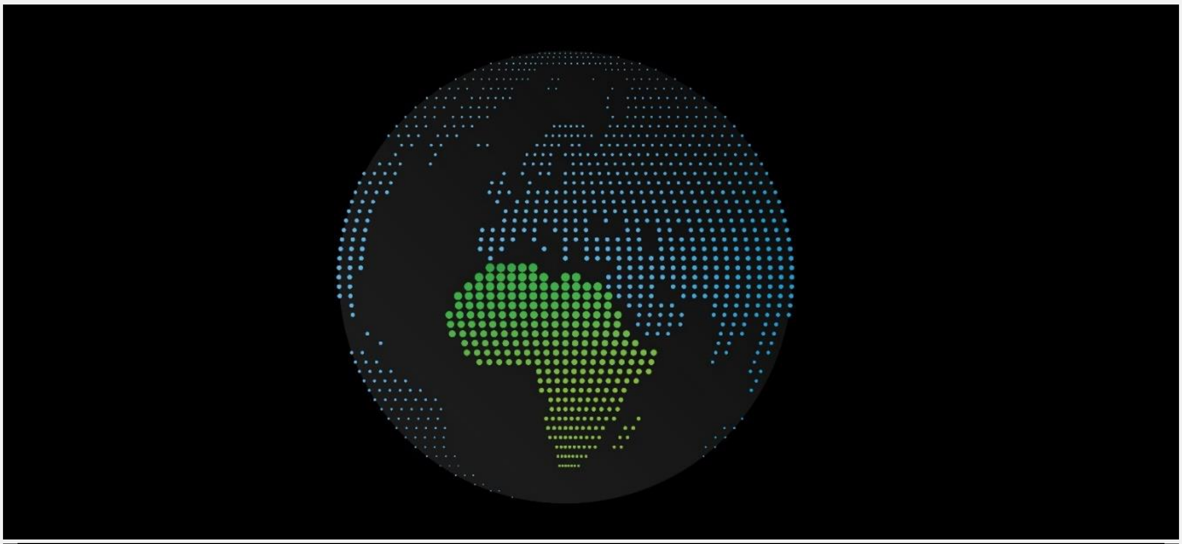

Deloitte summits unpacks impact of latest indirect tax and trade trends.

How prepared is your company for the impact of these latest indirect tax and trade trends?

By Peter Maxwell and Ronnie Van Rooyen

With the economies of several African countries, including South Africa, already feeling the impact of protectionist measures on the part of first world nations, most notably the United States, African governments are increasingly exploring intra-regional trade and indirect taxes in an effort to plug widening revenue gaps.

This was one of the key insights to emerge from the recent inaugural Deloitte Global Trade and Indirect Tax conference. The Johannesburg event was well attended, thanks to the timely subject matter and an impressive line-up of speakers who provided both a global and regional perspective.

Keynote speaker Logan Wort, Executive Secretary of the African Tax Administration Forum, argued that African revenue authorities needed to work together to ensure inappropriate global standards were not imposed on the continent, as well as to coordinate tax policies that encourage intra-regional trade.

Duncan Pieterse from National Treasury told delegates that trade and openness is good for inclusivity, adding that it disproportionately benefits

lower-income households as their expenditure is skewed towards tradable goods. In an open economy, the price of these goods is much lower.
Trade agreements are important for this openness. But as several panellists in the ensuing discussions highlighted, this can be a double-edged sword. Countries who choose to open up their markets give up a significant amount of their revenue base by dropping, for example, customs and excise duties and will need to make up this revenue in other ways.

Increasingly they're seeking to do this through an ever-expanding repertoire of indirect taxes that go beyond VAT and explore new ground like taxes on sugar, oil, carbon emissions and – as is being mooted in several Middle Eastern Countries – plastic packaging.

Often, the stated objective of these taxes is not merely to raise revenue, but to encourage social shifts, although there continues to be debate over how effective they are in this latter goal. What is undisputed is that increases in many indirect taxes, particularly VAT and customs and excise duties, hit poorer households especially hard, demonstrating just what a tricky balancing act taxation can be for governments.

Another trend to emerge from the summit was African governments' increasing awareness of e-commerce and their willingness to tax the internet-enabled trade in both physical goods and digital services.

For example, in South Africa, foreign suppliers of online digital products are required to charge VAT on their supplies here, thus shoring up a potential loss of VAT revenue. Another more controversial example is Uganda, which recently intoduced a tax on social media use, despite a consumer backlash.

What does all this mean for taxpayers?

For consumers, this could mean that the days of buying bargain goods and services from overseas is on the wane as African tax authorities increasingly wake up to the revenue they're losing in these transactions, either on their own initiative or encouraged by local providers demanding a level taxation and regulatory playing field.
For companies, particularly those organisations who already engage in global or intra-African trade, or are considering doing so, the impact of the trends explored at the summit is far reaching.

They need to prepare for a much greater level of transparency regarding details of the group including income, assets, headcount, etc., due to country by country reporting and exchange of information agreements. An example is transfer pricing and it emerged from the summit that South Africa is no laggard when it comes to legislation in this respect.

It's not just in reaction to e-commerce that revenue authorities are proving to be more tech-savvy. They are increasingly using digital tools to identify previously unexploited sources of revenue and to bolster their collection efforts. Companies need to ensure their own investment in technology and staff reflect this new reality.

These and other responses to the trends explored at the summit will require strategic decisions from the leadership of organisations. For this to happen, C-suite executives will need to take an active interest in tax matters rather than leaving these to tax managers or external advisors.

Should you have any questions in this regard, please contact our expats below:

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