SUBMISSION TO THE TECHNICAL ANNEXURE C TAX PROPOSALS FOR THE 2021 BUDGET

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by

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1 INTRODUCTION: TAX OVERVIEW

Taxation remains the central means through which revenue is raised. This has been negatively impacted by the COVID-19 economic contraction, which will be felt for years to come. Although the economy has begun to somewhat recover from the hard lockdown, the latest tax revenue estimates is projected to be R8.7 billion lower than the June estimate, which was already R304.1 billion lower than in the February 2020 Budget projection. This should be understood in the context of systemic under collection of tax revenues over the last five fiscal years. To partially counter this, government has projected tax increases of R5 billion in 2021/22, R10 billion in 2022/23, R10 billion in 2023/24 and R15 billion in 2024/25.

South Africa's tax structure is moderately progressive overall, meaning wealthier households generally contribute a higher percentage of their income in tax than poorer ones. However, it is inadequately so, given the stratospheric levels of inequality. Regressive tax measures have been implemented over the last three decades, including very recently.

These include:

- Personal income tax (PIT) rates have fallen since 1997. For example, someone earning R1 million annually (in 2018 prices) paid an effective tax rate of 41% in that year. By 2018, this had fallen to 31%. The progressivity of personal income tax rates in South Africa is the lowest of comparable peer countries Brazil, Peru, Mexico, Ethiopia, Uruguay and Armenia.

- Corporate income tax (CIT) rates have also fallen dramatically, from 50% in 1990 to 28% in 2020. South Africa is not the only country that has been applying such policies. It has, nevertheless, contributed to the corporate tax race to the bottom.

- South Africa has no annual "net wealth tax" that would tax the total value of wealth held in a given year. Taxes on immovable property (such as houses and offices) is levied at the municipal level, allowing wealthier areas to generate greater income than poorer areas. There is no national land tax despite the very unequal distribution of land.

- Income derived from wealth is also under-taxed. For example:

- Capital gains tax is comparatively low by international standards. In 2018/19, CGT of R17.9 billion was raised of which R9.5 billion was attributable to individuals and trusts and R8.3 billion to companies, a mere 1.4% of tax revenue.

- Tax on inheritance—estate duty—is levied at a rate of 20% on the first R30 million and at a rate of 25% above R30 million and raises revenue worth only R2.1 billion.

- The securities transaction tax (STT) (a tax on sale of shares) raises a small share of income (R5.3 billion in 2019); bonds are excluded and there is no transaction tax on derivatives and other forms of financial transactions. Despite South Africa's market capitalization to GDP ratio being almost triple the OECD average, revenue from STT lags behind the OECD average.

According to a recent World Bank evaluation, South Africa does comparatively poorly in terms of the Kakwani index, which measures tax progressivity; personal income tax is less redistributive than that of Brazil or Mexico. This can be attributed to the underlying distribution of pre-tax market income in South Africa, which is much more unequal than in other countries. The Gini coefficient of market income of 0.771 in South Africa compared with 0.579 in Brazil and 0.511 in Mexico. Since the Kakwani index subtracts the Gini coefficient of income from the tax concentration coefficient, it is lower in South Africa than in other countries. Although direct taxes in South Africa are working to redistribute, they therefore face strong headwinds from the underlying inequality in earnings.[1] As Ha-Joon Chang expressed: "once you realize that trickle-down economics does not work, you will see the excessive tax cuts for the rich as what they are - a simple upward redistribution of income, rather than a way to make all of us richer, as we were told".[2]

South Africa suffers from not only high levels of income inequality, but also from unusually high levels of wealth inequality.[3] This reproduces inequalities and increases inefficiencies across the economy.[4] These inequalities are likely to be exacerbated by

[1] Inchauste, G. et al. (2015). The Distributional Impact of Fiscal Policy in South Africa. http://documents1.worldbank.org/curated/en/502441468299632287/pdf/WPS7194.pdf.
[2] Chang H-J (2011). *23 Things They Don't Tell You About Capitalism*. Bloomsbury Press, New York.
[3] Orthofer, Anna. "Wealth Inequality – striking new insights from tax data." *Econ3x3*. 24 July 2016. Web. http://www.econ3x3.org/article/wealth-inequality---striking-new-insights-tax-data.
[4] Adato, Michelle and Carter, Michael R. "Exploring poverty traps and social exclusion in South Africa using qualitative and quantitative data." *Journal of Development Studies* 42.2 (2006): 226-247. Tandfonline. Web.

the COVID-19 pandemic. In our research (see *A Fiscal Stimulus for South Africa*), we found that taxation has the highest potential of contributing to demand growth and economic stability when it targets high incomes (which are largely saved) and speculative activities.[5] Bearing this in mind, the Institute for Economic Justice makes the following tax proposals:

1. Social Security tax
2. Limits to tax breaks for those with higher incomes
3. Measures against tax evasion and tax avoidance by building SARS capacity
4. Cancellation of ineffective corporate tax breaks
5. Taxation of multinationals in a digitalised economy
6. Wealth taxes
7. Taxing income from wealth
8. No increases to VAT
9. A resource rent tax
10. Taxing environmentally damaging behaviour
11. Gender sensitive taxation

2 INCOME TAX – INDIVIDUALS, EMPLOYMENT AND SAVINGS

Start here. In the context of widespread hunger, declining incomes, and job loss, calls for a Universal Basic Income Guarantee (UBIG) have intensified. The recent NIDS-CRAM Survey estimates 2.8 million job lost between February and June 2020,[6] and Stats SA 2.2 million in the second quarter of 2020.[7] In quarter three, StatsSA reported some recovery with the number of employed persons increased by 543 000 (3.8%) to 14.7 million compared to the second quarter of 2020. Despite this, unemployment stands at its highest level of 43.1% (expanded definition). This wipes out nearly a decade of job growth. These job losses affected the most vulnerable (women, low income, rural, low/unskilled) more severely. Food insecurity, defined as running out of money to buy food, is at levels at least twice as high as in 2016, with surveys reporting that 37% of

http://www.tandfonline.com/doi/abs/10.1080/00220380500405345 and Finn, Arden, et al. "Patterns of persistence: Intergenerational mobility and education in South Africa." Redi3x3. March 2017. Web. http://www.redi3x3.org/sites/default/files/Finn%20et%20al%202017%20REDI3x3%20Working%20Paper%2030%20Intergenerational%20mobility%20and%20education.pdf.

[5] Sibeko, B. & Isaacs, G. (2020). A fiscal stimulus for South Africa. Institute for Economic Justice Working Paper Series, No 3.

[6] Spaull et al., 2020. *NIDS-CRAM Wave 2 Synthesis Findings.*

[7] Stats SA. 2020. *Quarterly Labour Force Survey: Quarter 2: 2020.*

households are affected.[8] Hunger is rampant and depressive symptoms have doubled. Currently, approximately 70% of adults (18-64) live below the upper bound poverty line (UBPL) of R1265 per person per month, with approximately 40% living below the World Bank's $1.90 a day (R436pm) measure.[9]

In this context increased social security is essential, and tax revenues need to fund this.

The special Social Relief of Distress Grant ("COVID-19 grant") of R350 for unemployed adults not currently receiving a grant, the Caregiver's Allowance – an amount of R500 for each caregiver under the Child Support Grant (CSG), and top-ups to other grants, all implemented between May and October 2020 have prevented an even more dire situation. Although the rollout of the COVID-19 grant faced administrative challenges, receipt of this has provided much needed relief for millions of previously unreached people. This is in the context of a *highly* strained employment environment where people could not access other means of income generation.

In this context, it is imperative to continue to fund and improve the COVID-19 grant, Caregiver's Allowance, and other grant top-ups and put in place the necessary systems and funding for a UBIG. Such a UBIG would bring into the social safety net those currently excluded from social grants - the majority of adults aged 18-59, many of which are unemployed.[10]

2.1 SOCIAL SECURITY TAX

The introduction of a Social Security Tax is one of the primary mechanisms that can be used to finance better social protection in the form of a UBIG. This is a tax on income, dedicated to financing the extension of social security. It is progressively levied on those earning income above R80 000 a year – at 2 to 3% of taxable personal income. The tax revenues collected should be ring-fenced to provide funding specifically for a UBIG. For a more accurate collection estimate, access to administrative tax data from SARS is required.

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[8] Bridgman, Van der Berg, Patel. 2020. *Hunger in South Africa during 2020: Results from Wave 2 of NIDS-CRAM.*

[9] Jain, Bassier, Budlender, Zizzamia. 2020. *The labour market and poverty impacts of COVID-19 in South Africa: An update with NIDS-CRAM Wave 2.*

[10] IEJ, (forthcoming). Introducing a Universal Basic Income Guarantee for South Africa: Towards income security for all.

The rate schedule shown in Table 1 indicates an annual collection of R61.5bn if you levy a rate of 2% on those earning between R80 000 and R350 000, 2.5% on those earning R350 000 to R1 million, and 3% on those earning above R1 million.

TABLE 1: SOCIAL SECURITY TAXATION OPTIONS PER INCOME BRACKET (R BILLION)

Earnings (R)	# Taxpayers	Taxable income	2%	2.50%	3%
80k – 350k	4,927,667	908	18.2	22.7	27.2
350k - 1m	1,910,855	1018	20.4	25.5	30.5
1m +	307,912	593.6	11.9	14.8	17.8

Source: National Treasury. 2020. Budget Review 2020.

Those earning R350 000 or below will, effectively, be taxed less than the value of the UBIG.

Our calculations show this is sufficient income to finance one third of a UBIG set at the Food Poverty Line of R585 for all adults 18-59 (R191 billion per annum with an 80% uptake). Certainly, the UBIG will not see 100% take up, especially not in the early years. Additional revenue would need to be allocated towards the UBIG, including from other measures discussed below.

The following proposals are made:

- Conduct further research on the collection estimate, using administrative tax data from SARS and determine a rate between 2and 3%.
- National treasury and SARS to coordinate the ring fencing and use of the Social Security Tax.

2.2 LIMIT TAX BREAKS FOR THOSE WITH HIGHER INCOMES

South Africa also offers a number of PIT tax breaks that only benefit higher-income households. These tax breaks only benefit the top three deciles (virtually no one in deciles 1-7 pays PIT) and are concentrated amongst the highest-earning 10% of the population.

The following proposals are made:

- Revising the primary abatement for estates of R6 million, and clamping down on and the use of trusts to shield individuals from paying the full estate duty tax. A comparative study of South Africa's estates duty with other countries needs to be done in order to assess why it contributes (as a share of GDP) only a quarter of the OECD average and whether rates should be increased.

- Eliminate Medical Tax Credits for those earning above R500k which could raise R5.7 billion.

- Eliminate retirement fund contribution deductions for those earning above R1m which could raise R28 billion.

3 CORPORATE TAXES

3.1 MEASURES MUST BE TAKEN AGAINST TAX EVASION AND AVOIDANCE THAT DIMINISH PUBLIC RESOURCES

The inability to maximise tax collection has been undermined by tax evasion and profit shifting. Former commissioner at the South African Revenue Service (SARS) highlighted this, stating in 2012 that SARS had "detected an increase in the use of cross-border structuring and transfer pricing manipulations by businesses to unfairly and illegally reduce their local tax liabilities".[11] The Southern Africa Towards Inclusive Economic Development (SA-Tied) project suggests that 98% of the tax loss is linked to profit shifting by the biggest 10% of multinational corporations. It estimates that the country is losing about R7 billion in tax annually, which is a low estimate given various studies on capital flight and tax havens. According to the African Union high-level panel on illicit financial flows (the Mbeki Panel), 4% of the South African GDP was lost every year on average between 1970 and 2008, this represents over the period US81.8bn (R1 145 billion). In today's terms, this trend of 4% of GDP would mean R216.5 billion for the 2019/20 budget year. A 2019 statement from Financial Intelligence Centre (FIC) indicated that South Africa loses between US$10 billion and US$ 25 billion is lost annually in illicit financial flows.[12] South Africa's large extractive industry is one factor that makes it vulnerable to illicit financial flows.

Strengthening SARS is critical for combating tax avoidance and evasion, which remains a major concern. The weakening of SARS – aimed at gutting its capacity to tackle high-profile crime and hence expose both tax evasion and corruption – has had disastrous consequences. Since 2010, there have been ten probes into the allegations surrounding the supposed unlawfully established SARS "rogue unit", which was set up to combat tax evasion/fraud by corporations and high net-worth individuals, and former enforcement boss. This has been a cover for undermining the ability of the High Risk Investigations

[11] Reuters Staff. (2012) Large companies avoiding tax in South Africa. https://www.reuters.com/article/ozatp-safrica-tax-20120508-idAFJOE84706420120508
[12] Planting, S. (2019). SA's anti-money laundering measures under global spotlight. Business Maverick. SA's anti-money laundering measures under global spot... (dailymaverick.co.za)

Unit's probes into tax avoidance and corruption by politically connected individuals and businesses. Although the Nugent Commission of Inquiry into Tax Administration and Governance by SARS has been completed and the head of SARS has been replaced, many other problematic appointees remain, capacity remains low, and this is a part of the reason for systematic under collection.

Specific comments regarding this issue were made by social partners as part of the Jobs Summit process (4.5. of the action plan) and the NEDLAC task team on Customs Fraud and Illegal Imports is currently engaging with that.

The following proposals are made:

- **Rebuild SARS capacity.** As noted above, SARS' ability to mobilise resources has been undermined by lack of capacity, corruption, and inefficiency. Therefore, altering the tax structure by itself would not necessarily result in significant gains and such measures must be combined with deliberate steps to rebuild SARS capacity. SARS has established a dedicated revenue recovery capacity campaign that seeks to identify revenue leakage, pursue delinquent taxpayers and practitioners, strengthen customs surveillance at ports of entry, and address compliance. The campaign is also geared towards addressing the prevailing culture of intimidation, distrust of leadership amongst other factors. If this done correctly, this can boost revenue collection to finance the stimulus and serve as a basis for long-run capacity strengthen within SARS. It will also help with compliance and restoring public trust. All these measures should be supported. A monitoring and evaluation mechanism must be designed and implemented to ensure that the desired outcomes are being met.

- **Clamp down on illicit financial flows and tax evasion.** As noted above, billions are lost each year to IFFs and tax evasion. South Africa needs to implement the recommendations made at the High Level Panel on Illicit Financial Flows from Africa (HLP) and the government must sign onto more transparency initiatives. From the HLP what appears to be important is the automation of information sharing as well as country by country reporting. South Africa should play an active role in advocating for the harmonisation of taxes and transparency. However, the challenge is that South Africa experiences illicit financial flows a lot more through illegal mining, trafficking, proceeds of crime, etc. Specific tools need to be deployed to tackle this. The illegal nature of these transactions requires assistance from the South African Police Service and other stakeholders.

- Remove tax benefits for companies having a link with or registered in tax havens. During the crisis, some countries like Belgium, France, Denmark, and Poland have excluded from Covid-19 tax benefits companies having a link with or registered in tax havens. South Africa should consider a blacklist criterion to ensure that corporates siphoning their profits to tax havens do not benefit from tax incentives/breaks in the country as they are already evading taxes.

3.2 CANCELLATION OF INEFFECTIVE TAX BREAKS

The IEJ not propose increases to the CITs at this time, however, we do propose this should be considered when the economy has recovered. The effective tax rate can also be increased the removal of ineffective tax subsidies and breaks. Tax incentives have been widely used on the justification that they attract investments. However, some of them can be deemed ineffective. Research by Padilla et al., concludes that "while tax incentives may not be illegal, many of them create complex tax structures that provide greater opportunities for tax abuse".[13] We propose that ineffective corporate tax breaks such as the Employment Tax Incentive (ETI) be cancelled. Research by Ranchhod and Finn shows that the ETI has not created jobs.[14] The cancellation of this tax alone could generate R3.5-4.5 billion in revenue. The United Nations Committee on Economic, Social and Cultural Rights (UN CESCR) has also put forward the states should:[15]

> revoke business licenses and subsidies, if and to the extent necessary, from repeat offenders; and revise relevant tax codes to deny business exemptions in case of human rights violations and to align business incentives with human rights responsibilities. The obligation to protect also requires States Parties to monitor the impacts of business activities on the enjoyment of economic, social and cultural rights, to regularly review the adequacy of laws and identify and address compliance and information gaps and emerging problems.

4 INCOME TAX - INTERNATIONAL

4.1 TAXATION OF PROFITS OF MULTINATIONALS IN THE DIGITAL ECONOMY

With current global discussions around Base Erosion and Profit Shifting (BEPS), it is clear that "[i]nternational tax rules, which date back to the 1920's, have not kept pace with the changing business environment".[16] The world has changed in these fundamental ways:

- There has been a rise of extremely powerful multinational corporations with highly integrated global operations (complex value chains)

[13] Padilla, A., et al. (2020). Use and abuse of tax breaks: how tax incentives become harmful.
[14] Ranchhod, V. and Finn, A, 2016. "Estimating the Short Run Effects of South Africa's Employment Tax Incentive on Youth Employment Probabilities using A Difference-in-Differences Approach," South African Journal of Economics, Economic Society of South Africa, vol. 84(2), pages 199-216, June.
[15] United Nations. (2017). https://www.escr-net.org/news/2017/cescr-issues-new-guidance-states-how-apply-their-escr-obligations-business-activities.
[16] G20 St Petersburg Declaration 2013, Tax Annex

- There has been a significant increase in the free movement of capital, labour and intellectual capital

- Governments competing for limited capital employing aggressive tax incentives

- The Internet and e-commerce

- Massive industries have emerged supporting tax avoidance

Throughout these changes, global rules on taxation have not kept at pace with artificial shifting of profits.

The following proposals are made:

- From a legal standpoint, the only actual constraint on the introduction of unilateral tax measures lies in the obligation to comply with international commitments, such as tax treaties and trade agreements. This also includes the rules on permanent establishment. However, in practice, several unilateral tax measures have been adopted at the margins of international commitments because of the lengthy and bureaucratic procedure required for the renegotiation of international agreements.

- Upon the introduction of new tax measures is to avoid segregation between digital and non-digital activities. In the 2015 BEPS Action 1 Report, the OECD highlighted that the digital economy is not at the margins of some real or physical economy, because the whole economy is becoming digital to a certain extent. Several companies are increasingly engaged both in the digital and physical world, so that ring-fencing the digital economy would lead to debates related to unequal treatment and enormous practical difficulties.

- South Africa must make a concerted effort at helping coordinate policy objectives within the region and sub-regionally. It is critical that Africa have a stance that reflects its context at the international, OECD, platform. This requires a review of BEPS that leverages on various capacity within and outside of government.

5 OTHER TAXES – FOR EXAMPLE, VALUE ADDED TAX

5.1 WEALTH TAXES

A wealth tax should be implemented as soon as feasible. South Africa has massive and increasing wealth inequality. This wealth is often unproductive "dead" capital, which generates returns to the owner either locally or offshore with little (if any) residual benefit to anyone else. The potential finance raised through a wealth tax is substantial, even at a 1% level. Table 13 shows that a 1% wealth tax for the top 1% of earners raises R63 billion, a 3% wealth tax on the richest 0.1% raises R103 billion.

TABLE 2: ESTIMATED REVENUE COLLECTION THROUGH A WEALTH TAX (R BILLION)

Group	Number of people	Average wealth per person	Total wealth (R Billion)	1% tax	3% tax
Top 1%	354 000	R17 830 000	6 312	63	189
Top 0.1%	35 400	R96 970 000	3 433	34	103

Source: Author's calculations based off (Chaterjee, Czajka & Gethin. 2020)

The implementation of a wealth tax will need to staggered. Collecting the relevant data necessary to set an appropriate level of taxation of wealth is crucial, and currently not sufficient. A period of two years could be considered where wealth is required to be declared, though not taxed. This would build the database necessary to formulate an efficient and appropriate tax regime, enabling policymakers to propose more detailed wealth taxation schemes. Capital flight is to evade the wealth tax is a possibility and stringent measures should be put in place simultaneously to combat this.

The following proposals are made:

- **A permanent net wealth tax be levelled** within the international range of 0.5-2.5% taking into account the extremely high concentration of wealth and to ensure a meaningful outcome. Residents can be taxed on their worldwide assets while non-residents can be taxed only on their South African assets. This can be made progressive by having a tax free threshold which would cut off the bottom 90% of the distribution. For example, at the Nelson Mandela Foundation's annual lecture in Soweto in 2015, Piketty proposed an annual wealth tax levied on the value of all assets at a rate of 0% for those who hold less than R1 million in wealth, a rate of 0.1% for those who hold between R1 million and R10 million, and a rate of 0.5% for those with more than R10 million.[17]

- **Wealthy individuals must immediately be required to declare their assets and liabilities** in full so that SARS can gather a more accurate picture of wealth in contemporary South Africa.

- A cap can be placed to limit the total net wealth tax liability, as in Spain, where in 2017 it could not cannot exceed 60% of one's personal income taxable amount, but the minimum payment due remains 20% of the full net wealth tax liability. Which liabilities to include in the net wealth calculation are also a matter for considerable pause. One's liability should be unable to be reduced by assets that do not produce taxable income, like your main home, interest free loans, jewellery, antiques and vehicles.

- The modalities should be investigated of how to possibly calculate a wealth tax on a larger unit than an individual, e.g. a family, to ensure avoidance by splitting wealth between individuals.

5.2 TAXING INCOME FROM WEALTH

It is important to tax the income flows from the holding of wealth. A progressive wealth tax can serve as a vehicle for reducing inequality in South Africa. Economists today recognize the negative macroeconomic impacts of inequality on growth: issues of distribution and economic efficiency cannot be separated. Such inequality of income stems from inequality in assets (human capital, physical capital, financial assets, etc.). South Africa has incredibly high levels of wealth inequality as already stated. This contributes to increased income inequality (as income from wealth naturally accrues to wealth holders) as well as perpetuating other inequalities, as greater wealth can be leveraged to start businesses, fund education, access better healthcare and so on. The top 10% of South Africans hold at least 90-95% of its wealth.

The following proposals are made:

- **Capital gains tax should be restructured** so that:
    - Longer holding periods and capital reinvestment are encouraged through rate reduction.
    - A surcharge is applied to taxpayers earning high levels of capital gains

[17] Nelson Mandela Foundation. "Transcript of Nelson Mandela Annual Lecture 2015." *The Nelson Mandela Foundation*.3 October 2015. Web. https://www.nelsonmandela.org/news/entry/transcript-of-nelson-mandela-annual-lecture-2015

    - The inclusion rate is raised to 100%.
    - The inclusion of non-resident is simplified and widened.
    - The use of share buybacks to avoid paying capital gains is prohibited.

- **The capital gains rate of 16% - 36% - which is below the OECD and BRICS norm - should be raised over the medium term**. As of 2019, Denmark levied the highest capital gains tax of all countries covered, at a rate of 42 percent.[18] Finland and Ireland follow, at 34% and 33%, respectively, for individuals. Whereas in South Africa the CGT rate ranged from 7.2% to 18% depending on the individual's tax bracket.

- **Increase Dividend Tax** to 25%, from 20%.

- **The securities transaction tax (STT) should be raised** from 0.25% to 0.3%. Despite South Africa's capital market to GDP ratio being almost triple the OECD aggregate, revenue from SST (as a share of GDP) lags being the OECD average. A taxation on cancelled orders should be instituted to disincentivise high frequency trading, and derivative taxation requires further research.

- **Replace Estate Duty with Progressive Inheritance Tax**, this has the potential to raise R5 billion.[19]

5.3 VAT

Do not increase the VAT rate

The increase in the VAT rate from 14 to 15% as of April 2018 represents a clearly retrogressive austerity measure, which, when combined with spending cuts, imposes a greater burden on the poor. VAT change increases the taxes paid by poor and low-income households, reducing their ability to afford foodstuffs and other essential goods and services, necessary for rights realisation, through lowering disposable incomes. In 2018, the IEJ (see *Mitigating the impact of VAT increase by extending zero-rating)* proposed a number of goods that could be zero rated, which should be re-considered given that most South African households living on low incomes cannot get through the month on the level of income that comes into the home and cannot afford even the very basic goods and services they need.

According to PMBEJD's October Household Affordability Index, over the past few months - during COVID-19 - transport fares have increased by around 7% and electricity

[18] Tax Foundation. (2019). Capital gains tax in Europe. Retrieved from: https://taxfoundation.org/capital-gains-taxes-in-europe/
[19] Colin Coleman. 2020. *From a "Two-Speed Society" to One that works for All.*

by around 8%. Together transport and electricity can take as much as 50% of household income for low wage earners. After these, a myriad of other essential expenses competes with other essential items such as food. Household food baskets for low-income households have increased by 9,1% since March 2020. The average cost of the Household Food Basket in October was R3 916,72 in October 2020. The Household Food Basket increased by R60,39 (1,6%) between September 2020 and October 2020. In Pietermaritzburg, they observe that the main foods driving higher increases in the basket are maize meal which increased by 10%, rice by 28%, cake flour by 17%, sugar beans by 43%, cooking oil by 14%, potatoes by 67%, and brown bread by 15%. These foods are primarilyprioritised and bought first. These are significant increases on the core staple foods in a low-income food basket.

Social protection and VAT Collection

Another argument for South Africa to introduce a UBIG (as outlined in 1.1) is that as more grant recipients spend this money, a substantial amount will be recouped through VAT. This is based on the assumption of the full amount of the BIG being spent, with recoupments equal to 12% of the total cost of implementation available if 80% of money spent is on VATable items. This is based on the fact that the lowest 7 deciles spend 81.2% on VATable items, with the top 3 deciles closer to 91%. We anticipate uptake of the UBIG to be larger amongst the lower deciles, and thus base the calculation on a conservative 80% spend on VATable items.

TABLE 3: VAT COLLECTION FOR DIFFERENT GROUPS (R BILLION)

Group (18-59)	# Recipients	R585	R840	R1268
All	33.9m	28.6	41.1	62.0
All (80%)	27.1m	22.9	32.8	49.6
All (60%)	20.4m	17.2	24.6	37.2
NFE	22.2m	18.7	26.8	40.5

Note: NFE denotes those not formally employed, comprising informal sector workers, those unemployed, and those not economically active. Assumes zero saving of UBIG amounts. Based on QLFS:Q2 2020 data. Figures rounded. Based on 80% expenditure of income on VAT-able items.

Implement increase VAT on luxury goods

Taxing luxury consumption is an avenue to make the tax system more progressive and raise additional revenue. South Africa currently has a limited range of ad valorem excise duties on luxury goods paid by the manufacturer or importer.

There is room to further tax luxury consumption through the increase and expansion of ad valorem excise duties and the institution of a higher VAT rate on luxury goods, a historic demand of civil society and the labour movement and was supported by the Parliamentary Committee in 2018 when they noted that consideration should be given to "incrementally introducing a multi-rated VAT system in which VAT on luxury goods is higher than VAT on goods bought by the poor and lower income earners" or to increasing the tax on luxury goods by adjustments to ad valorem tax.

A VAT on luxury goods (for example at 25%) could include those items bought only by the rich, as well as upper segments of other goods markets, for example, fancy cars, expensive fridges, and so on. Given the existing tax administration systems this can be feasibly implemented. Given that a higher share of luxury items is imported, this should not unduly dampen domestic demand and could modestly assist in closing the balance of payments. Access to luxury goods is an expression of inequality. The selection of items should not place goods that poorer households save for, beyond their reach.

The test for inclusion is whether 70% or more of expenditure on the item is spent by decile 10 (and more than 90% by deciles 8-10). The columns show additional revenue (over and above the existing 15% VAT rate) that would be earned from a 25% VAT rate on all goods in that category (the second last column). Another test is applied to mimic a higher VAT rate on expensive versions of a particular good (the last column). Unfortunately, the data set is limiting and a luxury VAT rate cannot be properly applied to this data based on price differentiation, e.g. levying a higher tax for cars selling for more than R500 000.

Our Submission by Budget Justice Coalition with respect to the current list of zero-rated items, and mitigating the impact of the increase in the VAT rate on poor and low-income households in 2018 provides a sample of items that could be good candidates for a luxury VAT rate as well as the revenue this could raise.[20]

5.4 RESOURCE RENT TAX

Wealth from South Africa's resources has not been adequately redistributed to the nation. Recommendations by the United Nations to developing countries noted that it is critical that the "government obtains an adequate and appropriate share of the benefits from its resources—taking into account that extractives are assets owned by the country and once extracted, they are gone—while providing a return commensurate with the risks borne and functions carried out by the parties".[21]

[20] Budget Justice Coalition. (2018). 2018-06-05-Submission-by-Budget-Justice-Coalition-to-VAT-Expert-Panel-1.pdf (section27.org.za)

[21] United Nations. (2017). Handbook on Selected Issues for Taxation of the Extractive Industries. Retrieved from: https://www.un.org/esa/ffd/wp-content/uploads/2018/05/Extractives-Handbook_2017.pdf

Analysis by Isaacs and Bowman showed that during the last commodity's boom companies in the extractives sector (particularly in mining) made super profits between 2000-2008.[22] In concluding their research they supported the proposal of a resource rent tax (RTT) that has been advanced, and modelled, by the ANC's 2012 discussion document Strategic Intervention in the Mining Sector (SIMS). An RTT would be activated during commodity booms which "means that profits earned above a fair rate of return on investment would be heavily taxed. This allows companies to comfortably remain profitable while a greater share of the benefit of the country's mineral wealth is directed towards South Africa's developmental challenges".[23] The ANC SIMS report estimated that a 15% rate of return on capital was a more than fair risk-adjusted rate of return for a South African mining company.

An RTT is particularly relevant now, given that commodity producers have fared well during the COVID-19 crisis:[24]

> favourable market conditions pushed the total market capitalisation of companies by 52 percent to R1.2 trillion… The gold price has gained 14.9 percent in six months, currently trading at $1910.64, while platinum was 18.6 percent up, in the same period. The total revenue generated by the South African mining industry for the year ended 30 June 2020 grew by four percent. This was mainly driven by Platinum Group Metals (PGMs), gold and iron ore, which saw increases in revenue for the 12-month period, the report said. "The mining industry weathered the Covid-19 storm, mostly unscathed, and certainly better than many other sectors," according to the report. PGMs generated the largest portion of revenue at 28 percent, in what is a 56 percent increase from the previous year, overtaking coal for the first time since 2010.

Following a significant drop, platinum prices have recovered, increasing by 15% in Q3 of 2020. This recovery has been attributed to a return in demand and reduced supply from South Africa, the world's biggest platinum producer. Forecasts suggest that the prices are expected to be broadly stable in 2021.

Gold prices have risen significantly in 2020, partly due to its status as a safehaven asset and supply side disruptions in key producing countries, including South Africa. Similarly, gold prices are expected to stabilise in 2021 as the global economy stabilises[25].

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[22] Bowman, A. & Isaacs, G. (2014). Demanding the impossible? Platinum mining profits and wage demands in context.

[23] Bowman, A. & Isaacs, G. (2014). Demanding the impossible? Platinum mining profits and wage demands in context.

[24] Khulo, S. (2020). South African miners 'almost unscathed' by Covid-19 pandemic, PwC report says. Fin24. Retrieved from https://www.news24.com/fin24/economy/south-african-miners-almost-unscathed-by-covid-19-pandemic-report-20201006

[25] World Bank Group. 2020. Commodity Markets Outlook—Persistence of Commodity Shocks, October. World Bank, Washington, DC.

The following proposals are made:

- Remodel the impact of an RTT at various rates, including at 15%.
- An introduction of an RTT at a threshold based on the outcomes of the research above.

5.5 TAX ENVIRONMENTALLY DAMAGING BEHAVIOUR

South Africa's Carbon Tax Act came into effect on 1 June 2019. It stipulates that during its first phase (June 2019-December 2022), carbon emissions will be taxed at R120 per ton of CO_2 equivalent emissions. In the first phase, the rate will be increased annually by inflation plus 2% until 2022, and annually by inflation thereafter. However, due to industry-specific tax-free emissions allowances, the effective tax rate ranges from approximately R6 to R48 per ton of carbon dioxide equivalent emissions. This is intended to provide a period of time for large emitters to transition to cleaner, more efficient, lower-carbon technologies. This has been widely criticised for its lack of adequate incentive to reduce greenhouse gas emissions.

The first carbon tax payment as part of phase one was initially due on 31 July 2020, but as part of the Covid-19 relief measures announced by President Cyril Ramaphosa in April, this was delayed to 31 October 2020.

According to 2019/2020 budget forecasts, the revenue expected from the carbon tax was 1.8 billion dollars. Given the economic impact of Covid-19 and the delays announced by the President, this is likely to be significantly less.

The following proposals are made:

- An increase in the carbon tax to R160, in line with a quarter of European countries' average tax of 35.85 euros per ton of carbon dioxide equivalent, and a reduction in the 60% tax-free allowance for all emissions.

5.6 GENDER SENSITIVE TAXATION

By By committing to a non-discriminatory agenda, South Africa has made considerable progress in eradicating formal gender-discrimination in its tax system. For instance, during apartheid, married men were taxed less than married women as men were assumed to be breadwinners and the wages of women assumed to be bonus earnings for the household.[26] Post 1994, South Africa's commitment to non-discrimination has meant that all taxpayers, irrespective of gender, are liable for the same proportions of

[26] Shier, J. 2010. Gender Tax SA Policy Brief **which It draws on the work contained in the following two background papers "Gender and taxation in South Africa" (2008) by Debbie Budlender and Imraan Valodia, and "Indirect Taxation and Gender Equity: Evidence from South Africa" (2009) by Daniela Casale

tax. However, tax is still not a gender-neutral policy. The blanket application of taxation in South Africa has ignored the gender implications for tax. Findings from Budlender *et al*. show that:[27]

1. Despite the removal of explicit discrimination there are still some areas of bias in direct and indirect taxes, for example in non-standard earnings. These place an unfair tax burden on poor women, especially those working in irregular employment.

2. Households with the same level of income and the same number of dependants do not pay the same level of direct taxes. Single-earner households, where, for example, you have a woman with a number of dependents, may still be paying too much direct tax compared to dual-earner households. This is due to single filing. In 2016, most children aged 0–6 (48%) lived in single-parent families, 46% lived with their mothers only and 2% lived with their fathers only.[28]

3. Expenditure patterns affect tax incidence. High taxes/levies on alcohol, tobacco and fuel result in higher incidence of indirect taxes on male-headed households and those without children.

4. Total indirect tax incidence is lower in female-headed households than in male-headed households.

5. The current zero-rating of VAT on basic foodstuffs and paraffin has had a large and positive impact on lower-income and female-headed households in particular. However, further zero-rating would be beneficial as the IEJ's research paper *Mitigating the impact of VAT increase by extending zero-rating* shows.

There is room for improvement in tackling the gendered tax discrimination and gendered analyses remains lacking in government's proposed policies. Thus our proposal is for tax policies to be considered within a gender-sensitive framework.

The following proposals are made:

- A benchmark impact study of the tax structure highlighting gender, poverty, and development impacts should be conducted to bring the fully contextualised effects of existing tax systems on levels of gender equality, poverty, and development opportunities into clear view, with annual updates.

[27] Shier, J. 2010. Gender Tax SA Policy Brief **which It draws on the work contained in the following two background papers "Gender and taxation in South Africa" (2008) by Debbie Budlender and Imraan Valodia, and "Indirect Taxation and Gender Equity: Evidence from South Africa" (2009) by Daniela Casale

[28] Statistics SA. 2018. Mbalo Brief. http://www.statssa.gov.za/wp-content/uploads/2018/03/Mbalo-Brief-March-2018.pdf

- An adoption of a gender responsive budgeting framework in tax policy reforms and revisions of existing tax policies.

6 CONCLUSION

This submission situates proposed taxation on wealth within the context of a drive to reduce inequality and to increase efficiency. COVID-19 has exacerbated existing inequalities and inefficiencies within the economy and redistributive tax can play a key role in remedying some of these issues. There are a number of options to explore to raise taxes to the projected R5 billion in 2021/22, R10 billion in 2022/23, R10 billion in 2023/24 and R15 billion in 2024/25.

We must learn from the 2008/9 financial crisis that taxation has the highest potential of contributing to demand growth and economic stability when it targets high incomes (which are largely saved) and speculative activities. National Treasury and SARS must look to more progressive taxation to raise additional revenues.

ABOUT THE INSTITUTE FOR ECONOMIC JUSTICE

The IEJ's core objective is to provide policy makers and progressive social forces in South Africa with access to rigorous economic analysis, and well thought through policy options, as a basis for advancing systemic change. Interventions proposed by the IEJ must advance social justice, promote equitable economic development that realises socio-economic rights, and ensure a thriving, democratic, environmentally sustainable, and inclusive economy that places the needs of the majority at the centre.

By acting as a research and policy hub, the IEJ builds links between the research community and the labour movement, progressive civil society and activist organisations, and elements within the state and business. Our research agenda is developed in an ongoing collaboration with these social partners, and the project outputs are made accessible and appropriate for policy work. In South Africa, such an organic relationship between an economics research institute and organisations with a mass constituency is unique.

In addition to proposing immediate economic reforms, the IEJ contributes towards the development of a range of coherent longer-term programmes aimed at deeper structural change. This requires new thinking, which respond to changing domestic and international conditions, and begins to reimagine progressive economic alternatives, by going beyond old, ineffective economic paradigms.