Media release

South Africa's High Tax-To-GDP Ratio to Increase Further If Tax Increases Announced In Budget

By Ferdie Schneider, National Head: Tax, BDO South Africa

Concerning that 10% of taxpayers are paying more than 50% of income tax; tax base needs to broaden

Johannesburg, South Africa- Feb 25, 2015 – South Africa's tax to Gross Domestic Product ratio of around 26.5% is extremely high by world standards and could increase further when Finance Minister Nhlanhla Nene presents his maiden Budget in Parliament in Cape Town on February 25th.

This is the view of Professor Madeleine Stiglingh, Head of the Department of Taxation at the University of Pretoria, who said that Minister Nene hinted at tax increases in the Medium Term Budget Policy Statement released in October last year.

Significantly, South Africa's high tax to GDP ratio compares to levels of around 10% in India and China, both also members of the so-called BRICS group of countries, which includes Brazil, Russia, India, China and South Africa.

According to Stiglingh, the bulk of South Africa's income tax is based on the progressive income tax system which operates in an 18%-40% range, accounting for around 56% of total taxation. Indirect taxes, mainly Value-Added Tax, account for around 36% of overall taxation.

"It is concerning that only around 10% of South Africa's taxpayers are paying more than 50% of the country's income tax," said Stiglingh, stressing the need for the tax base to be broadened so that this reliance on so few taxpayers can be reduced.

"However, for this to occur, there is a need for income disparities to narrow, although there is little evidence that income inequalities are reducing."

Stiglingh said that South Africa's Gini Co-efficient – the recognised international measurement standard for income distribution – stands at around 0.69, much higher than the 0.31 average in the developed world, and also higher than in many developing countries.

Flagging possible solutions to South Africa's ongoing taxation imbalances and unemployment problem, she suggested that some type of statutory labour or community engagement could be considered with a link to Unemployment Insurance Fund payments and to utilising the skills of unemployed people.

People receiving UIF payments have work experience and skills, as do many tertiary graduates who are not currently employed. However, any form of statutory labour system would have to be implemented with the collaboration of specialists in terms of law, economics, ethics and human rights to ensure an equitable solution.

Interestingly, Stiglingh advised that the average taxpayer in South Africa effectively has to work for the first 144 days in the year to pay their tax – from January 1 to May 22 – before reaching "tax freedom day", after which the remainder of their income is their own. This could be seen as a limited or indirect form of statutory labour.

Meanwhile, she said that around 40% of the non-interest spending in South Africa's annual budget is spent on government salaries, a percentage that is much too high by world standards, with public sector employees also earning much higher average salaries than are available in the private sector.

However, she pointed out that Finance Minister Nene stated in his medium term budget speech that the government could not continue to provide new jobs at the rate it had been doing, underlining the vital need for more job creation within the private sector.

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