

TAX AND INEQUALITY

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1994 SA

- Various described as
 - Internal colonisation
 - Two nation theory
 - Rigid race system
- The previously privileged stayed in the country with the previously disadvantaged
- The government served less than 10% of the population
- A country with large social and economical and spatial divides
- Largely mining driven economy with import substitution

SA reality

- Social transformation was top of the agenda
- How to achieve meaningful economic participation of the vast majority who had limited experience
- Previously advantaged invested in the status quo
- Non compliance behaviour not only accepted but even celebrated as a norm both by state, population and liberation organisations
- Post 1994 key challenges
 - Reform state apparatus to serve all its people
 - Legitimise the state
 - Address legacy

SA reality

- Four so called races within a hierarchy
- Each race group faced with conflicting demands of nation building and protecting the groups interest
- Gini coefficient is one of the highest in the world
- High unemployment and under employment

SARS response

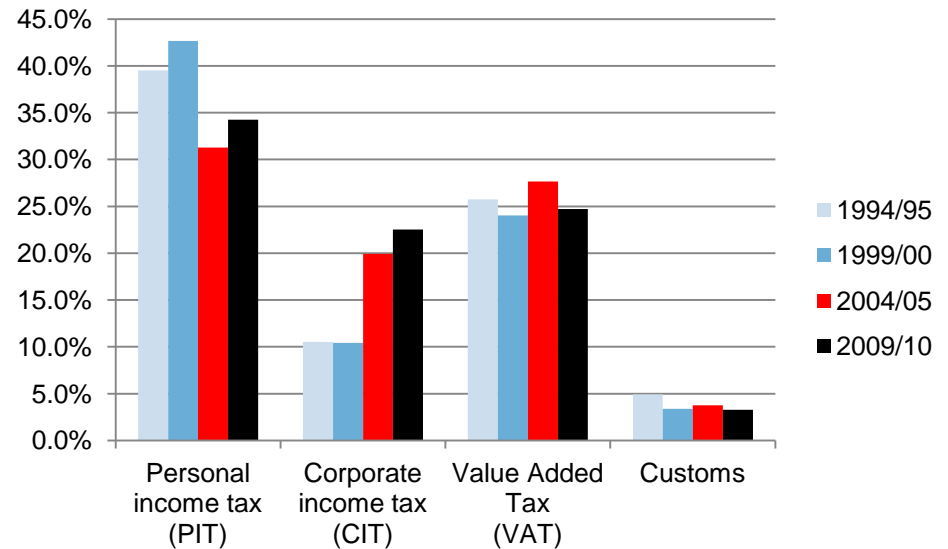
- From 1998/99
 - Concerted attempt to regain SARS's space
 - Among PDI
 - Vis – a – vis business and tax practitioners
 - High profile enforcement actions and campaigns
 - Increased responsive to customers
 - Process improvements
 - Adopted the compliance model
 - Toughest anti- corruption stand in government

POLICY CHANGES TO ADDRESS INEQUALITY AND INCREASE EFFICIENCY

- Overarching approach is to address inequality through spending
- In addition, changed the balance of the tax burden between individuals and business
- Introduced wealth taxes in the form of the Capital Gains and changed to residence-based taxation
- VAT at low rate, while zero-rating for basic goods
- Introduced turnover tax for small business
- Introduced Skills Development Levy
- Gender: no distinction between male and female taxpayers. Explicitly changed from ward to equal status to men

RE-BALANCING THE TAX BURDEN

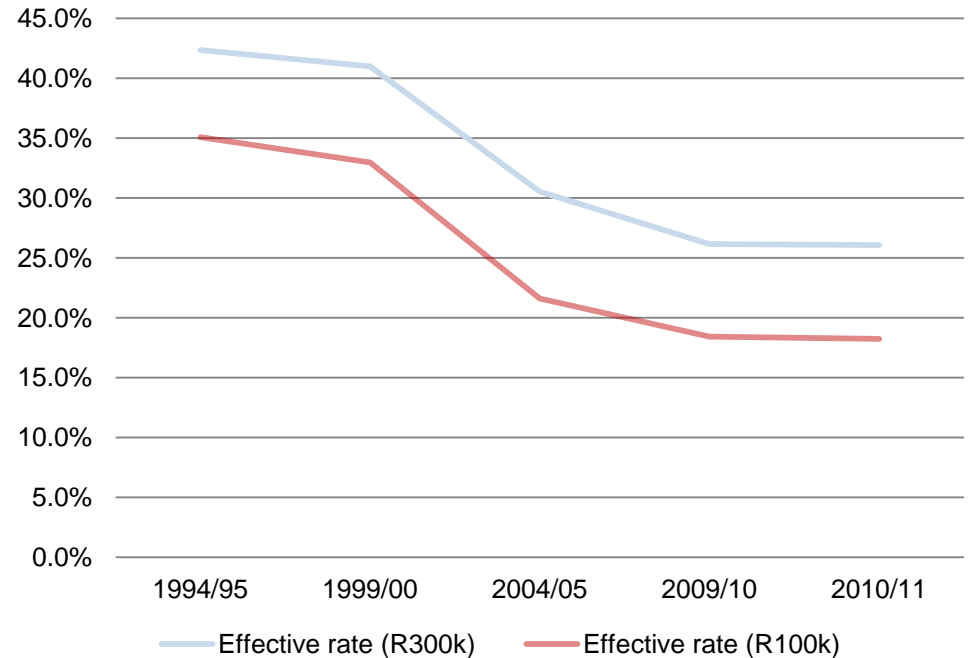
- Prior to 1994 individuals carried a disproportionate burden unlike in other developing countries.
- PIT rates reduced from 45% (1995) to 40%.
- In addition, adjusted personal income tax brackets and the threshold to reduce the burden on the lower income groups.
- Increased compliance effort w.r.t business entities.
- Company contribution increased from 10.5% to 22.5% of the total revenue.
- Since 1994 VAT rate has remained at 14% and constitutes about 25% of the total.
- Since joining the WTO, trade tax contribution declined from 5% to 3%.



EFFECTIVE RELIEF FOR INDIVIDUALS

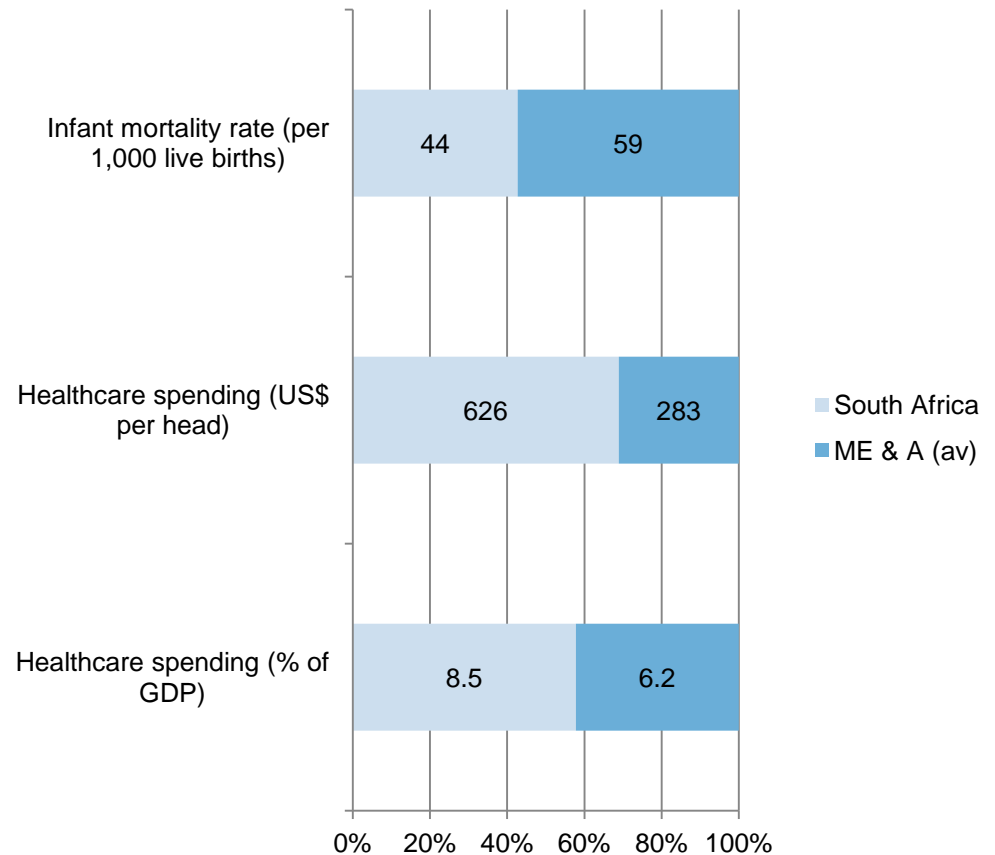
- Adjustments to individual income tax brackets has reduced effective tax rates for individuals.
- A person earning R300 000 in 1994 with an effective rate of 42.4%, would be at 44.6% without the adjustments instead of the current 26.1%??
- Similarly, an individual earning R100 000 would have reduced a potential 42% effective tax rate to 18%.

Effective tax Rates for Individuals



PROGRESSIVE SPENDING POLICIES

- Higher spending on health compared to peers yields lower infant mortality rates.
- Spending on education at 5.3% of GDP is more than comparable countries.
- Welfare grants reach approximately 15m people out of 49m and costs 3.5% of GDP



REDUCED REGRESSIVE DISTRIBUTIONAL EFFECTS of VAT

- Certain goods and services are either zero-rated or exempt
- VAT rate relatively low at 14% since 1994
- Regressive effects of VAT are tempered by changes to PIT; higher revenue contribution by CIT and greater social spending

FUNDAMENTAL CONDITIONS FOR PROGRESS

- Administrative independence
- Stability in political and administrative leadership
- Transformational leadership
 - Responsiveness to taxpayers
 - Enforcement
 - Process improvements
- Effective operations and IT management
- Alignment between tax policy and administration

What went well

- Robust revenue
- Demonstrated Institutional integrity
 - Insulation from political partisanship
 - Insulation from political interference
- Demonstrated will and determination to take compliance action against high net worth individuals
- No rush into automation before stabilising processes
- Stable leadership at political and management levels
- Transparent and efficient budgeting process

Constraints and Shortcomings

- Relatively low economic growth
 - Jobless growth
 - Huge immigrant population – approx 10% total population
 - Unresolved economic policy questions
- Cost of general regulatory compliance is high
- Cost of tax compliance still high for business
- Inadequate state capability

Summary and Way forward

- Future national programs to address inequalities
 - National Health Insurance
 - Social security contributions
 - Improve effective spending capability
- The basic major tax products are in place
 - Improvement possible without major redesign
- Strengthening of tax administration
 - Decrease the cost of compliance;
 - Increase capability to reduce tax leakages from aggressive tax avoidance and evasion
 - Effectively manage the medium and small business segment
 - Register all earners