

Low tax compliance shows distrust in govt

The rising public concerns about corruption, wastage of public funds and inefficiencies in service delivery are clearly affecting the willingness of South Africans to comply and pay their taxes.



Ian Matthews, head of business development, Bravura

This downward spiral in tax revenue has again been confirmed by finance minister, Malusi Gigaba's medium-term budget. He expected a projected revenue shortfall of R50.8bn for the 2017 fiscal year. Tax revenue is projected to fall short of the 2017 budget estimates by R69.3bn in 2018/19 and R89.4bn in 2019/20.

Policy and administrative factors

Surprisingly, Gigaba has recognised that policy and administrative factors may be contributing to the shortfall, saying that behavioural responses to tax increases may be larger than anticipated and revenue could perform below expectations even if taxes are hiked. Compliance concerns are mounting in the context of tax administration challenges and weakening tax morality.

"These shortfalls substantiate expectations that Treasury's tax buoyancy assumptions have been too optimistic in light of the weak outlook for growth, wages and corporate profitability," says Ian Matthews, head of business development at Bravura.

In his February 2017 budget speech, former finance minister, Pravin Gordhan, cautioned that both administration and tax morality posed a risk to public finances. He highlighted the necessity of having a strong social contract between government and taxpayers given that the effectiveness of the tax system relies largely on the willingness of citizens to contribute and to be compliant. Therefore, two fundamentals must be in place: an effective tax administration and a willingness of corporate South Africa to comply.

Taxpayer trust levels have plummeted

Matthews says that these words of caution are now ringing true. "Taxpayer trust and confidence levels have plummeted dramatically in recent times due to fruitless and wasteful government expenditure such as Nkandla, the still unresolved sale of South Africa's strategic fuels, the possible Russian nuclear contract and the billions lost through corruption and inept management at state-owned entities (SOEs) like South African Airways, Eskom and Transnet. South Africans need assurance that government will keep expenditure in check, and even cut costs at non-performing entities."

In the foreword to the Office of the Tax Ombud's 2016/17 annual report, Gigaba said: "We encourage all citizens and residents to continue meeting their tax obligations with pride, and where there are disputes with the South African Revenue Service (Sars), to use all the avenues provided to resolve such. Our economy continues to grow at a very slow pace, which in turn has direct implications for the capacity of the state to generate much-needed revenue. It is at times like these that we need to emphasise the need for tax compliance so that all revenue due can be collected and used to serve the needs of all people."

These comments are in stark contrast with the comments from the tax ombud, Judge Bernard Makgabo Ngoepe: "The benefits of an efficient and fair tax administration system that taxpayers trust are immense; so are the consequences of a system they distrust. A growing number of taxpayers, and the general public to a large extent, are becoming increasingly vocal about the way revenue is being used, or even abused, by those entrusted with its management. We all know that taxpayers need to be motivated to pay tax. It is therefore vital that government is being prudent and ethical in the spending of taxes collected."

The valley has never been so deep

In the last five years the number of non-submission of returns for PAYE (employee tax) has increased by 77% and for value added tax (VAT) by 32%. The number of outstanding corporate tax returns has grown by 87%, while outstanding personal tax returns have grown by 77%. Matthews says that this points to the falling levels of confidence in the system by growing numbers of corporate and individual taxpayers.

When economic growth lags, it is usual to find a dip in compliance. The valley has however never been as deep as we have seen in the last five years. In pre-democracy times people used to boast with the fact that they were not paying their taxes. We have moved out of that era and we do not want to move back there" says Randall Carolissen, head of research at Sars.

In difficult economic times one cannot close one's eyes to corruption and the fundamental impact it has on tax morality. The days of blind trust in government are over.

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