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RESOURCING FOR RIGHTS REALISATION

ALTERNATIVES TO AUSTERITY

Revenue options to raise the maximum available resources

SUMMARY OF FINDINGS

- Over the last decade, National Treasury has cut hundreds of billions of rands from essential social service expenditure based on a purported lack of fiscal resources.
- However, the South African government is failing in its duty to raise the maximum available resources.
- Over the last three decades, income tax rates have fallen and sit below the median level of peer countries, wealth has remained undertaxed, large tax handouts have been given to high-income taxpayers and corporations, and illicit financial flows have accelerated.
- South Africa has utilised debt well but must do more to reduce the cost of borrowing and leverage pools of ideal funds.
- Large amounts of available resources exist to be tapped. This includes:
  - R65 billion in retirement fund benefits given to those earning above R750 000;
  - R12 billion in medical aid tax benefits given to those earning above R500 000;
  - R7 billion wasted on the ineffective Employment Tax Incentive;
  - R70 - R160 billion in a potential wealth tax;
  - Over R40 billion from taxing financial transactions;
  - R12 billion wasted on the ineffective Corporate Income Tax cut;
  - R497 billion in the Gold and Foreign Exchange Contingency Reserve Account (GFECRA);
  - R64 billion from a sliding-scale Social Security Tax;
  - R38 billion in resource rents; and
  - R9 billion to be raised from a luxury VAT rate.

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SUMMARY OF RECOMMENDATIONS

- Raise additional revenue by restoring the Corporate Income Tax rate to 28%; reducing tax breaks for higher-income taxpayers; aligning estate duty on large estates with the upper Personal Income Tax brackets; and discontinuing the Employment Tax Incentive.
- Draw down a portion of the GFECRA to support SOEs, new capital expenditure, and expanded social support.
- Do not raise VAT which would make the tax mix more regressive, fail to raise the sums needed, and disproportionately burden poor and low-income earners.
- Shorten the maturity on government debt slightly.
- Negotiate haircuts and debt restructuring with Eskom creditors and any other appropriate creditors.
- Sequence the introduction of a Net Wealth Tax, taxes on trading of financial assets, and a Resource Rent Tax.
- Reduce the cost of borrowing through Reserve Bank intervention, targeted capital controls, capital management techniques, and credit allocation policies.
- Institute prescribed assets for public and private institutional investors targeting state and quasi-state safe assets.
- Use concessionary lending from development banks under parliamentary oversight and with limited foreign-currency denomination.

1. INTRODUCTION

Over the last decade, National Treasury has cut hundreds of billions of rands from essential social service expenditure in areas such as health, education, housing, water, roads, and social welfare. This has been justified, on an ongoing basis, by a purported lack of fiscal resources. In the lead up to the 2023 Medium-Term Budget Policy Statement (MTBPS), Minister Enoch Godongwana stated that "our ability to service debt is becoming constrained and therefore, we have got to do something, [..] the Reserve bank is saying sooner or later we are going to run out of cash".[1] Such narratives of insufficient resources have been used worldwide to justify budget cuts, under the guise of government "belt-tightening" and with the exhortation that we must all "share in the pain".

While the South African government does face resource constraints, this policy brief shows unequivocally that the National Treasury has failed to raise the maximum resources available to it, and has not adequately resourced public spending as a result.

Should it raise additional resources, crippling budget cuts can be avoided and the budget could be leveraged for long-term investment in turning around South Africa's ailing economy while meeting critical social needs and addressing acute crises like growing levels of hunger.

After unpacking the obligation to raise the maximum available resources in Section 2, we present, in Section 3, the long-term trend of falling tax rates, compounded by short-term tax relief to corporations and higher-income households. In Section 4, we present ways in which the state could immediately access hundreds of billions in additional revenue. Section 5 concludes with sequenced policy recommendations.

2. RAISING THE MAXIMUM AVAILABLE RESOURCES: THE PRINCIPLE OF MAR

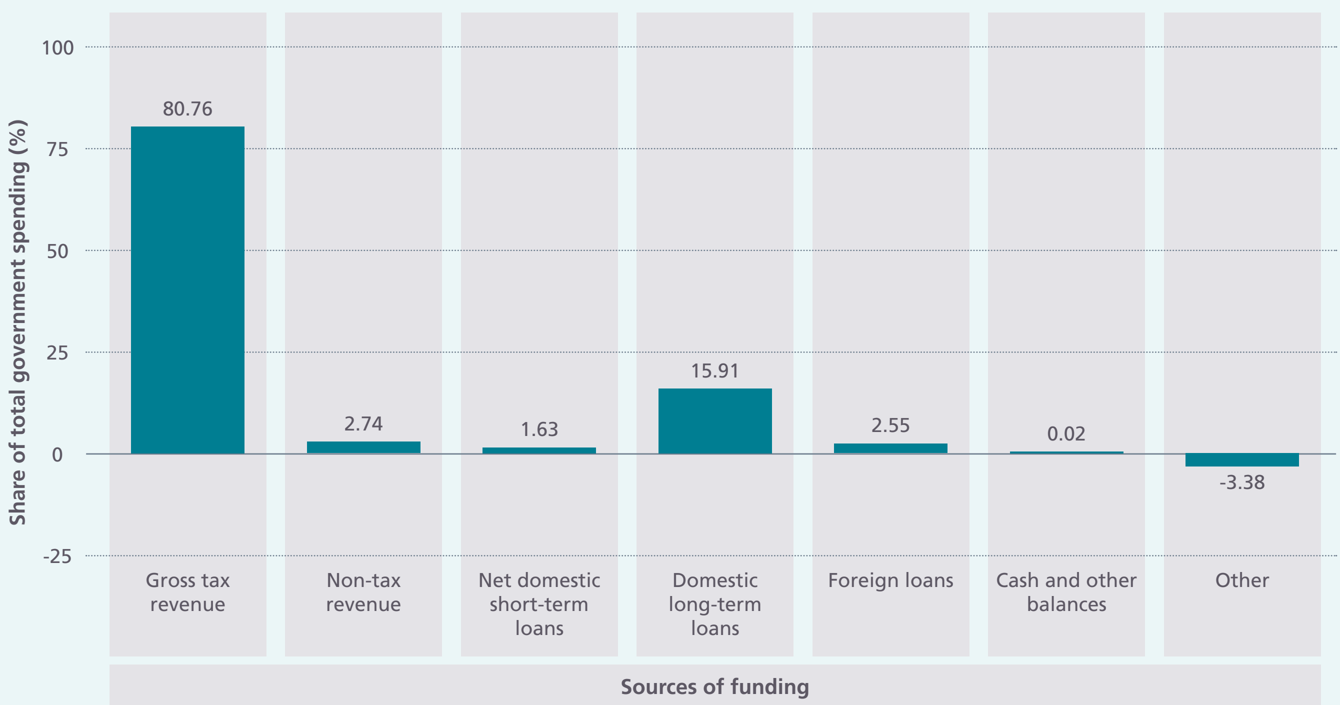
The government making every effort to raise the maximum available resources is an intuitively logical policy choice—without resources the government cannot fulfil its mandate of critical social and economic investment. In the South African case, the government is bound by the Constitution to realise, immediately or progressively, a series of socioeconomic rights—these require resources.

Beyond this intuitive logic, the obligation to raise the maximum available resources is also enshrined in international law, in treaties South Africa has voluntarily chosen to make binding on its national policy.

Article 2.1. of the International Covenant on Economic, Social, and Cultural Rights (ICESCR) states that each party to the covenant must take steps, individually, or through international assistance and cooperation, to the maximum of its available resources (MAR), to progressively realise the rights in the Covenant.[2] This is not limited to using existing resources but entails taking the necessary policy measures through tax policy, central bank policy, and debt management to expand fiscal space. South Africa has failed to do this, violating its constitutional and international legal obligations.

Over the last decade, National Treasury has cut hundreds of billions of rands from essential social service expenditure...

Figure 1: Financing of National Government Spending (2012/13 - 2022/23)



Source: National Treasury[5]

3. CURRENT GOVERNMENT EFFORTS TO RAISE MAXIMUM AVAILABLE RESOURCES

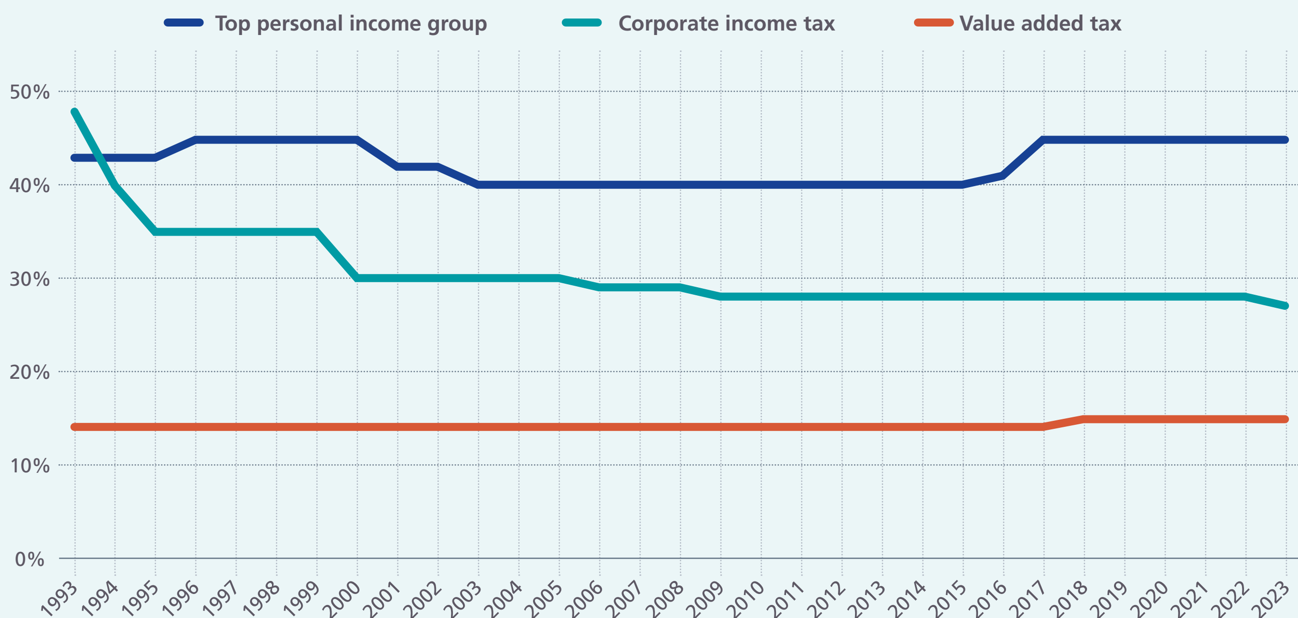
South Africa's national government spending is predominantly funded[3] through tax revenue, domestic loans, foreign loans, and cash balances.[4] Figure 1 shows the average composition of each source of funding for the period 2012/13 to 2022/23. Gross tax revenue, which averages over 80%, is by far the most important source. Domestic long-term debt comes in a distant second, on average 16% of financing. Other sources play only a marginal role, with each having a share smaller than 3%. As taxation makes up the lion's share of revenue it is worth unpacking this in more detail.

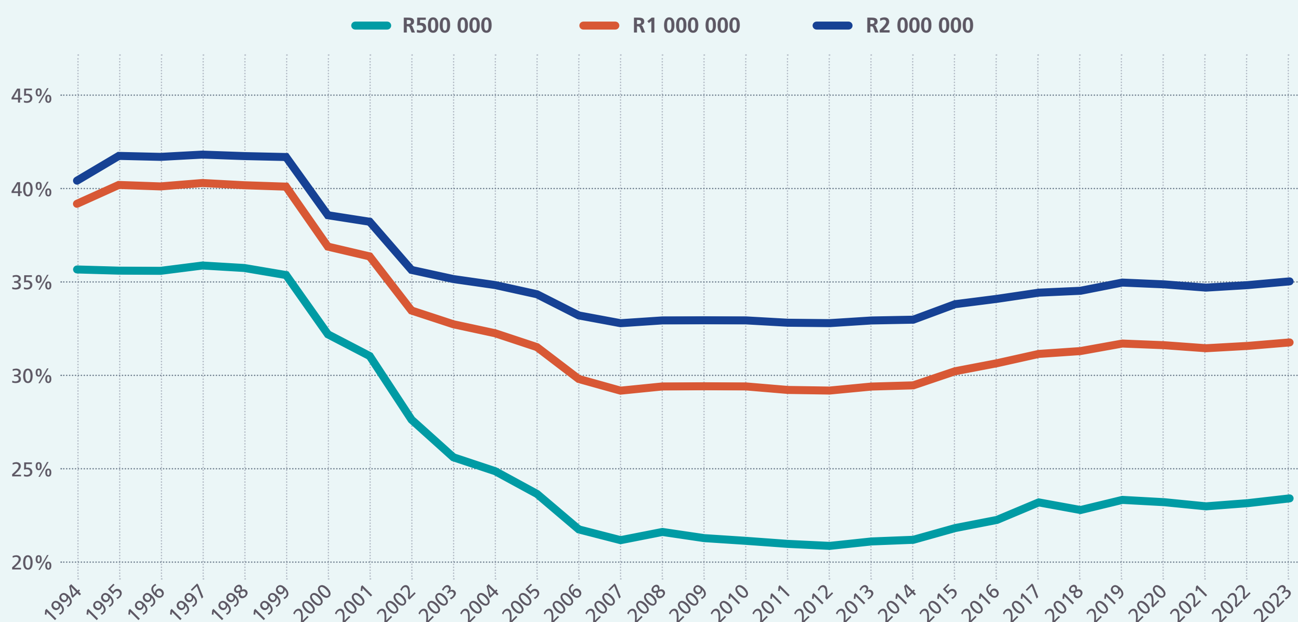
HISTORICAL TAX TRENDS

The long-term trend in South Africa has been to lower tax rates on individuals and corporations, to provide a myriad of tax breaks, and to under tax wealth and earnings from natural resources. Figure 2 shows the statutory tax rates for three tax instruments—the top Personal Income Tax (PIT) rate, the Corporate Income Tax (CIT) rate, and the Value-Added Tax (VAT) rate. The fall in CIT from almost 50% to 27% is most striking. For PIT and CIT it is important to note that there is often a significant difference between the statutory tax and the effective rate—that is, the rate actually paid—as portions of incomes are exempt from tax and tax breaks given. Given that only the highest-earning 12% of the population pay income tax, tax breaks, by default, benefit higher-income households. Figure 3 therefore shows the effective PIT rate paid on three different levels of income—those earning R500 000, R1 000 000 and R1 500 000 per year (2018 rands). One can see that in 1996 someone earning R1 000 000 per year paid an effective rate of 40%, compared with 32% in 2023. Similarly, a person earning R500 000 paid an effective tax rate of 31% in 1996 compared to 23% in 2023. The effective tax rate for someone earning R1 500 000 is only 35% in 2024.

Despite this, in the late 1990s and 2000s, improved efficiency in tax collection, and rising economic growth on the back of a commodities boom meant that, despite these falling rates, tax intake increased considerably.

This has not been the case more recently. Following counter-cyclical spending during the Great Recession, the government saw widening budget deficits due to low economic growth.[7] The pursuit of debt stabilisation then prompted the government to slow expenditure growth and absorb spending pressures by raising additional tax revenue, in particular by raising the top marginal tax rate (as shown in Figure 2). However, the government has avoided any major increase in tax rates since 2020. National Treasury has been of the position





that tax increases, especially in periods of low economic growth, would be detrimental to the economy.[8] Instead, resource mobilisation is now pursued through strengthening tax administration and compliance, something that has taken considerable time to achieve given the undermining of capacity within SARS due to negligence and corruption.

In general, South Africa's tax-to-GDP ratio has hovered around 25%, now sitting at 25.1%.[9] This is higher than the upper-middle income country average.[10] However, the reported levels of inequality, unemployment, and poverty—which are some of the highest in the world—mean that the need for redistribution, by way of spending on social protection and social services, is considerably higher than in peer countries. It is imperative therefore that the government takes additional tax measures to push the tax-to-GDP closer to OECD levels, which sit at an average of 34% as of 2022.[11]

PERSONAL INCOME TAX

Over the last decade, between 2012/13 and 2022/23, PIT averaged 37% of gross tax revenue,[12] contributing the largest share of tax revenue. However, tax policy still fails to maximise PIT tax intake. First, as shown in Figure 3, effective tax rates have declined considerably over the last few decades. In addition, considerable tax breaks have been given, reducing the effective PIT rate further. From 2011 to 2023, an average of 16% of gross personal income—across all tax brackets—was not subject to tax.[13] National Treasury estimates that in 2020/21, of the R252 billion tax revenue foregone (equivalent to 4.5% of GDP), 57% was due to PIT tax expenditures.[14] The bulk of this is due to deductions for retirement fund contributions and medical scheme contributions, which overwhelmingly accrue to high-income individuals.[15]

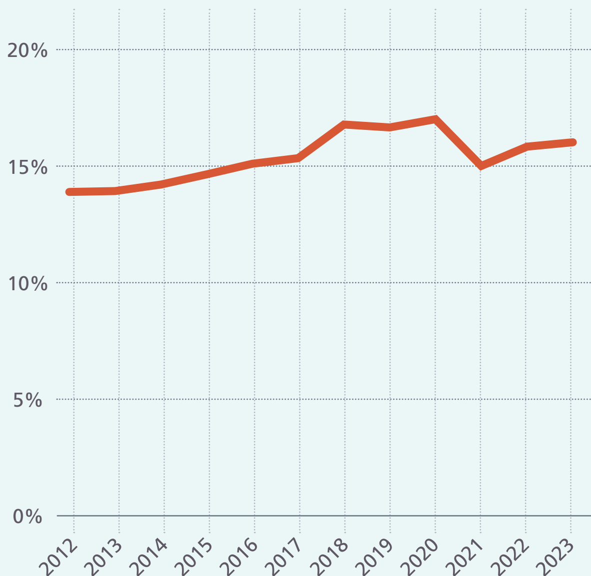
Second, while South Africa's PIT system is progressive, it is still inadequately so, given the high-income inequality in the country. Between 2011 and 2020, the incomes of the top 10% highest earners had a share of 62.7% of the total market income and by 2020 this had risen to 64.3%. Despite this increase, the top earning 10% are paying less in income tax as a share of their income currently than in 2011.[16] Figure 4 shows that the effective average tax rate on personal income has not been greater than 17.1% in the past decade, despite the highest statutory rate coming in at 41% or 45%.

Third, the mobilisation of resources through PIT remains limited by structural features of the labour market. South Africa's labour market is characterised by a high unemployment rate which shuts off access to income and results in low-median wages that fall below tax thresholds, creating high wage inequality.[17] For the fiscal year ending in 2022, SARS expected only 7.1 million people to submit tax returns, which was only 31% of the total labour force in the first quarter of 2022.[18] Fourth, the lack of state capacity has allowed tax avoidance and evasion to thrive. Despite the relatively large tax expenditures on personal income, Dare et al.[19] uncover that the largest component of the PIT gap is due to tax compliance issues. While their estimates use outdated data (2005/06 and 2010/11), they conclude that the PIT gap can mostly be attributed to earners of non-salaried income. Non-salaried income, examples of which include income from the ownership of bonds or property, is concentrated among high-net-worth individuals. SARS has only recently strengthened its ability to combat this leakage, having established the High Net Wealth Individuals Unit in 2021.[20]

TAXING CAPITAL INCOME

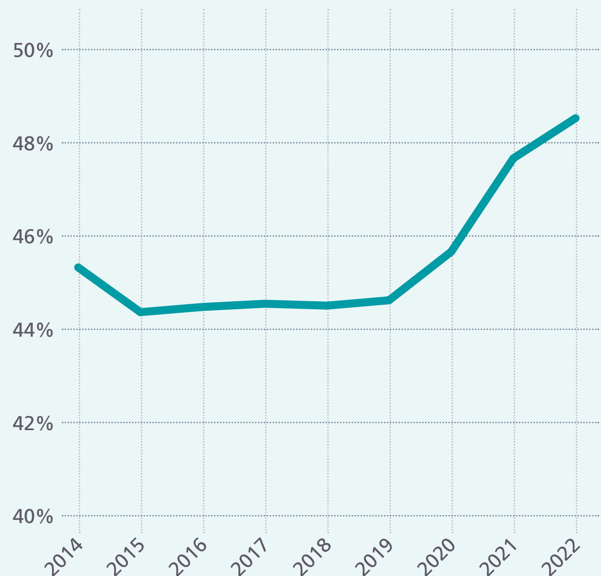
A further concern is that tax policy has been slow to catch up with the increase in the significance of capital income. First, high returns to capital have contributed to the rise in the incomes of top earners. Amid stagnation in the rest of the income distribution, this has widened income inequality.[22] Second, the post-apartheid period has seen an overall decrease in the share of income going to wages (the labour share of national income) and an increase in income accruing to capital (the capital share of national income).[23] As shown in Figure 5, the post-2019

Figure 4: Effective tax rate on personal income (2012 to 2023, fiscal year ending)



Source: Donaldson (2023)[21]

Figure 5: Capital share of national income (GDP %)



Source: SARB Online Statistical Query, own calculations[27]

years in particular have seen an acceleration in the rise of capital's share of national income. With national income increasingly accruing to capital (by way of profits, dividends, interest, and capital gains), the relative under-taxation of dividends, capital gains, and profits[24] is likely to be detrimental to resource mobilisation. This under-taxation can be seen in rates on capital gains tax, dividends tax, and CIT, which are either below average or average by international standards. For instance, since only 40% of capital gains are taxable, the effective tax rate, given a statutory rate of 18%, is 7.2% (for individuals). This is lower than the upper-middle income country average of approximately 15%.[25] The effective tax rate on corporate income is around the median compared to 114 other countries. Lastly, the statutory dividend withholding tax rate, at 20%, is lower than the OECD average of 23%.[26]

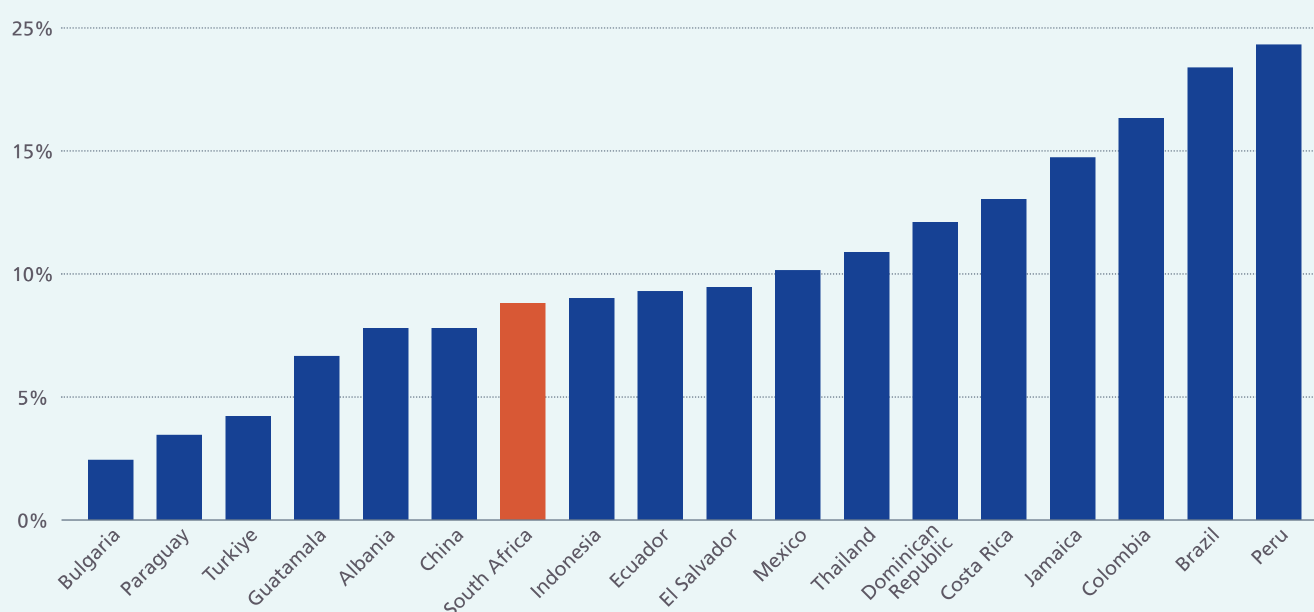
CORPORATE INCOME TAX

Although averaging 18.25% of gross tax revenue between 2012/13 and 2022/23,[28] CIT collections, like PIT collections, are far lower than they should be. It is estimated that between 2015 and 2017, the CIT gap for the non-financial sector was around 2% of GDP or 39% of the potential tax base (corporate profits).[29] The tax gap is largely accounted for by tax compliance issues (tax evasion and avoidance), with tax expenditure playing a secondary role. A series of policy and implementation challenges undermine CIT collection in South Africa.

First, the abundance of illicit financial outflows (IFFs) negatively impacts CIT revenues. While the nature of IFFs makes it difficult to disentangle which revenues, in particular, are affected, estimates by Oxfam show that trade 'misinvoicing' (one of the largest components of IFFs) deprived the government of US$2.1 billion in CIT each year from 2010 to 2014.[30] Second, the mobilisation of resources via company tax has been undermined by the overuse of the CIT rate as a means to spur private investment. As shown in Figure 2, the company tax fell from 48% in 1992/93 to 27% in 2022/23. Ostensibly, this was to encourage private investment and align South Africa with international tax practices. Indeed, statutory CIT rates have decreased internationally. In addition to lower statutory rates, the use of the CIT rate to induce investment has resulted in tax incentives of more than R15 billion in 2023.[31] In tandem, the lower statutory rate and tax incentives have reduced the taxes paid out of corporate profits.

While these global trends may force some level of convergence across countries, South Africa, as seen in Figure 6 (the orange bar) has an effective marginal rate on corporate income (at 17.65%) below the upper-middle income median level. Thus—far from being extreme—the tax burden on companies in South Africa is quite unremarkable by international standards, with room to be increased. This makes the recent decision to lower the statutory rate, from 28% to 27%, highly questionable. This drop in the CIT rate occurred even as research by the World Bank,[32] Parliamentary Budget Office,[33] and the Davis Tax Committee[34] concluded that there was no evidence that the CIT rate of 28% was a hindrance to private investment. The decrease in the statutory rate is even more alarming considering that the actual tax rates faced by companies were on average already low.

Figure 6: Effective marginal tax rate on corporate income (selected upper-middle income countries), 2022



Source: OECD[35]

VALUE-ADDED TAX

VAT—a tax levied on the value of goods and services—has averaged at 25.7% of gross tax revenue between 2012/13 and 2022/23[36] and currently sits at a rate of 15%. As a tool of mobilising resources, its primary drawback is that it tends to be applied in a regressive manner. That is, individuals and firms pay the same rate regardless of income level. There have been attempts to alleviate this primarily through exempting essential items that tend to form a large part of the consumption basket of lower-income households. Such zero-rating has incurred a cost of R251 billion between 2017/18 and 2020/21.[37] While foregone revenue, zero-rating is justified by its distributive benefits and how it lowers the price of essential items. Its inverse—applying a higher VAT to luxury items consumed by high-income households—has been consistently rejected by National Treasury which has also resulted in unjustifiable foregone revenue.

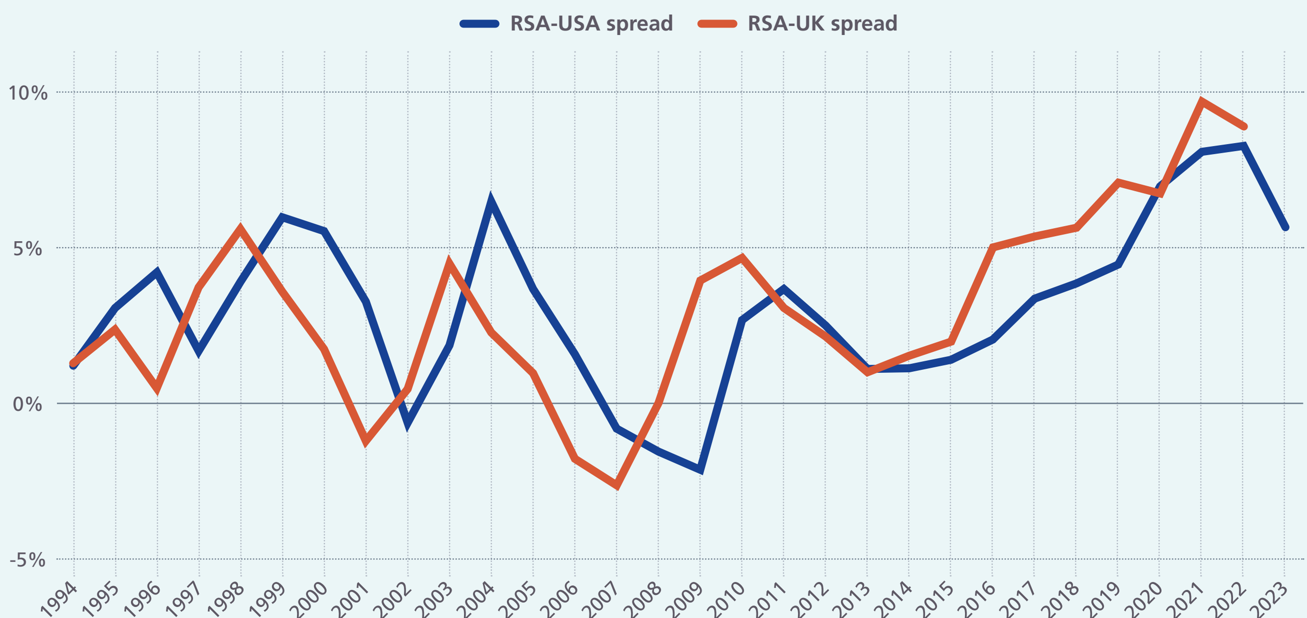
BORROWING

The National Treasury has generally used borrowing to good advantage. It increased debt in the wake of the global financial crisis and has continued to support spending through borrowing. It has also rightly limited foreign-denominated debt to below 12% of market borrowing.[38] South Africa faces some structural challenges with regard to mobilising more resources from borrowing. When South African government debt is perceived to be risky, or when competitor borrowers offer more attractive terms, then the cost of South African debt is driven up. Macroeconomic factors such as persistently low economic growth have increased the perceived risk of holding South African government debt. As shown in Figure 7, the difference ('spread') between South African debt and that of the United States and the United Kingdom has grown significantly since 2013. The yield on long-term debt (10 years or longer) has particularly increased over the past four years.

These challenges should however not lead us to regard government borrowing as 'maxed out'. The overall quantum of debt is not cause for immediate concern. As IEJ showed in 2023 before the MTBPS, the path of South African borrowing—that is, the historic and projected debt-to-GDP ratios—is below previously projected levels which were considered sustainable by National Treasury. Similarly, we showed that South Africa's debt levels (debt-to-GDP ratios) and annual borrowing (budget deficit) were in line with peer countries.[42]

The issue is more whether South Africa is accessing debt optimally. Three things should be noted in this regard. First, what is at issue is not the quantum of borrowing *per se*, but the use to which it was put. Under a coherent growth strategy, South Africa could raise additional debt utilising this to expand the economy and bring down debt levels over the medium term. Second, a range of mechanisms should be put in place to reduce the cost of borrowing (this is explored further in Section 4). Third, there remains an under-utilisation of pools of funds that need not be accessed through market mechanisms, which can be key to sustainable resource mobilisation. As we will show in the sections that follow, the use of Multilateral Development Banks (MDBs), public pension funds, and capital management techniques can help alleviate this issue.

Figure 7: The real interest rate spread between South Africa, the United States, and the United Kingdom 10-year government bonds (%)



Source: Federal Reserve of St. Louis (FRED)[39], IMF[40], own calculations[41]

ILLICIT FINANCIAL FLOWS

South Africa has been a hotbed for illicit financial flows. A report by Global Financial Integrity estimated that the average illicit financial outflows per year between 2009 and 2018 came in at US$20 billion.[43] The prevalence of IFFs in South Africa can be traced to the post-apartheid government's neoliberal policies that centred liberalisation and the removal of key capital controls. These included but were not limited to, the removal of exchange controls on all current account transactions, enabling companies to make direct investments in foreign subsidiaries through transfers or loans and a liberalisation of the financial sector and the JSE.[44] The results of this was an outflow of capital and the offshore relocation of some of the biggest corporations. This, together with insufficient corporate oversight, corruption, and weak law enforcement, has provided a conducive environment for large-scale IFFs.

OTHER DOMESTIC RESOURCES

In addition to failing to maximise tax revenue, the National Treasury has studiously avoided leveraging other sources of domestic resources. This includes the Gold and Foreign Exchange Contingency Reserve Account (GFECRA), which IEJ revealed in 2023 had an unspent balance of almost R500 billion. This is discussed further below. Similarly, other pools of domestic resources exist. The Government Employee Pension Fund, for example, currently holds over R2.3 trillion in assets managed by the Public Investment Corporation (PIC). The Alternative Information and Development Centre (AIDC) and others have shown that these funds have not been used for productive investment in the economy.[45] The National Treasury has not insisted that the PIC prioritise national development objectives. For example, the PIC holds 20% of Eskom's debt which it could renegotiate to ease the debt burden on the state-owned entity. Other options to use these funds can be in the form of low-interest loans to either rescue struggling SOEs or to support development finance. Similarly, the South African Reserve Bank has failed to leverage its balance sheet to support resource mobilisation.

4. ALTERNATIVE AVENUES TO RAISE RESOURCES

Given the above, it comes as no surprise that numerous avenues exist to raise additional resources. The National Treasury has consistently argued—particularly in responses to civil society submissions in Parliament—that it has considered additional measures and decided against these. It argues that raising additional revenue would overburden taxpayers and limit economic growth. Two brief responses should be made, in this regard, before we turn to unpacking concrete policy options.

First, the theoretical basis for this claim, neoclassical 'optimal tax theory', is premised on unsubstantiated assumptions. Taxation is viewed as distortionary to otherwise well-functioning markets and most taxation is ultimately regarded as economically harmful. The argument also fundamentally ignores the expenditure associated with raising revenue. Of course, if revenue is spent recklessly, or spirited away to tax havens through corruption, the overall effect of taxation may be negative. But if taxation diverts funds from less-beneficial purposes, for example, idle savings or luxury imports for the wealthy, towards economically beneficial purposes, for example, fixing South Africa's rail and ports, then the overall effect is likely positive.

Second, National Treasury argues that lower tax rates put money in the hands of consumers who spend this, stoking economic expansion. This again ignores that not all consumers are equal—social grant recipients, for example, spend a greater share of their income on goods with high-local content than high-income earners. More fundamentally, it ignores that the 'stimulus' effect of tax cuts is almost always less than the stimulus associated with a similar level of increased expenditure. National Treasury underestimates the potential positive benefits of government spending—and the potential negative impact of budget cuts—and therefore is biased against tax increases.

We therefore argue that if appropriately spent, the revenue streams identified below can have significant economic benefits for South Africa. The question of what to spend such revenue on is, we admit, critical. But this is not the purpose of this policy brief and has been covered by the IEJ[46] and others elsewhere.[47] Rather, the tax options below dispel the myth that no additional sources of revenue exist.

REMOVAL OF INEFFECTIVE TAX REBATES AND INCENTIVES

As noted above, tax breaks, by default, benefit only a small portion of people—those fortunate enough to be earning sufficiently to be taxed in the first instance. They should, therefore, immediately be viewed with caution. Reviewing these tax breaks could raise significant revenue as indicated in Table 1 (further unpacked below).

Table 1: Tax breaks (R 000s thousands)

	2021 TAX YEAR	2023 EQUIVALENT ESTIMATE	2023 EQUIVALENT ESTIMATE > R500,000	2023 EQUIVALENT ESTIMATE > R750,000
Donations	1,356	1,534		
Travel expenses – fixed cost – business cost claimed against allowance	18,753	21,216	14,462	8,592
Travel expenses – actual business cost	1,164	1,317	524	329
Other	2,540	2,874	1,807	1,336
Subsistence allowance – local	41	46		
Depreciation	137	155		
Home office expense	869	983		
Retirement fund contributions	205,698	232,713	113,620	65,859
Employer provided vehicle expenses	3,888	4,399	2,480	1,431
Employer provided vehicle expenses (operating lease)	179	203		
Other	6,980	7,897		
Medical Tax Credits Rebate	20,633	23,343	8,104	3,927
Medical Tax Credits Rebate – additional expense	7,521	8,509	3,159	1,596
	269,759	**305,188**	**144,155**	**83,072**

Source: SARS 2022 Tax Tables,[48] own calculations

Retirement fund benefits

Tax breaks on retirement fund contributions disproportionately benefit individuals at the upper end of the income distribution. As shown in Table 1, in 2023, through this benefit, the state gave R113 billion to those earning more than R500 000 per annum and R65 billion to those earning more than R750 000 per year. This is orders of magnitude more than is spent on the life-saving Social Relief of Distress grant, given to those with income of less than R624 per month. Upwards of R50 billion could easily be raised by reducing these benefits.

Such tax breaks are meant to encourage savings that should boost investment in the economy.[49] This ignores the fact that: a) investment in the economy is not wholly dependent on such pools of savings, as important investment comes from bank loans and government spending; b) that policies don't exist to make optimal use of existing huge pools of retirement savings; and c) that the highest-income earners would likely save for retirement irrespective of such handouts.

Medical aid tax credits

A medical aid tax credit is a rebate that allows taxpayers to reduce the taxable income payable if they contribute toward a private medical aid scheme for themselves and their dependents. The medical tax credit is for taxpayers who have medical aid - only 15.8% of the population as of 2022 and just 12% of the population above the income tax threshold. Currently, medical aid policyholders (that is, the main member) receive benefits of R332 per month for the taxpayer, R332 per month for the taxpayer's main dependent and R224 per month per dependent after that.

The selective removal of the tax credit for the main member and first dependent for those earning more than R500 000 per annum would have saved the fiscus R12 billion in 2023 (reaching R14 billion if it was removed for all dependents). This is because taxpayers earning above R500 000 per annum receive on average R730 per month in benefits (with an average of 1.2 dependents).[50]

Again, the argument is made that these benefits incentivise the use of private medical facilities thus reducing the strain on the public health care system. However, it would be fanciful to think that a significant number of higher-income earners in South Africa would switch away from private medical aid without this subsidy. It is also arguable that R6 billion invested in additional doctors and nurses would benefit the public healthcare sector more.

Employment Tax Incentive

In addition to tax breaks to individuals, various corporate tax subsidies should also be reevaluated.[51] Principal amongst these is the Employment Tax Incentive, a subsidy given to businesses for hiring young people, irrespective of whether a person of another age would have been hired for that job anyway. In 2021/22 this cost the fiscus R6.6 billion.[52] Research has repeatedly shown that this subsidy has been ineffective in achieving its objective.[53]

TAXING WEALTH AND INCOME FROM WEALTH

Compared to OECD and Latin American countries, South Africa currently under-taxes wealth and the income derived from wealth, as well as the trading of financial assets. A forthcoming IEJ working paper unpacks the debates and possible gains around taxing wealth and income from wealth in more detail.

Net Wealth Tax

Although the use of net wealth taxes has decreased in Europe,[54] those remaining still generate meaningful revenue. From 1965 to 2021, Spain, Sweden, Norway, and Switzerland, have on average generated annual Net Wealth Tax revenues to the tune of 0.47%, 0.49%, 1.36%, and 4.7% of their respective GDPs. In contrast to Europe, net wealth taxes have been growing in usage in Latin America. The revenues generated in Latin American countries have been comparable to those in Europe. As a share of GDP, revenues have averaged 1% in Argentina since 1990, 2% in Colombia since 2002, 0.2% in Ecuador since 2009, and 3.5% in Uruguay since 1990.[55]

In South Africa, the Southern Center for Inequality Studies has shown that a Net Wealth Tax has the potential to raise between R70 and R160 billion[56] when levied at progressive rates of between 3-7%.[57] By their 2021 estimation, that revenue would be 1.5% to 3.5% of GDP, which would be in line with the contribution of wealth taxes in both Europe and Latin America. A recent report by the Applied Development Research Solutions (ADRS) and IEJ showed that a wealth tax can partly be used to support a basic income grant, providing much needed poverty alleviation and economic stimulus. The study found that a 'high-ambition' basic income grant scenario can raise average GDP growth from 2.2% in the baseline year of 2023 to 3.5% on average by 2030.[58] Progressive taxation is, therefore, not only important to support and protect livelihoods but can play a key role in contributing to the growth of the economy.

Dividend tax and estate duty

In South Africa, the dividend tax, a tax levied on the dividends issued by companies, is currently 20%. This is well below both personal and CIT rates. This means that persons and companies wealthy enough to invest in shares, or who inherit them, are taxed on the income they receive from owning these shares well below the tax rate faced by those working for a living. Increasing this rate from 20 to 25% would have raised approximately R8 billion in 2023.[59]

Similarly, estates with a value of R3.5 to R30 million are also taxed at 20%, while estates with a value of more than R30 million face a tax rate of 25%. This means that those benefiting from such inheritance are again being taxed less than those earning modest wage income. A DNA Economics report from 2021, showed that aligning this tax rate with income brackets would raise R2 billion in 2023.[60]

Taxing financial transactions

Currently, South Africa levies a Securities Transaction Tax (STT) on the transfer value (sale/transfer/assignment/cession amount) of a transaction on a company's securities in South Africa or any other company listed on any securities exchange in South Africa at the rate of 0.25%.

The tax revenue from such could be expanded in two ways. First, by increasing the rate. A rate of 0.3%, for example, would raise approximately R1.5 billion more. Second, a broader Financial Transactions Tax (FFT) levied across a wider range of financial instruments traded on the JSE, levied at only 0.1%, could raise more than R40 billion.[61] A Currency Transaction Tax (CTT), levied on the trading of rands, of as little as 0.005%, could raise an additional R4 billion.

These options are shown in Table 2.

Compared to OECD and Latin American countries, South Africa currently under-taxes wealth and the income derived from wealth, as well as the trading of financial assets.

Table 2: Proposed tax changes to income from, and trading of, financial assets

TAX	POLICY MEASURE	REVENUE POTENTIAL FOR 2023/24 (R BILLIONS)
Estate duty	· Estates valued between R3.5 million and R30 million are taxed at a rate of 36%, · Estates valued between R30 million and R146.8937 million are taxed at a rate of 41%, and · Estates above R146.89 million are taxed at a rate of 45%.	R1.87
Securities Transaction Tax	· Increasing the STT from 0.25% on all security transfers to 0.3%.	R1.41
Financial Transaction Tax	· Lower the STT rate to 0.1% but broaden the base to include the equity, interest rate, interest rate derivatives, and commodity derivatives markets	R41.00
Currency Transaction Tax	· CTT of 0.005% on all domestic over-the-counter foreign exchange rate instruments.	R3.75

Source: DNA Economics, 2021

RESOURCE RENT TAX

The Resource Rent Tax (RTT) is a tax extracted on economic rents in the commodities sector. An economic rent is defined as that portion of value-added which exceeds the costs of all the factors of production, including the required return on capital. It accrues to firms when outputs are priced at levels exceeding that which is necessary to cover their inputs and a required profit margin. This is particularly prevalent in the mining industry, occurring *de facto* during a boom in commodity prices. Taxing such a rent will, by definition, have no impact on investment decisions as it will theoretically only be levied on the portion of profit above the investors' required rate of return. Implementing a RRT would be valuable in South Africa given the size of the mining sector in the economy. The recent commodities boom (2021 to 2023) was a missed opportunity to capture excessive profits through an RRT. Even before the boom, an RRT had the potential to raise R38 billion at a rate of 25%.[62] During the recent boom, the gains would likely have been larger.

RESTORING THE CORPORATE INCOME TAX RATE

As argued in Section 3, the reduction in the company tax from 28 to 27% is unlikely to yield any investment gains, especially when weighed against the larger structural problems in electricity and logistics. Further, a cut to the overall CIT rate does little to extract concessions from companies and bring about the kind of investment that leads to economic upgrading, greater employment, improved working conditions, and upskilling. Instead, indiscriminate tax cuts also benefit companies that use the extra profit on things that do not add any social or economic value, such as share buy-backs.

A crude measure—as estimating the loss to the fiscus is complicated because of potential behavioural changes—shows that taking account of the general reduction in CIT collected, the rate cut has cost the fiscus R12 billion. This comes on top of R13 billion tax foregone in 2022/23.[63]

SOCIAL SECURITY TAX

The IEJ has previously proposed a Social Security Tax (SST), essentially an additional ring-fenced tax on personal income. The proposal has been made for this to fund the implementation of a universal basic income guarantee, but it could also fund other social security measures, or as s similar modality to be used for a different area of spending. The proposal is for the SST to be progressively levied on all income earners at rates ranging from 1.5% to 3% (as shown in Table 2) and structured such that low-income earners would be net beneficiaries (when taking into account both the tax and basic income receipt) whilst higher-income earners would be net contributors.[64]

Table 2: Social Security Tax structure

TAX RATE	INCOME
1.5%	R0 - R80 000 per annum
2%	R80 000 - R350 000
2.5%	R350 000 0 R1 million
3%	More than R1 million

Estimates from 2021, taking account of how taxable

income may change in response to an increase in the tax rate, showed that this could raise R64 billion in 2023/24. The SST is advantageous as it can be implemented swiftly given that the tax base already exists in the current tax system. As part of the implementation, there would need to be a decision made on whether the employer and employees each contribute 50% towards the SST.

LUXURY VAT RATE

Increasing the VAT rate should be strictly avoided. First, raising VAT would make the tax mix more regressive, increase inequality, and have a disproportionately negative impact on the poor, particularly women and children.[65] It would place significant pressure on key consumer goods in the context of recent relatively high levels of inflation, particularly for food. Second, the last VAT increase failed to generate the promised revenue. In 2018 the VAT rate was raised from 14 to 15%. The 2018 National Budget projected that VAT tax receipts would rise in nominal terms by R49.1 billion. R22.9 billion of this would be because of the increased rate, the rest due to inflation and changes in expected spending patterns. In reality, VAT collections increased by only R26.8 billion, R22.3 billion short of the estimate.[66] Effectively, the increase yielded only R617 million more than what National Treasury would have projected without increasing the rate at all.

On the other hand, implementing a special VAT rate on 'luxury' goods and services only accessed by the wealthiest would be a progressive revenue-raising option. Similar taxes exist in India, Chile, Thailand, and South Korea. This is a policy option that the IEJ has advocated for since the 2018 VAT rate was increased from 14 to 15%. A previous estimate suggests that a rate of 25% on certain luxury goods could raise approximately R9 billion.[67]

NON-TAX REVENUE

Significant opportunities for revenue raising exist beyond tax mechanisms.

The Gold and Foreign Exchange Contingency Reserve Account

The GFECRA records profits (or losses) made based on movements in foreign exchange rates and gold prices. By the end of 2023, the account had a surplus of over R497 billion. As stated in the Reserve Bank Act, these are funds that the National Treasury can access.[68] They offer great potential for supporting essential government spending, including the urgent rescue of state-owned entities, new capital spending, and expanding social support.[69] Most opposition to the use of the funds has been on the basis that we should not detour from a path of austerity. Others have argued that the funds will be wasted through corruption or constitute unrealised gains that can only be used once the underlying asset has been sold. However, the argument about corruption could just as easily be applied to every rand appropriated by Parliament, meanwhile, the latter argument has already been refuted by the SARB governor, Lesetja Kganyago.[70]

Development financing

Publicly-owned development finance institutions (DFIs) should be leveraged to invest more in critical economic infrastructure that could relieve pressure on the fiscus. South African DFIs currently do not receive a stable source of low-cost government funding, which forces them to rely on market financing at commercial rates and therefore constrains the degree to which they can engage in developmental activities—which by definition are usually not profitable in the short term. South African DFIs need to be recapitalised with public funds and granted access to a stable, low-cost, long-term funding line, either directly as a budgetary allocation to the relevant ministry, through tax sources, or through SARB. The central bank could also issue subsidised credit to targeted sectors or other institutions like state-owned enterprises. This could allow for increased public investment without fiscal implications.

Debt

As noted above, the real debt difficulty South Africa faces is that it pays relatively high interest rates, and therefore utilises a relatively large share of its budget for debt service costs. In order to increase borrowing it is, therefore, critical to reduce the cost. This can be done in at least four ways.

First, yield curve adjustment. Given that longer-term borrowing is much more expensive, South Africa should shift a higher share of its debt stock to medium-term bonds. Second, debt renegotiation. Most notably, National Treasury should enter into debt renegotiation with Eskom's creditors as part of Eskom's debt relief measures to reduce the quantum of debt owed, lower the rates to match sovereign bonds (where they do not already), and restructure the payment terms, including through interest holidays and/or extending the payment date significantly.

Third, preferential or prescribed lending. This refers to government policy which requires investors, like retirement funds, to hold a certain amount of investments in government-specified assets, such as government or state-owned entities' bonds.

Regulations could prescribe a fraction of the R13 trillion in assets be held in government bonds at stipulated (reduced) rates. This would mean safe, guaranteed returns for public and private investors, the deployment of funds for developmental purposes, and a lowered cost of borrowing for the state. Fourth, accessing capital on more favourable terms. Interest rates can be reduced by the purchase of government bonds by the central bank (within limits). Further, credit controls—as have been successfully used, across Europe, to finance government debt at lower interest rates[71]—should be put in place. Capital management techniques have played a similar role in successful developing countries, for example, Singapore.[72] All of these policy options should be openly explored and acted upon where appropriate.[73]

5. RECOMMENDATIONS

The above clearly demonstrates the failure, and opportunity, of the South African government to raise the necessary resources. The proposed new revenue streams are summarised in Table 3. Two provisos should be noted. First, this brief has largely relied on existing studies to quantify the potential gains that could be accrued. To provide up-to-date figures the most recent tax statistics would need to be used and all figures deflated to 2024 rands. The numbers, while carefully calculated in their respective studies should be seen as indicative. Second, the IEJ is not proposing all of these sources of revenue be tapped concurrently. Some may be selected in favour of others, and others implemented sequentially. Rather, the objective is to illustrate the fact that very real options exist.

SOURCE OF REVENUE	POTENTIAL REVENUE	NOTES ON STUDY
Remove retirement fund tax break for those earning above R500 000	R113 billion	IEJ calculations based on 2022/23 tax statistics. 2023 rands.
Remove retirement fund tax break for those earning above R750 000	R65 billion	IEJ calculations based on 2022/23 tax statistics. 2023 rands.
Remove medical aid tax benefit for the main member and one dependent for taxpayers earning above R500 000	R12 billion	DNA Economics study using 2020/21 tax statistics for the year 2023/24.
Remove the Employment Tax Incentive	R7 billion	IEJ calculations based on 2022/23 tax statistics. 2023 rands.
Net Wealth Tax levied at 3-7%	R70 - R160 billion	SCIS working paper calculations based on 2017 values. 2018 rands.
Increase Dividend Tax rate to 25%	R8 billion	DNA Economics study using 2020/21 tax statistics for the year 2023/24.
Align Estate Duty tax with PIT rates	R2 billion	DNA Economics study using 2020/21 tax statistics for the year 2023/24.
Increase Securities Transaction Tax to 0.3%	R1.5 billion	DNA Economics study using 2020/21 tax statistics for the year 2023/24.
Implement Financial Transaction Tax at 0.1%	> R40 billion	DNA Economics study using 2020/21 data, projected for 2021.
Implement a Currency Transaction Tax at 0.005%.	R4 billion	DNA Economics study using 2020/21 tax statistics for the year 2023/24.
Implement a Resource Rent Tax at 25%	R38 billion	DNA Economics study using World Bank 2021 estimate of 2019 resource rents, estimated for 2023/24 financial year.
Restore the CIT rate to 28%	R12 billion	IEJ calculations based on 2022/23 tax statistics. 2023 rands.
Implement a sliding-scale Social Security Tax	R64 billion	DNA Economics study using 2020/21 tax statistics for the year 2023/24.
Institute a luxury VAT rate of 25%	R9 billion	IEJ Working Paper updated in DNA Economics study using 2020/21 tax statistics for the year 2023/24.
Utilise the Gold and Foreign Exchange Contingency Reserve Account	R497 billion - A portion can be drawn down.	South African Reserve Bank Annual Report. 2023.
Leverage development financing for critical developmental priorities.		
Raise additional debt, including through prescribed assets.		

SHORT-TERM RECOMMENDATIONS (AS OF FEBRUARY 2024 NATIONAL BUDGET)

1. Restore the CIT rate to 28%.
2. Reduce tax breaks for higher-income taxpayers by at least R50 billion.
3. Align estate duty on large estates with the upper Personal Income Tax brackets.
4. Discontinue the Employment Tax Incentive.
5. Ensure that all Personal Income Tax relief only benefits lower-income households.
6. Draw down a portion of the GFECRA to support SOEs, new capital expenditure, and expanded social support.
7. Do not raise VAT which would make the tax mix more regressive, fail to raise the sums needed, and disproportionately burden poor and low-income earners.
8. Shorten the maturity on government debt slightly.
9. Negotiate haircuts and debt restructuring with Eskom creditors and any other appropriate creditors.

MEDIUM-TERM RECOMMENDATIONS (AS FROM FEBRUARY 2025 NATIONAL BUDGET ONWARDS)

1. A sequenced introduction of a Net Wealth Tax, taxes on the trading of financial assets, and a Resource Rent Tax.
2. Utilise further funds from GFECRA to finance development priorities, possibly through allocation to a dedicated ring-fenced fund for stipulated usage.
3. Ensure the Reserve Bank is mandated to reduce the cost of borrowing, including through bond purchases or differentiated lending windows, with the amendment of any laws made to accommodate this.
4. Implement targeted capital controls, capital management techniques, and credit allocation policies to reduce the cost of borrowing and channel credit to priority sectors and entities.
5. Institute prescribed assets for public and private institutional investors targeting state and quasi-state safe assets with reasonable returns that will provide affordable credit for development priorities.
6. Use concessionary lending from the New Development Bank and similar DFIs under Parliamentary oversight and with limited foreign-currency denomination.

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